Decentralisation and Development

Traviss Cassidy, Nurina Merdikawati & Tejaswi Velayudhan

Discussant: Joseph Marshan

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MONASH University | MONASH BUSINESS SCHOOL

Outline

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What the paper does

- **Question:** Does expenditure decentralization promote development and public service delivery?
- **Setting:** Indonesia's Village Law (2014) — one of the largest decentralization reforms.
  - $\sim$74,000 *desa* gain budget autonomy + large transfers (budgets more than *triple*) $\rightarrow$ **treatment group**
  - $\sim$8,400 *kelurahan* (wards): no change in autonomy $\rightarrow$ **control group**
- **Strategy:** Semi-parametric DiD (AIPW); propensity-score trimming to comparable *desa/kelurahan*; 38 baseline covariates (PODES + full-count 2010 Census).
- **Outcomes**: VIIRS nighttime lights (2012–25); PODES public services index (2005–25).
- **Plus:** Causal-forest heterogeneity; RD at Village Fund population thresholds to probe fiscal multiplier vs. autonomy channels.

Headline findings

Rural villages (credible sample):

- Lights: +12.1% by 2025 (ATT $= 0.125$, SE $= 0.027$)
- Public services index: +0.113 SD by 2024 (SE $= 0.017$)
- Gains in paved roads, street lighting, preschools, libraries, health posts

Urban villages: differential pretrends; short-run dip, no long-run effect.

Heterogeneity:

- Larger gains: ethnically homogeneous villages; college-educated village *head*
- Villager education: no predictive power

RD: marginal Village Fund money $\Rightarrow$ effects ≈ 0 on lights and services.

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Why I like this paper

- **Data:** full-count census + every PODES wave + village fiscal accounts + cleaned VIIRS. A serious infrastructure investment.
- **Clever variation:** historical accident that many *rural* subdistrict capitals are kelurahan $\Rightarrow$ a plausible rural control group.
- **Honesty about identification:** urban pretrends flagged; paper leans on the rural sample, where pretrends are flat.
- **Methods:** lasso-selected doubly robust DiD + Crump trimming; RD as a complementary design.
- **Timely:** 2025–26 KDMP cooperative reforms are effectively *re-centralizing* Village Fund spending — these estimates tell us what is at stake.

Four main comments, then smaller points.

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Major comment #1: Framing of main results

The "treatment" bundles at least three things:

1. Formal budget autonomy
2. A large increase in (earmarked) transfers
3. Changes to village *political* institutions: head's power over officials, term limits, council selection

Paper interprets estimates as "expenditure decentralization"; one could justifiably read "money + autonomy + electoral accountability."

Suggestion: Unless we find a way to test mechanism explicitly – Frame as the effect of the *decentralization package*; Use heterogeneity results:

- the head-education $\rightarrow$ capacity channel
- village official / pop $\rightarrow$ institution channel

Major comment #2: Internal validity

Potential selection bias & contaminated treatment

- Local political context of *desa*: *Gampong* in Aceh, *Nagari* in W. Sumatera, *no service responsibility* in DKI
- Switching issue: *desa* to *kelurahan* and other way around (incentivized by Basic Allocation)
- Treatment effects: Much trimming of the treatment group; Control group is not completely untreated (Dana Kelurahan 2019/2020 & 2023–present)

Suggestions:

- Sample restriction: final sample to exclude Aceh, DKI and W. Sumatera; Restrict to non-switchers (at least robustness)
- Clarify ITT interpretation (2014 status) and report conversion counts
- Formal test if Dana Kelurahan (2019–2023) reduce the outcome gap between *desa* and *kelurahan*
- Upper-bound treatment effects? Discuss sign of bias.

Major comment #3: Development outcomes

Luminosity as development outcomes:

- One of the largest rural service effects: street lighting +5.6 pp.
- So part of the +12% may be the policy *literally purchasing light*, not economic activity
- Consider mining area that could be ”brighter” and has small population but less relevant to autonomy (K̃DMP could light up the villages)

Suggestions:

- Control for the change in the lighting indicator.
- Explore “development” with other private-sector outcomes (minimarkets–*Gmap*?), public health (vaccination take-up–MoH?), poverty (SMERU) – away from *input*-type outcome.

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Minor comments: Analysis

- Rural kelurahan are special ($\sim$1,200 after trimming; often subdistrict capitals). Pretrends reassure; a capital-status robustness check would help.
- Robustness check: Placebo, Un-trimmed regression, PSM DiD, only Java.
- External validity: Trimming causes this issue. Provide a back-of-envelope national effect would be insightful.
- Magnitudes: +12% over a decade $\approx$ 1.1–1.5%/yr. Translate to GDP and compare with $\sim$Rp 950M/village/yr cost: is it a *good* investment?
- Tightening introduction: Focusing literature on the role of "autonomy" $\rightarrow$ relevant literature to support mechanism
- Heterogeneity: Sell it as descriptive. Report BLP/GATES inference from Chernozhukov et al. (2023)

Minor comments: Write up

Village term confusion

"*...the law significantly enhanced the autonomy of Indonesia's 74,000 desa (villages) in providing local infrastructure and services...*" – p.2 para 3

"*First, the central government deployed Village Funds to the vast majority of villages in Indonesia...*" – p.13 para 4

Suggestions:

- Consistency that village is *desa* + *kelurahan*
- Should we just call it: *Desa* Law instead of Village Law?

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Concluding remarks

- An excellent and innovative paper with careful design that directly evaluate Village law implementation (the first?)
- **Main asks:**
  1. Interpret as the effect of the decentralization *package*; confront control-group contamination head-on
  2. Rule out the mechanical street-lighting channel
  3. Improving internal validity (selection bias issue)
- My *critique* does not overturn the main finding that rural *desa* significantly pulled ahead after 2015.
- Hot Takes: with the 2026 KDMP reforms that claw back village autonomy, Indonesia may be about to run this experiment *in reverse*. BUT, may not if KDMP ”light-up” the village.

Thank you — I look forward to the next iteration draft