



After the Big Bang: Estimating the effects of decentralization on educational outcomes in Indonesia through a difference-in-differences analysis



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ABSTRACT

Proponents of decentralization argue that bringing decisions closer to the people improves school quality and efficiency by ensuring that schools are more responsive to local educational needs. In practice, the effects of decentralization vary substantially, given that the implementation of these reforms relies on local resources and management capacity. In this paper, I estimate the effects of decentralization on educational outcomes in Indonesia using a difference-in-differences model. I find no overall effect on achievement, but a negative effect on teacher effort, particularly in rural areas and among schools with inactive school committees.

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1. Introduction

Education policy makers around the world are faced with the same question: should education be the responsibility of the central government, or should education provision be decentralized? Over the last several decades, decentralization has been one of the most hotly debated policy issues affecting countries across the income spectrum. Proponents of decentralization claim that local stakeholders, who are less constrained by state bureaucracy and more in touch with the local context, are better equipped to provide education than central authorities. In this way, it is argued that decentralization reforms have the potential to improve student achievement by increasing schools' efficiency, ensuring that schools are more aligned with local educational needs and preferences, and empowering local communities to hold schools accountable for providing quality education (Barrera-Osorio et al., 2009; Jimenez et al., 1986; World Bank, 2011).

Despite the proliferation of these reforms, the empirical evidence of the capacity of decentralization to improve educational quality and equity is limited. To a certain extent, the lack of

consistency in the literature on decentralization is not surprising, considering that decentralization relies on local resources and institutional capacity, both of which vary significantly across contexts. Despite the uneven nature of communities' responses to decentralization reforms, however, few studies have explored the role of decentralization in perpetuating or alleviating educational disparities.

My study explores the effects of decentralization on educational outcomes in elementary and junior secondary schools in Indonesia. Indonesia makes for an interesting case study of decentralization for several reasons. The Indonesian public education sector has gone from being one of the most highly centralized in the world to one of the most decentralized. These reforms are often referred to as "Big Bang Decentralization," given the swiftness with which the decentralization policies were enacted and the contrast they pose to the country's previously tightly centralized governance structure (Chen, 2011). Decentralization occurred at the same time as dramatic growth in primary and secondary enrollment. Despite this expansion, however, regional and socioeconomic disparities persist in both enrollment and achievement, particularly at the secondary level (Arze del Granado et al., 2007; World Bank, 2013). My study addresses the role of decentralization in improving school quality and alleviating these disparities.

Leveraging school level data spanning fifteen years, I estimate the effects of decentralization on school quality using a difference-in-differences mode. Specifically, I compare before and after

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changes in educational outcomes in Ministry of Education and Culture (MoEC) schools to the analogous changes in outcomes in a comparison group of schools that have always been decentralized—private school¹. I find no effect of decentralization on math and language achievement, although there is a weak negative effect on math achievement among schools with inactive school committees. I also measure the effects of decentralization on teacher effort, as measured by the number of hours that teachers spend in the classroom per week, and I find a negative effect, particularly in rural areas and among schools with inactive school committees. These findings contribute to the growing body of literature challenging the assumption that decentralization improves school quality. Given the global popularity of decentralization, it is essential that policy makers understand the mechanisms through which these reforms can influence achievement, and the resulting implications for educational equity. My findings contribute to this understanding.

2. Theoretical and empirical background

At its most basic, decentralization refers to the devolution of fiscal responsibility and decision-making power from the central government to local authorities. In practice, of course, no education system is completely centralized nor completely decentralized, and a great deal of variation exists across school systems in terms of the division of responsibilities between central and local authorities. The policy debate revolves around the degree of fiscal responsibility and decision-making power that should be decentralized, and to whom authority should be granted at the local level (e.g., provincial governments, district governments, school committees, or even private firms or individuals).

The assumption is that by reducing the role of the central government, and allowing schools to operate in a quasi-market framework, schools will be more flexible, innovative, and responsive to local needs (Barrera-Osorio et al., 2009; Carnoy, 1999; Jimenez et al., 1986). In this sense, decentralization is one of the market-based reforms that have dominated education planning since the 1990s, especially among the development aid community, where decentralization has been a favored policy item on the “menu” of education reforms promoted by the World Bank and other multilateral agencies (Mundy, 2007, 2002; Riddell, 1998). Indeed, the popularity of these reforms is here to stay: local autonomy is one of the World Bank’s primary strategies for strengthening education systems through 2020 (World Bank, 2011). In the following, I describe the theoretical assumptions underlying decentralization and the empirical evidence of the relationship between decentralization and educational outcomes.

