

# The Influence of the Flypaper Effect on Regional Financial Performance with SiLPA as Moderator in South Sulawesi Regencies

*Flypaper Effect on  
Regional Financial  
Performance*

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## **ABSTRACT**

*This study aims to analyze the effect of the flypaper effect on regional financial performance with the budget surplus as a moderating variable in districts/municipalities in South Sulawesi Province. The flypaper effect refers to the phenomenon in which local governments are more responsive to central government transfers, particularly the general allocation fund, than to local own-source revenue. This study employs panel data from 24 districts/municipalities for the period 2021–2023, using a quantitative approach through multiple linear regression and moderated regression analysis based on the interaction model. The results indicate that general allocation fund and local own-source revenue have a significant effect on regional expenditure, while the special allocation fund and revenue sharing fund do not. The flypaper effect is confirmed, with general allocation funds being more “sticky” to regional government spending compared to local own-source revenue. Furthermore, budget surplus significantly moderates this relationship, where high budget surplus tends to weaken, while low budget surplus strengthens the influence of the flypaper effect on regional financial performance. These findings highlight the importance of efficient budget management to ensure that transfer funds optimally enhance regional fiscal performance.*

**Keywords:** *Budget Efficiency, Financial Decentralization, Flypaper Effect, Intergovernmental Transfers, Regional Financial Performance.*

## **ABSTRAK**

*Penelitian ini bertujuan menganalisis pengaruh flypaper effect terhadap kinerja keuangan daerah dengan sisa lebih perhitungan anggaran sebagai variabel moderasi pada kabupaten/kota di Provinsi Sulawesi Selatan. Flypaper effect menggambarkan fenomena ketika pemerintah daerah lebih responsif terhadap dana transfer dari pusat, khususnya dana alokasi umum, dibandingkan pendapatan asli daerah. Penelitian ini menggunakan data panel dari 24 kabupaten/kota periode 2021–2023, dengan pendekatan kuantitatif melalui analisis regresi linear berganda dan regresi moderasi berbasis model interaksi. Hasil penelitian menunjukkan bahwa dana alokasi umum dan pendapatan asli daerah berpengaruh signifikan terhadap belanja daerah, sementara dana alokasi khusus dan dana bagi hasil tidak berpengaruh signifikan. Fenomena flypaper effect teridentifikasi,*

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di mana dana alokasi umum lebih “menempel” pada belanja pemerintah daerah dibanding pendapatan asli daerah. Selain itu, SiLPA terbukti memoderasi hubungan tersebut, di mana sisa lebih perhitungan anggaran tinggi cenderung memperlemah, sedangkan sisa lebih perhitungan anggaran rendah memperkuat pengaruh flypaper effect terhadap kinerja keuangan daerah. Temuan ini menekankan pentingnya pengelolaan anggaran yang efisien agar dana transfer dapat meningkatkan kinerja fiskal daerah secara optimal.

**Kata kunci:** Efisiensi Anggaran, Desentralisasi Fiskal, Efek Flypaper, Transfer Antarpemerintah, Kinerja Keuangan Daerah.

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## INTRODUCTION

Regional financial performance reflects the ability of local governments to manage their budgets effectively in achieving development objectives. Strong financial performance enables regional governments to deliver quality public services, enhance community welfare, and ensure accountability in public financial management (Setiawati & Zulfikar, 2022). In South Sulawesi, which comprises various districts and cities, regional financial performance is a critical factor to consider, as the province serves as one of the main economic centers in eastern Indonesia. According to Bastian (2020), effective regional financial management constitutes a fundamental prerequisite for accelerating regional development and promoting sustainable economic growth.

The main source of local government revenue in Indonesia, including in South Sulawesi, is funds transferred from the government center, such as the Funds Allocation General (*Dana Alokasi Umum/DAU*) and the Funds Special Allocation Fund (*Dana Alokasi Khusus/DAK*). This fund is designed to strengthen regional fiscal capacity, particularly to support budgetary needs that cannot be fully covered by the Locally Generated Revenue (*Pendapatan Asli Daerah/PAD*). However, these transfer funds often exhibit a flypaper phenomenon. An effect, which is a condition under which government areas tend to depend more on transfer funds than on optimizing PAD potential. This indicates a lack of regional fiscal independence in revenue management (Halim & Kusufi, 2021; Yani & Wulandari, 2021).

