Should Aid Reward Performance? Evidence from a Field Experiment on Health and Education in Indonesia

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Country | Indonesia
Organizing Theme | Health, Education and Skills
Status | Completed
Intervention Category | Community Driven Development
Sector | Social Development

Abstract
This paper reports an experiment in over 3,000 Indonesian villages designed to test the role of performance incentives in improving the efficacy of aid programs. Villages in a randomly-chosen one-third of subdistricts received a block grant to improve 12 maternal and child health and education indicators, with the size of the subsequent year’s block grant depending on performance relative to other villages in the subdistrict. Villages in remaining subdistricts were randomly assigned to either an otherwise identical block grant program with no financial link to performance, or to a pure control group. We find that the incentivized villages performed better on health than the non-incentivized villages, particularly in less developed areas, but found no impact of incentives on education. We find no evidence of negative spillovers from the incentives to untargeted outcomes, and no evidence that villagers manipulated scores. The relative performance design was crucial in ensuring that incentives did not result in a net transfer of funds toward richer areas. Incentives led to more efficient spending of block grants, and led to an increase in labor from health providers, who are partially paid fee-for-service, but not teachers. On net, between 50-75% of the total impact of the block grant program on health indicators can be attributed to the performance incentives.

Gender Connection

Gender Informed Analysis

Gender Outcomes
Maternal health, nutrition, school attendance

IE Design
Clustered Randomized Control Trial (Clustered at village level)

Intervention
The program, Generasi, provides villages an annual block grant of approximately $10,000, which each village can allocate to any activity that supported one of 12 indicators relating to health and education service delivery. 20% of the subsequent year’s block grants are allocated based on performance on the indicators in the previous year.

Intervention Period
The program was implemented over 2 years from 2007-2008

Sample population
264 subdistricts each consisting of about 12 villages were randomized into one of three groups, block grand and incentives, just block grand, or no block grant. Approximately 12,000 households were interviewed in each survey wave as well as more than 8,000 village officials and health and education providers.

Comparison conditions
The study compared villages that received block grants with incentives to villages that received block grants with no incentives and villages that did not receive any block grants.

Unit of analysis
Household Level, Village level

Evaluation Period
The midline survey was conducted 18 months after the program started and the endline survey was conducted 30 months after the program started.
<table>
<thead>
<tr>
<th>Results</th>
<th>Incentives led to significant improvements in health indicators but not significant improvements in education indicators. Maternal and child indicators including prenatal visits, delivery by trained midwives, child immunizations were an average of .03 standard deviations higher in incentivized areas. The only category that individual had a significant improvement was prenatal visits. Impact was greater in areas with low baseline levels of service delivery. Incentivized grants accounted for the majority of program impact for health outcomes. There is no evidence of any manipulation or adverse effects of the incentives.</th>
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</thead>
<tbody>
<tr>
<td>Primary study limitations</td>
<td>The study does not discuss limitations.</td>
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<tr>
<td>Funding Source</td>
<td>Government of Indonesia, the World Bank, the Decentralization Support Facility, The Netherlands Embassy, the PNPM Support Facility, The Netherlands, Denmark and Spanish Impact Evaluation Fund, The NIH.</td>
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