

## ABSTRACT

*This study analyzes the presence of the flypaper effect and the determinants of regional expenditure in regencies/cities across Eastern Indonesia (Papua, West Papua, Maluku, and North Maluku) during 2016–2023. Secondary data come from Statistics Indonesia (BPS) GRDP per capita, population, poverty and the Directorate General of Fiscal Balance, Ministry of Finance (DJP) Local own-source revenue (OSR), regional expenditure, local taxes, and the General Allocation Fund (GAF) forming a panel of 418 observations covering 51 regencies and 5 cities.*

*This study employs the Fixed effect model estimated using Two-Stage Least Squares (FEM–TSLS) to address endogeneity issues in the independent variables, with heteroskedasticity- and autocorrelation-consistent (HAC) robust standard errors. Data processing and estimation were conducted in Stata 17. The endogenous variables are own-source revenue (OSR) and regional expenditure, while the exogenous variables are GAF, GRDP per capita at current prices, population, local taxes, and the poverty rate.*

*The estimates indicate that OSR, GAF, and population have positive and significant effects on regional expenditure, whereas GRDP per capita and the poverty rate are not significant. The model's  $R^2$  is 0.6705. The flypaper effect is tested by comparing the GAF and OSR coefficients in the expenditure equation. Because the PAD coefficient (2.305963) exceeds the GAF coefficient (0.470458) and both are significant, no flypaper effect is found in this sample. These findings imply that increases in regional expenditure in Eastern Indonesia are driven more by local fiscal capacity (OSR) than by general transfers (GAF).*

*Keywords: Local Own-Source Revenue (OSR), Regional Expenditure, Flypaper effect, Two-Stage Least Squares (TSLS).*