Dependence on central government transfer funds can weaken regional financial performance by reducing incentives for local governments to optimize their own revenue sources. Mardiasmo (2021) explains that the flypaper effect discourages efforts to explore local fiscal potential and increase PAD. This phenomenon is not only evident at the provincial and district levels but also occurs at the village level, as demonstrated by Siregar et al. (2025), that higher transfer funds increased spending without a corresponding rise in local revenue, indicating fiscal illusion and underutilized local resources. However, empirical findings also suggest that PAD can positively influence financial performance under certain conditions. Atmoko and Khairudin (2022) reported that PAD had a positive and significant effect on the financial performance of local governments in Lampung Province, while capital expenditure showed no significant impact. These contrasting results indicate that the effect of PAD on financial performance depends on governance quality and fiscal capacity, highlighting the importance of strengthening fiscal independence through effective local revenue management.

Furthermore, the Budget Balance Surplus (*Sisa Lebih Perhitungan Anggaran/SiLPA*) is often a critical factor influencing regional financial performance. A high SiLPA can indicate inadequate budget planning or inefficient budget execution. According to Harahap (2022), a large SiLPA reflects unabsorbed budgets or activities that are not implemented in accordance with the plan. At the same time, SiLPA can serve as a useful budget reserve to address future uncertainties.

The districts and cities in South Sulawesi have different fiscal characteristics, which also influence financial performance. Despite relatively strong economic growth in the region, optimizing budget management remains a significant challenge for local governments. A 2024 report from the supreme audit agency showed that several regions

still face challenges in budget absorption and the management of transfer funds, indicating inefficiencies in financial management that must be addressed (Tanjung et al., 2021; Ministry of Finance, 2023).

South Sulawesi's leading sectors, such as agriculture, fisheries, and tourism, have great potential to increase PAD, especially if supported by sound budget planning. However, the high dependence on central transfer funds often becomes an obstacle to maximizing this potential. Given the varying characteristics of each region, a more targeted financial management approach is crucial. The Flypaper Effect phenomenon not only reflects dependence on transfer funds but also indicates budget management patterns that are not yet fully efficient (Afrizal & Khoirunurrofik, 2022; Safitri et al., 2023). This dependence can affect government spending priorities, reducing the budget's effectiveness in supporting regional development. In this regard, the local government's ability to manage PAD optimally is a key solution to pursue (Purba et al., 2024). Regional governments in South Sulawesi are therefore faced with the need to improve financial performance, enhance PAD, and manage transfer funds more effectively (Jatmiko et al., 2016; Pramudya & Anis, 2024; Imtikhanah & Fitrayudi, 2025).

Careful budget planning and implementation are crucial for improving the quality of financial management, which ultimately impacts sustainable regional development. This emphasis on management is also relevant in facing increasingly complex global economic challenges. The study was conducted in districts/cities in South Sulawesi Province using a quantitative approach to understand the interrelationships between variables and to contribute to improving the efficiency of regional financial management. This study aims to analyze the influence of the flypaper effect on regional financial performance using SiLPA as a moderating variable.

## **LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT**

### **Locally Generated Revenue and General Allocation Fund on Regional Expenditure**

Locally Generated Revenue (*Pendapatan Asli Daerah/PAD*) represents the fiscal capacity of regional governments to generate income through local taxes, levies, and other legitimate sources. High PAD indicates strong fiscal autonomy and administrative capability, enabling regions to allocate expenditures according to local priorities (Halim & Kusufi, 2021; Yulianadewi & Johanis, 2022; Lail & Trigopala, 2025). Empirical studies show that regions with higher PAD tend to exhibit more efficient spending patterns, as local accountability mechanisms ensure that expenditures directly benefit residents. According to Mulyati and Asyik (2024), PAD reflects the effectiveness of fiscal decentralization, where regions are encouraged to innovate and optimize their own financial sources rather than depending solely on central transfers. Therefore, increased PAD is expected to positively and significantly affect regional expenditure because it enhances flexibility in financing development programs and reduces fiscal dependence (Ramadhani et al., 2022; Utari et al., 2022; Rambe, 2023).

