

The size of flypaper effect in decentralizing Indonesia

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Abstrak

ABSTRACT

This study explores the flypaper effect in Indonesia using a spatial approach. Covering data from 2000-2014, the paper shows that grants stimulate overspending by local governments even though spatial interdependence is carefully treated. The elasticity of lump sum grants to expenditure is stronger than the elasticity of matching grants. Further, the elasticity of lump sum grant is greater on routine expenditure, which shows the over-dependency of local governments to lump-sum grant. The over-dependency phenomenon has not changed a lot even after a major change of lump-sum grant formulation being applied by the 2004 decentralization law package.