

Document de treball de l'IEB 2011/43

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PRIVATE SECTOR

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Fiscal Federalism

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treball de l'IEB

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Postal Address:

Institut d'Economia de Barcelona
Facultat d'Economia i Empresa
Universitat de Barcelona
C/ Tinent Coronel Valenzuela, 1-11
(08034) Barcelona, Spain
Tel.: + 34 93 403 46 46
Fax: + 34 93 403 98 32
ieb@ub.edu
<http://www.ieb.ub.edu>

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ABSTRACT: Using a simple model of incomplete contracts to characterize the relationship between decentralization and contracting with the private sector, I show that, provided that the expected reduction in quality is low, more decentralized local governments will contract more with the private sector. Then, I use the 2001 decentralization reform in Colombia to test these ideas. Particularly important, the reform entitles more decentralized municipalities to sign subsidy contracts with private schools, and departments (a higher level of government) to do so for the less decentralized municipalities. I take advantage of the fact that the level of decentralization is decided using an exogenous population threshold to identify causal effects using Regression Discontinuity Design. The empirical results are consistent with the prediction of the model. More decentralized municipalities subsidize more students in private schools. There are no significant differences in enrolment in public schools across more and less decentralized municipalities.

JEL Codes: C21, H52, H72, I22

Keywords: Decentralization, contracts with the private sector, education reform, RDD, Colombia

Darwin Cortés
Department of Economics and CeIBA-Complejidad
Universidad del Rosario
Bogotá Carrera 5 15-37, Piso 6
110321, Bogotá (Colombia)
Tf : (571) 2970200 ext. 8129
E-mail : darwin.cortes@urosario.edu.co

* I am grateful to Giorgio Brunello, Georges Casamatta, Guido Friebel, Gerhard Glomm, Darío Maldonado, Marta Rubio and participants at LAMES07, ASSET07, EEA-ESEM08 and IIPF08 conferences, Rosario, Fedesarrollo, Padua and IEB seminars for their comments. Special thanks to Enrico Rettore for many discussions and very detailed comments. The usual disclaimer applies. A previous version of this paper appears as the second chapter of my PhD dissertation at TSE. I gratefully acknowledge financial support from the Colombian Central Bank and the European Commission (EEEEPE - Marie Curie Training Network - University of Padua), as well as the hospitality of the Economics Department of the University of Padua.

1 Introduction

Decentralization has been at the core of the debate on government organization during the last decades. Nowadays, fiscal decentralization is an objective in both developed and developing countries that is promoted by international organizations such as the World Bank.

The economic theory has identified several reasons that explain why decentralized governments may do better. The usual argument is that local governments have better information on local preferences (Persson and Tabellini, 2000). Besides, local governments may be more productive for several reasons. Among these, it has been argued that local governments are more accountable to citizens and (Seabright, 1996) that this increased accountability implies improved accomplishment of their tasks. Decentralization may also foster the initiative of local politicians provided that they have political career concerns (Aghion and Tirole (1997), Myerson (2006) and Enikolopov and Zhuravskaya (2007)). However, local governments may be more likely to be captured by interest groups (Bardhan, 2002).

The benefits of decentralization have been measured empirically in both developed and developing countries. For instance, Faguet (2004) points out that the decentralization in Bolivia has improved responsiveness of government to local needs (matching preferences). Barankay and Lockwood (2007) show that fiscal decentralization has improved educational attainment in Swiss cantons (productive efficiency).

The aim of this paper is to assess the relationship between decentralization and contracting with the private sector. I first develop a model of incomplete contracts à la Hart, Shleifer, and Vishny (1997) in which local governments choose what proportion of a divisible project is contracted with the private sector. Local governments may contract with a public manager or a private manager. Managers may make two (non-contractible) innovations: a quality increasing innovation (QII) and a cost reducing innovation (CRI). I show that more decentralized local governments assigns a larger fraction of the project to the private manager if gains from private QII outweighs losses from private CRI. Then, I undertake an empirical analysis using the 2001 decentralization reform in Colombia. The 2001 reform is a complex reform of the financing and the provision of public services, mainly, education and health.

With respect to education, the reform has two main characteristics: first, it establishes a process to certify certain municipalities (the local governments). This process consisted of two parts: the devolution of the teachers' payroll and the reorganization of schools. The certified municipalities are more decentralized since they receive more responsibilities in the provision of public education. The reform devolved the management of personnel and other resources (buildings, material, etc.) to those municipalities. The non-certified municipalities are less decentralized since they only received the management of other resources different from personnel. Second, the reform allowed the more decentralized municipalities to sign contracts with private schools, as an additional strategy to increase enrolment.

Departments (the regional governments) are entitled to sign this type of contracts for the less decentralized municipalities.