In contrast, the General Allocation Fund (*Dana Alokasi Umum/DAU*) aims to balance fiscal disparities across regions by providing equalization transfers from the central government. While DAU serves an essential role in ensuring minimum service delivery, excessive reliance on it can diminish regional fiscal independence (Nurhayati & Septiana, 2018; Fikri, 2020). The guaranteed nature of DAU may lead to complacency among local governments, fostering the flypaper effect where external funds are more readily spent than locally generated ones. Farica and Wijaya (2023) note that such dependence can reduce incentives for fiscal innovation, thereby constraining long-term efficiency. Nonetheless, when effectively managed, DAU contributes significantly to regional development through enhanced capital spending and public services (Istiqomah, 2021; Tewernusa & Jayanti, 2025).

H1: Locally generated revenue has a significant effect on regional expenditure

H2: General allocation fund has a significant effect on regional expenditure.

### **Special Allocation Fund and Revenue Sharing Fund of Regional Expenditure**

The Special Allocation Fund (*Dana Alokasi Khusus/DAK*) is designed to finance region-specific programs that align with national priorities, such as infrastructure, education, and health. According to Halim and Kusufi (2021), DAK aims to address disparities in public service provision by directing resources toward underdeveloped regions. However, its effectiveness depends on local governments' absorptive capacity and program management. Poor planning and bureaucratic complexity often result in low absorption rates, which in turn increase SiLPA levels and reduce fiscal efficiency. This demonstrates how DAK, though intended to support development, can exacerbate inefficiency when governance capacity is weak. Furthermore, Mardiasmo (2021) and Rahmawati and Lathifah (2024) emphasize that the success of DAK utilization hinges on transparency, accountability, and timely execution. Well-managed DAK allocations should thus contribute significantly to regional expenditure effectiveness, stimulating local economic growth and improving public welfare.

The Revenue Sharing Fund (*Dana Bagi Hasil/DBH*) represents another intergovernmental transfer mechanism that redistributes revenue from national sources, such as taxes or natural resource exploitation to producing regions. This fund aims to strengthen regional fiscal capacity and reward local resource contributions. According to Ishak (2021), DBH directly influences regional expenditure, especially in resource-rich areas, by enhancing their ability to finance capital projects. However, similar to DAK, inefficient fund utilization or delayed disbursements may limit its developmental impact. The magnitude of DBH's influence depends on fiscal discipline and strategic alignment with regional development plans.

H3: Special allocation fund has a significant effect on regional expenditure.

H4: Revenue sharing fund has a significant effect on regional expenditure.

### **Surplus Budget Balance as Moderating Variable**

Surplus Budget Balance (*Sisa Lebih Perhitungan Anggaran/SiLPA*) reflects the extent to which regional governments are able to plan, absorb, and utilize available fiscal resources effectively. According to Law Number 17 of 2003 on State Finance, SiLPA represents excess funds that may be carried forward to finance priority programs in the following fiscal year. While SiLPA can function as a budgetary reserve, excessively high levels often signal inefficiencies in budget planning and implementation, such as delayed projects, unrealized activities, or weak fiscal management (Harahap, 2022; Khotijah et al., 2023). In this context, SiLPA serves not only as a financial outcome but also as an indicator of governance quality and absorptive capacity, where unutilized funds imply missed opportunities to achieve regional development objectives (Mardiasmo, 2021).

Recent studies suggest that SiLPA plays a moderating role in the relationship between intergovernmental transfers and regional expenditure. Regions with limited planning and absorption capacity experience a more pronounced flypaper effect, resulting in higher SiLPA levels and reduced fiscal efficiency. When General Allocation Funds (DAU), Special Allocation Funds (DAK), or Revenue Sharing Funds (DBH) are not optimally absorbed, the intended stimulative impact on regional spending weakens, and budget surpluses increase. Excessive reliance on DAU may reduce fiscal independence and dampen expenditure responsiveness (Nurhayati & Septiana, 2018). However, poor management of DAK and DBH can further exacerbate inefficiencies due to bureaucratic complexity and weak governance (Halim & Kusufi, 2021; Ishak, 2021). Therefore, SiLPA moderates how effectively transfer funds translate into regional expenditure, strengthening or weakening their impact depending on budget absorption quality. This perspective supports the formulation of H5, H6, and H7, which posit that budget surplus conditions shape the influence of DAU, DAK, and DBH on regional expenditure.

H5: Surplus budget balance moderates the influence of the general allocation fund on regional expenditure.

H6: Surplus budget balance moderates the influence of the special allocation fund on regional expenditure.  
H7: Surplus budget balance moderates the influence of the revenue sharing fund on regional expenditure.

