

ABSTRACT

The role of the central government in the regional autonomy policy provides assistance in the form of fiscal balance transfers that aim to assist local governments in developing their regions. However, there is an anomaly that the existence of fiscal balance transfers from the central government does not act as a stimulus for local governments to maximize their regional potency. The phenomenon that occurs can be indicated as a flypaper effect phenomenon. This study aims to test the influence of Original Regional Revenue (ORR), General Allocation Fund (GAF) and Revenue Sharing Fund (RSF) on Operating Expenditure (OE) and Capital Expenditure (CE) in two different regression models in Regencies and Cities in Central Java during 2016-2020 periode, which are further identified in the event of *flypaper effect*. This study analyze the datas using the Fixed Effect Model (FEM) with the EvIEWS software program. The results of this study are the first to show that, ORR, GAF and RSF have a significant effect on Operating Expenditure (OE) and show the *flypaper effect* phenomenon. Second, only GAF and RSF have significant influence on Capital Expenditure (CE) but no flypaper effect is found.

Keywords: Flypaper Effect, Operating Expenditure, Capital Expenditure, Original Regional Revenue (ORR),), General Allocation Fund (GAF)