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**Decentralization:
A Cautionary Tale**

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Decentralization: A Cautionary Tale

Kenya's education system blends substantial centralization with elements of local control and school choice. This paper argues that the system creates incentives for local communities to build too many small schools; to spend too much on teachers relative to non-teacher inputs; and to set school fees that exceed those preferred by the median voter and prevent many children from attending school. Moreover, the system renders the incentive effects of school choice counterproductive by undermining the tendency for pupils to switch into the schools with the best headmasters. A randomized evaluation of a program operated by a non-profit organization suggests that budget-neutral reductions in the cost of attending school and increases in non-teacher inputs, financed by increases in class size, would greatly reduce dropout rates without reducing test scores. Moreover, evidence based on transfers into and out of program schools suggests that the population would prefer such a reallocation of

expenditures.

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