First, decentralization is based on the assumption that bringing decisions closer to the people improves the efficiency of the education system. In the context of low and middle-income countries, for example, decentralization may ensure that teachers are paid on time via the introduction of a more direct payment model, in which teachers are paid by district governments, rather than central governments (Di Gropello and Marshall, 2009). Similarly, by eliminating the bureaucratic “middle-man” role of the central government, decentralization can ensure that schools adapt more quickly to local educational needs and labor markets.

A second mechanism through which decentralization can improve school quality is by strengthening the accountability mechanisms between schools and communities. In countries like

Indonesia, where teacher absenteeism is common, increased community monitoring (not to mention the possibility of withholding pay) may serve as an incentive for improved teacher performance (Asian Development Bank and OECD, 2015; Di Gropello and Marshall, 2009).

Finally, a third reason for the popularity of decentralization is the notion that these reforms will stimulate a shared sense of responsibility for educational outcomes between teachers, principals, families, and community members (De Grauwe, 2005). It is assumed that decentralization empowers communities to work together to support schools; parents will promote students’ educational efforts at home and in school, families will visit classrooms and help out with academic and extracurricular activities, and community members and local businesses will work together to ensure that schools are adequately supplied, for example.

Empirically, the capacity of decentralization to meet these assumptions is contested. Evidence from Chile suggests that decentralization (in the form of state-subsidized privatization) does not improve the overall efficiency of education provision (McEwan and Carnoy, 2000). McEwan and Carnoy (2000) find that the achievement gains in private (Catholic) schools are offset by the higher cost of Catholic school education as compared to public education. Thus, the relative efficiency of private schools and public schools is similar. An additional threat to the assumption that decentralization improves efficiency is the possibility of elite capture of public funds (Bardhan, 2002). This is particularly relevant in the context of Indonesia, widely recognized as one of the most corrupt countries in the world (Suryadarma, 2012). Indeed, Suryadarma (2012) finds that public spending in less corrupt regions of Indonesia has a positive effect on enrollment, while in more corrupt regions the relationship between public education spending and enrollment is negligible. This suggests that a significant portion of public funds in these more corrupt regions never makes it to schools.

A growing body of research from Latin America and sub-Saharan Africa focuses on the capacity of decentralization to improve educational outcomes through school-based management. Studies show that autonomous schools improve school participation and student achievement vis-à-vis increased parental involvement in schools (Duflo et al., 2014; Gertler et al., 2008; Jimenez and Sawada, 2014, 1999) improved teacher effort (Di Gropello and Marshall, 2009; Duflo et al., 2014), and increased community-based investments in educational resources, such as library books (Carnoy et al., 2008; King and Ozler, 2005). These studies suggest that localized school governance can improve school quality by strengthening the accountability mechanisms between parents and schools, incentivizing teacher effort, and engaging communities in school management.

However, community engagement is not automatic, and is particularly problematic in rural or lower income contexts where parents with low levels of education may not feel it is their role to participate in school management, or may not be financially able to dedicate the time required to participate (Gunnarsson et al., 2009; King and Ozler, 2005; Meade and Gershberg, 2008). In this regard, research from Mexico finds that the positive effects of a pilot school-based management program largely disappeared when the program was taken to scale (Santibañez et al., 2014). Despite positive effects of the pilot program, when implemented at scale the school-based management program did not substantially change parents’ involvement in school decision-making, even though most parents reported being aware of their role in school management.

Moreover, even when decentralization does increase parental and community engagement in schools, parents, community members and local authorities do not always make optimal school

¹ By comparing differences in changes in achievement between MoEC and private schools, rather than differences in absolute achievement levels, I account for time-invariant differences between these two school types (such as the fact that private schools are mostly Islamic, while MoEC schools are secular). The assumptions underlying this difference-in-differences estimate are described in Section 5.

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