



The impact of unofficial out-of-pocket payments on satisfaction with education in Post-Soviet countries



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ABSTRACT

The purpose of this study is to determine the impact of unofficial out-of-pocket payments on satisfaction with education in the countries of the former Soviet Union and Mongolia. Linear IV indicates that out-of-pocket payments weaken satisfaction by a factor of -0.98 , while biprobit indicates that out-of-pocket payments lessen satisfaction by 0.29% points. At the same time, the interaction model demonstrates that the negative impact of paying unofficial out-of-pocket payments declines as quality of education improves. As quality of education deteriorates, the negative impact of paying unofficial out-of-pocket payments grows considerably.

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1. Introduction

In public service delivery, including public education, the feedback of citizens is a key indicator with respect to the quality and efficiency of services delivered (Babajanian, 2015; Deichmann and Lall, 2007; Poister and Henry, 1994). However, the purpose of feedback is not only to evaluate the performance of service providers, but also to ensure that providers become user-oriented (Diagne et al., 2012; Ravindra, 2004). In addition, holding government accountable through feedback is increasingly recognized as a vital way to enhance service delivery, build the capacity of civil society, foster the culture of transparency in governance, and accomplish the long-term objective of socio-economic development (McNeil et al., 2009). Finally, the provision of feedback also affords citizens valuable opportunities through which to influence the decisions that affect their lives, and becomes a promising mechanism through which to increase their empowerment (Stern, 2002).

Against this backdrop, with respect to the importance of satisfaction, the aim of this paper is to evaluate the impacts of unofficial out-of-pocket payments (henceforth OOP) with respect to satisfaction with primary and secondary schooling in the countries of the former Soviet Union and Mongolia (henceforth

FSU). Many incidences of OOP in these countries can be qualified as outright corruption (Heyneman, 2010, 2011). The classic definition of corruption in education is defined as “the abuse of authority for personal as well as material gain” (Heyneman, 2004). Reasons for paying OOP can include paying education officials to have children admitted to a good school, unofficial tutoring, and payments for better grades and course work (Briller, 2007; OECD, 2004). Overall, OOP incidents are widespread in FSU countries. For instance, in Russia, OECD (2004) reported that approximately half the parents of schoolchildren paid OOP to get their children accepted to a better school.

In contrast, in transitional countries, other types of OOP lie beyond the classic definition of corruption since they do not necessarily involve the private gain of public officials. Examples of such incidents involve purchasing school supplies, payments for redecoration, refurbishment, and equipment and class materials including textbooks (OECD, 2004). In these cases, the education officials may not receive any direct benefits from the OOP. Rather, OOP substitutes for funding from the state budget. The high incidences of unofficial OOP for these purposes are hardly surprising given the chronic shortages of funds for education in state budgets in FSU countries. In Tajikistan, for example, 75% of schools work in two shifts to cope with the lack of school places, and only 30% of students are able to obtain a full set of required textbooks. Furthermore, teachers are paid very low salaries and lack support in the classroom, thus forcing students, teachers, and educational administrators to rely on OOP (Briller, 2007; UNICEF, n.d.). Even in better-off Russia, 37% of public schools require

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major repairs, while only 59% of schools have a proper sewage system (OECD, 2004).

In addition, it is not often possible to distinguish between the two above-described types of OOP. For example, a teacher may ask parents to pay for class refurbishment, something that officially should be paid by the school budget. The teacher may use all the money collected for refurbishment. Alternatively, they may use only part of the money collected for refurbishment, and take another part for themselves personally. Finally, the teacher may take all collected money for themselves, knowing that the refurbishment will be paid for by the school budget. Since it is not possible to clearly distinguish between these different types of OOP, in this paper we consider all OOP as one single phenomenon that encompasses paying for educational services which should have been provided for free (Diagne et al., 2012).

Two dominant perspectives are identified within the literature with respect to OOP. The first perspective is that in education, OOP is a negative phenomenon. This perspective is in line with the “sand-the-wheel” hypothesis in the literature of political science and economics, and is supported by international development organizations such as the UN, IMF, and World Bank (Aidt, 2003, 2009). If students believe that success in education is the result of OOP rather than personal efforts, it undermines their efforts to gain and maintain human capital in an honest way instead of relying on unofficial payments (Heyneman, 2004, 2008; Transparency International, 2013). It is not surprising then that paying OOP is associated with lower learning outcomes (Azfar and Gurgur, 2008). Moreover, OOP reinforces the existing inequality in society. The children of wealthier parents receive a better-quality of education, while those of poorer parents do not have the opportunity to receive it (Transparency International, 2013; UNICEF, 2007). In addition, paying OOP for services that should be provided for free reduces citizens’ trust in the educational system, undermines social justice, weakens social cohesion and solidarity in society, and thus in turn hinders economic development and leads to political instability (Heyneman, 2000, 2002, 2004). Consequently, according to the “sand-the-wheel” perspective with respect to OOP, we should expect to see a negative impact of OOP on satisfaction with education.