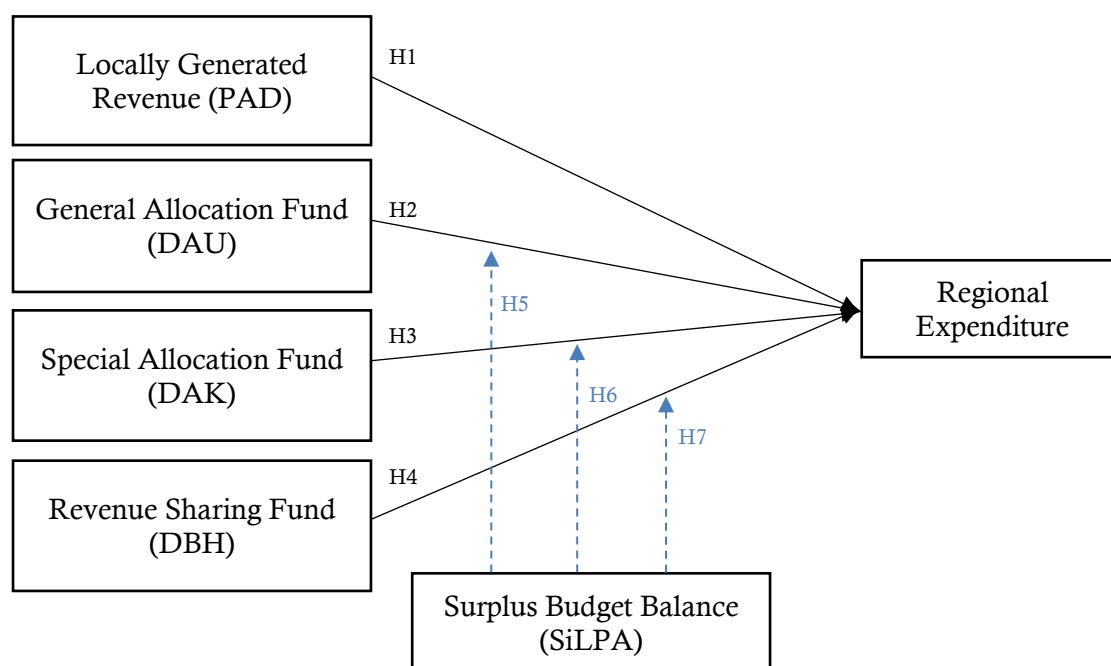


Figure 1. Conceptual Framework

Figure 1 illustrates the conceptual framework of the study, which examines the relationship between regional revenue sources and regional expenditure. PAD, DAU, DAK, and DBH act as independent variables that influence regional expenditure as the dependent variable. Budget surplus plays a moderating role in the effect of DAU, DAK, and DBH on regional expenditure. Each of these fiscal components represents a source of regional income that contributes to financing regional expenditure. The model suggests that increases in PAD, DAU, DAK, and DBH are expected to enhance regional expenditure capacity, reflecting the effectiveness of fiscal decentralization and financial management at the regional level.

## RESEARCH METHODS

This study uses a quantitative approach through multiple linear regression analysis and moderated regression based on an interaction model, employs panel data from 24 districts/municipalities for the period 2021–2023. This study uses an explanatory approach to explain the relationship between the flypaper effect and regional financial performance, with SiLPA as a moderating variable. The unit of analysis in this study was the district and city government in South Sulawesi Province. The target population includes all districts/cities with data related to regional revenue, regional expenditure, central government transfer funds (DAU, DAK, and DBH), and SiLPA for the period 2021–2023. Purposive sampling was used, with the main criteria being the availability and completeness of data for all variables analyzed. The final sample consisted of 24 districts and cities that met these requirements.

Data were collected through literature review and secondary data collection. The literature review was conducted by reviewing relevant literature, including books, scientific journals, research reports, and policy documents that discuss topics related to the flypaper effect, regional financial performance, and the SiLPA. Secondary data sources came from the Central Statistics Agency (*Badan Pusat Statistik/BPS*), Supreme

Audit Agency (*Badan Pemeriksa Keuangan/BPK*), and official financial reports of local governments in South Sulawesi. The collected data included information on Regional Original Revenue (*Pendapatan Asli Daerah/PAD*), General Allocation Fund (*Dana Alokasi Umum/DAU*), Special Allocation Fund (*Dana Alokasi Khusus/DAK*), Regional Revenue (*Dana Bagi Hasil/DBH*), regional expenditure, and SiLPA.

Data analysis was performed using multiple linear regression with EViews software. Partial (t-test) and simultaneous (F-test) significance tests were used to determine the strength of the influence of the independent variables on the dependent variable. The flypaper effect is identified when the DAU variable has a greater influence on regional expenditure than PAD does. To test the moderating role of SiLPA, a moderated regression model was used, with an interaction between the transfer fund and SiLPA variables.

The basic regression model used is Regional Expenditure = f (DAU, DAK, DBH, PAD), while the moderated regression model used is: Regional Financial Performance =  $\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 (DAU \times SiLPA) + \beta_6 (DAK \times SiLPA) + \beta_7 (DBH \times SiLPA) + \epsilon$ . This model is used to evaluate whether SiLPA strengthens or weakens the influence of transfer funds on regional financial performance.

## RESULTS

This analysis aims to identify which explanatory variables have a statistically significant influence when considered separately, while controlling for the presence of other variables in the model. The table reports the estimated coefficients, standard errors, t-statistics, and probability values for each variable, providing a basis for assessing the direction and significance of their effects. These results offer an initial understanding of how locally generated revenue and intergovernmental transfer funds contribute to variations in regional expenditure and serve as a reference for further discussion of the regression findings and hypothesis testing in the subsequent analysis.

Table 1. T-Test Result

Variable	Coefficient	Std. Error	T-Statistic	Prob.
Constant	2.19E+12	1.08E+12	2.020932	0.0494
Locally Generated Revenue (PAD)	2.489549	0.360730	6.901422	0.0000
Allocation Fund General (DAU)	-2.122837	1.674449	-1.267783	0.2115
Funds Allocation Special (DAK)	-0.064394	0.552710	-0.116505	0.9078
Revenue Sharing Fund (DBH)	0.419055	1.861826	0.225078	0.8230

Table 1 shows that from the four independent variables tested, only the PAD has a significant influence on the dependent variables with a mark probability of 0.0000. This indicates that PAD influences regional expenditure. Meanwhile, DAU, DAK, and DBH show no significant influence, with probabilities of 0.2115, 0.9078, and 0.8230, respectively. These results show that the regional expenditure tends to be more influenced by acceptance from PAD than by transfer funds from the government center. Coefficient PAD regression as large as 2.489549 shows that a 1 unit increase in PAD will increase the regional expenditure by 2.49 units.

The results of this study indicate the persistence of the flypaper effect in regional fiscal management. Although statistically, only PAD significantly affects regional spending, the relatively large absolute coefficient of the DAU compared to the DAK and DBH shows that regional governments are more responsive to transfer funds from the central government, particularly the DAU. This reflects that central transfers have a stronger influence on regional expenditure than locally generated revenue, confirming the flypaper effect phenomenon.

Differences in allocation structures and flexibility can explain the stronger influence of DAU compared to DAK and DBH. DAU, distributed as a block grant, provides regions

with greater discretion in determining expenditure priorities, facilitating easier budget absorption and planning. In contrast, DAK is earmarked for specific programs that align with national priorities and may change annually based on central policies, limiting regional flexibility. Meanwhile, DBH is tied to specific revenue sources such as taxes and natural resource yields, making it less flexible for financing general regional needs. Despite its limitations, DBH remains an important complement to PAD and DAU for meeting expenditure needs that PAD alone cannot cover. These structural differences explain why regions tend to be more responsive to DAU, reinforcing the flypaper effect in regional spending behavior.

The existence of the flypaper effect is also linked to the concept of fiscal illusion, where local governments perceive and present spending from central transfers as if it were the result of local fiscal effort. This illusion creates public misunderstanding about the true source of funds and fosters continued dependence on central transfers rather than encouraging local revenue generation. From a bureaucratic perspective, rigid and slow administrative processes also contribute to this behavior. The absorption of transfer funds tends to be faster and easier than collecting PAD, leading regional governments to rely more heavily on central transfers for their spending needs.