The second perspective is that OOP are an important instrument through which to alleviate distortions caused by the inefficiencies of weak institutions. This perspective is in line with the “grease-the-wheel” hypothesis in the political sciences and economics literature (Dreher and Gassebner, 2013; Leff, 1964). Méon and Wheil (2010, p. 244) suggest that “the ‘the grease-the-wheels’ hypothesis states that, in a second best world, graft may act as a trouble-saving device, thereby improving efficiency.” The positive impacts of OOP in mitigating the inefficiencies of a centrally-planned economy are well-documented in the literature (Holmes, 2000; Levy, 2007; Nye, 1967). Every parent wants to see their child achieve success in getting the best possible educational outcomes (Heyneman, 2004). Hence, it is possible to assume that parents who pay OOP may be more satisfied if their children study under better classroom and school conditions, receive higher grades, obtain all required textbooks, and are accepted in better schools. Indeed, the positive impact of OOP on satisfaction with public services, including education, has been reported in many developed countries. Thus, Bratton (2007) has found that paying unofficial OOP is associated with increased satisfaction. A similar conclusion was reached by Lavallée et al. (2008) who found that the impact of paying OOP was positive when the quality of received public services had improved. Bratton (2007, p. 60) explains the positive impact of OOP on satisfaction with public services by stating that “paying [OOP] opens the door to services that are otherwise scarce and inaccessible.” As a result, according to the “grease-the-wheel”

perspective, we should expect to see a positive impact of OOP on satisfaction with education.

The straightforward approach to estimating the impact of OOP on satisfaction with education is to regress satisfaction with respect to OOP while controlling for the influence of covariates. This approach can be implemented by a single-stage regression (e.g. OLS and probit). This approach however, is problematic due to the endogeneity that leads to reverse causality and omitted variable biases. To address reverse causality and omitted variable biases, we use instrumental variable models in addition to single-stage models. Below, we will consider the details of reverse causality and omitted variable biases, and the ways to address them.

Recall that both the “sand-the-wheel” and “grease-the-wheel” perspectives postulate that paying OOP may affect satisfaction. At the same time, it is reasonable to believe that satisfaction may affect OOP inasmuch as higher satisfaction may reduce the number of OOP incidences. Indeed, public institutions that elicit higher levels of satisfaction may encourage prosocial behaviors and reduce unofficial OOP by assuring citizens that all cases of OOP will be effectively prosecuted (Andriani and Sabatini, 2015; Irwin, 2009; Treisman, 2000; Uslaner, 2004). In addition, individuals who are satisfied with the education services received are less likely to be involved in or tolerate OOP (Ariely, 2011; Harding, 2013; Marien and Hooghe, 2011). Finally, higher levels of satisfaction with public services are typically associated with higher living standards, then result in fewer incidents of criminal behavior, including corruption (Kubbe, 2014). Thus, the provision of unofficial OOP and the resulting satisfaction creates a loop of causality where both variables have simultaneous effects on each other. Such a loop of causality leads to reverse causality in single-stage regression models. The results of single-stage models are biased if reverse causality is present. In contrast, instrumental variable models highlight the true direction of the impact and adjust the results to the presence of reverse causality (Baum, 2006; Cameron and Trivedi, 2010).

Omitted variable bias is another serious problem that cannot be addressed by single-stage regression models. This problem arises in the presence of some unobserved characteristics that can simultaneously affect both outcome and impact variables. For instance, transparency in school management may simultaneously increase satisfaction and at the same time may reduce unofficial OOP (Lewis and Pattinasarany, 2009). Likewise, effectively uncovering and prosecuting unofficial OOP cases may simultaneously increase satisfaction while reducing the likelihood of OOP payments. The single-stage regressions cannot account for omitted variable problems that lead to biased results. In contrast, instrumental variable models address the omitted variable bias and adjust the results of estimations accordingly (Wooldridge, 2002).

To summarize, we evaluate the “sand-the-wheel” and “grease-the-wheel” perspectives with respect to the impact of OOP on satisfaction with education. To adjust for possible endogeneity that may lead to reverse causality and omitted variable biases, we estimate both single-stage and instrumental variable regressions. With this in mind, let us now turn to a discussion of the study’s materials and methods.

2. Material and methods

2.1. Data

This study relies on the 2010 Life in Transition Survey (henceforth the LITS) that was conducted jointly by the World Bank and the European Bank for Reconstruction and Development (Ipsos, 2011). In this paper we focus on the FSU countries, which

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