**Table 2.** Model Summary (Effect Specification and Goodness of Fit)

Statistic	Value	Statistic	Value
R-squared	0.958200	Mean dependent var	1.38E+12
SE of regression	2.02E+11	Adjusted R-squared	0.932550
Log likelihood	-1958.598	Sum of squared residuals	1.79E+24
Black criterion	56.06864	Akaike info criterion	55.18327
F-statistic	37.35669	Hannan-Quinn criterion	55.53574
Durbin-Watson stat	2.623529	Prob(F-statistic)	0.000000

Table 2 presents the model summary showing the goodness of fit of the regression analysis. The R-squared value of 0.9582 indicates that approximately 95.82% of the variation in regional spending is explained by the independent variables included in the model, while the remaining 4.18% is attributable to other factors outside the model. The adjusted R-squared of 0.9326 confirms the model's high explanatory power after adjusting for the number of predictors. The F-statistic of 37.35669 with a Prob(F-statistic) of 0.000000 shows that the model is statistically significant as a whole, meaning that all independent variables jointly influence regional spending. Additionally, the Durbin-Watson statistic of 2.6235 suggests no serious autocorrelation problem, indicating that the model's residuals are relatively independent. In addition, the Durbin-Watson value of 2.6235 indicated no autocorrelation. Thus, although PAD is significant, its magnitude of influence on DAU remains an indication that central transfer funds drive regional spending more.

The study also highlights the moderating role of SiLPA in influencing fiscal performance. High SiLPA often reflects inefficiency in budget planning or implementation, indicating that allocated funds were not optimally used. However, under certain circumstances, SiLPA can serve as a fiscal reserve to maintain financial stability during crises or unexpected conditions. The findings confirm that the flypaper effect remains a real challenge for regional fiscal independence. Dependence on central transfers, coupled with low governance quality and bureaucratic rigidity, hampers efficient budget use. Strengthening PAD through innovation, fiscal empowerment, and better governance is essential to reducing dependency and promoting sustainable fiscal autonomy.

The test result in Table 3, as reflected in the influence of DAU on regional expenditure, has no significant impact on regional financial performance. This can be seen from the DAU t-statistic of -0.514289, with a p-value of 0.6098, which exceeds the significance threshold of 0.05. On the contrary, DAK shows a significant positive influence on regional financial performance with a p-value of 0.0486.

**Table 3.** Moderation Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	15.63099	17.60972	0.887634	0.3799
Locally Generated Revenue (PAD)	-2.83E- 11	7.16E-12	-3.958296	0.0003
Allocation Fund General (DAU)	-1.37E- 11	2.66E-11	-0.514289	0.6098
Funds Allocation Special (DAK)	2.05E-11	1.01E-11	2.032953	0.0486
Revenue Sharing Fund (DBH)	5.33E-11	5.13E-11	1.039166	0.3048
DAU_SiLPA	2.19E-22	8.17E-23	2.681579	0.0105
DAK_SiLPA	-4.25E- 22	1.36E-22	-3.116740	0.0033
DBH_SiLPA	-3.21E- 22	4.21E-22	-0.763490	0.4495

The study found that PAD has a negative and significant effect on regional financial performance, indicating that higher local revenue does not always lead to efficient budget management due to weak governance. DBH showed no significant impact, suggesting limited influence on financial outcomes. SiLPA plays a key moderating role, where high SiLPA reflects inefficient use of transfer funds, while low SiLPA indicates better fiscal performance and budget efficiency. These results confirm the persistence of the flypaper effect, showing that regions remain more responsive to central transfers than to locally generated revenue. The findings also highlight that inefficient bureaucratic processes often drive spending unrelated to actual needs. The flypaper effect occurs when fiscal management is weak, emphasizing the need for improved planning, budgeting, and supervision to enhance regional financial efficiency.

## DISCUSSION

The findings of this study confirm the persistence of the flypaper effect in regional fiscal management, particularly in South Sulawesi. Although only locally generated revenue shows a statistically significant effect on regional spending, the relatively large absolute coefficient value of the General Allocation Fund (DAU) compared to the Special Allocation Fund (DAK) and Revenue Sharing Fund (DBH) indicates that local governments tend to respond more strongly to transfer funds from the central government, especially DAU. This suggests that when funds from the central government are received, they tend to “stick” to regional budgets and increase spending more than equivalent increases in locally generated revenues, reinforcing the flypaper effect.

The stronger influence of DAU compared to DAK and DBH can be attributed to its structural flexibility. The DAU is a block grant, allowing local governments discretion in allocating spending priorities, unlike DAK, which is earmarked for specific programs (Regional Research and Development Agency West Papua Provincial Government, 2021). This flexibility enables easier budget absorption, which explains why regional governments rely heavily on DAU. In contrast, DAK and DBH are more restricted in their usage and depend on sectoral or revenue-based allocations (Ministry of Finance of the Republic of Indonesia, 2022).

These findings are consistent with the Fiscal Illusion Theory proposed by Puviani (1903) and developed by Alesina and Perotti (2021), which explains how governments can create fiscal perceptions that obscure the real source of funds. In this context, local governments may present central transfers as outcomes of their fiscal performance, creating an illusion of financial capability. As a result, citizens remain unaware of their true fiscal dependence, reinforcing regional reliance on central government transfers.

From the bureaucratic model perspective, rigid and complex bureaucratic systems tend to exacerbate inefficiencies in local budget absorption (Zou, 2024). The process of managing PAD often requires more effort than absorbing transfer funds, which are procedurally simpler and readily available. Consequently, local governments prefer to utilize transfer funds, not necessarily because they are more efficient, but because they are easier to spend.

The flypaper effect tends to be more dominant in regions that have not fully optimized their revenue sources (Nguyen-Hoang & Yinger, 2020). Increased spending due to central transfers does not always correlate with improved public service outcomes, indicating inefficiencies in fiscal management. Furthermore, a high SiLPA often signals poor budget planning and implementation (Harahap, 2022). While SiLPA can serve as a fiscal reserve for future contingencies, excessive levels may reflect unspent funds that fail to generate economic benefits (Luiz de Mello & Ter-Minassian, 2022).

These results align with Maulidya and Yuliansyah (2022) in the view that regional financial performance is heavily influenced by both fiscal capacity and management efficiency. Regions that depend excessively on DAU and other central transfers are more vulnerable to fiscal illusion and inefficiency, whereas regions that strengthen their PAD through innovation and good governance can achieve greater fiscal independence. Conversely, when SiLPA is high, transfer funds such as DAU are often not fully absorbed, reducing their positive impact on fiscal performance. This relationship demonstrates the moderating role of SiLPA, where better budget absorption (low SiLPA) enhances fiscal efficiency and mitigates the flypaper effect (Harahap, 2022).

These findings are also consistent with the conclusion of Dollery and Worthington (1996), who noted that although many studies support fiscal illusion theory, empirical evidence varies with data quality, fiscal context, and institutional capacity. The variation implies that the flypaper effect is not automatic it depends on how efficiently regions manage their budgets. As Tay et al. (2022) emphasize, improving fiscal performance requires not only greater transfers of funds but also better financial governance, planning, and monitoring mechanisms.

This study provides key theoretical and practical implications. The persistence of the flypaper effect supports fiscal illusion theory in the context of fiscal decentralization, showing that regional spending responds more strongly to flexible central transfers, particularly DAU, than to locally generated revenue. This indicates that institutional design, transfer flexibility, and budget absorption capacity shape regional fiscal behavior, with SiLPA moderating the effectiveness of decentralization. These findings emphasize the importance of improving budget planning and execution to reduce excessive SiLPA, strengthen fund absorption, and enhance spending efficiency. Regional governments should prioritize increasing PAD through better governance and innovation while ensuring that transfer funds are managed effectively to minimize fiscal dependence and improve public service delivery.

## **CONCLUSION**

The results of this study confirm the existence of a flypaper effect in most regencies and cities in South Sulawesi Province. This is evidenced by the dominant influence of the general allocation fund on regional spending compared to regional original revenue. Although PAD still contributes to spending, local governments remain more responsive to central government transfers, reflecting fiscal dependence that can hamper regional financial autonomy. Furthermore, the moderating role of the Surplus Budget Balance is quite significant. A high SiLPA weakens the positive impact of transfer funds on budget efficiency, while a low SiLPA indicates more optimal fiscal management.

These findings highlight the need for local governments to strengthen fiscal capacity by optimizing PAD sources, improving budget planning, and increasing spending efficiency. Reducing SiLPA through better implementation and monitoring can improve financial performance. This study reinforces the Fiscal Illusion and Bureaucratic Model perspective, which suggests that regional dependence on central transfers is not only economic but also institutional and behavioral in nature. This study is limited in that it focuses only on South Sulawesi Province, so generalizability of the results to other regions with different fiscal structures may be limited. It is recommended that future research include broader data across provinces and use dynamic panel models to capture intertemporal effects. Further studies could also explore qualitative aspects of fiscal

governance, such as political incentives and bureaucratic behavior, to better explain the persistence of the flypaper effect in regional fiscal management.

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