How might the reform affect enrolment in pre-college school? First, it provides sub-national governments (departments and municipalities) with strong incentives to increase enrolment, since the national transfer received by these governments depends on the number of pupils enrolled in public schools and subsidized in private schools. Thus it is very likely that the reform has increased enrolment. Second, the reform established two parallel organizations for the provision of education: In one system, municipalities are more decentralized (the certified ones) and in the other system, municipalities are less decentralized (the non-certified ones).

These types of municipalities may differ in performance. Even if national transfers provide incentives to enrol children and contracts with the private sector are based solely on the number of pupils, regional and local governments not only care about enrolment but also about education quality. Therefore, if the amount of pupils deteriorates education quality, the local government will care about the fraction of pupils assigned to private schools.

Enrolling children in private schools may be more productive than enrolling them in public schools at least for two reasons. First, because it reduces quality deterioration in public schools. Second, because private schools are both more accountable to parents and less likely to be controlled by interest groups like teachers' unions. It is then very likely that the CRI in the private school is not very costly in terms of quality deterioration. The main theoretical result mentioned above may be re-expressed in the following terms: the more decentralized municipalities contract a larger fraction of non-enrolled pupils with private schools if, in the private school, the reduction in quality that comes from the CRI is not larger than the increase in quality that comes from the QII.

I test the hypothesis that the more decentralized municipalities contract more enrolment with private school than the less decentralized municipalities do. I will not measure the general effect of the reform on enrolment. Rather, I look for differences among the two parallel organizations regarding the strategies they use to increase enrolment: either enrol children in public schools or sign subsidy contracts to enrol them in private schools.

I identify the effect of decentralization on enrolment exploiting the fact that the law established an exogenous rule to decentralize: all municipalities with more than 100 thousand inhabitants in 2001 must undertake the certification process, that is, must receive and manage the teachers' payroll and reorganize public schools. The departments must do so for the education provision in . This exogenous rule allows me to estimate causal effects with a Regression Discontinuity Design approach. The approach allows for variables that may affect enrolment to be very different on average among certified and non-certified municipalities, but it presumes that those variables are not very different in a small neighborhood around the cutoff defining the treatment. Then, assuming that all observable and non-observable variables that may affect enrolment are smoothly distributed around the threshold, any discontinuity in enrolment may be credibly attributed to the reform.

Identification relies on continuity checks of relevant variables.

The main empirical result of this paper suggests that more decentralized municipalities (i.e. the certified municipalities) subsidize more students in private schools than do less decentralized municipalities. The differences are particularly significant in primary and lower secondary levels all along the period of study. The difference represents around 20% of enrolment in private schools and 3% of the school-age population. The result is robust to differences in education prices (tuition fees), the size of population of school age, variables of public finance (income and spending of municipalities), political economy, poverty and violence.

In addition, the paper shows that, although enrolment in public schools has increased after the reform, there are no significant differences among more decentralized and less decentralized municipalities. The more decentralized municipalities seem to have enrolled more pupils in upper secondary in 2002, but the difference does not pass all the robustness checks.

This paper is also important because it sheds some light on policies that are effective in developing countries. Contracting with private schools may be an important strategy to improve enrolment rates in developing countries. Recent literature has provided evidence on this issue, for instance, Angrist, Bettinger, Bloom, King, and Kremer (2002) and Angrist, Bettinger, and Kremer (2006) have shown that the PACES program, a voucher program implemented in mid-nineties in Colombia, increased enrolment and academic achievement of pupils.

The rest of the paper is organized as follows. Section 2 provides context on public education in Colombia and describes the reform in detail. Section 3 presents a theoretical model that gathers the main economic traits of the reform and provides a hypothesis. Section 4 discusses the empirical framework, and presents the identification strategy and descriptive statistics. Section 5 presents main empirical results and robustness checks. Section 6 discusses the results and Section 7 concludes.

2 Colombia and its Reform

Pre-college education in Colombia consists of 12 mandatory years divided into three levels: 1 mandatory year of pre-primary, 5 years of primary and 6 years of secondary (divided into 4 years of lower secondary and 2 years of upper secondary). Education is one of the most important components of the public sector in Colombia. In 2001, 36% of central government tax revenues were allocated to public education, teachers constitute the largest group of public employees (26% of total public employees in 1999) and the public expenditures on education increased to 3.8% GDP on average in the 1990s. Besides, 7.2 million students attended public schools (75% of all students), and were taught by 290 thousand teachers (68% of all teachers) in 52 thousand schools (75% of total schools).

Decentralization has been in process since 1986. On political grounds, citizens began

to elect mayors of municipalities, who previously were appointed by the President of the Republic. Under the Political Constitution adopted in 1991, citizens also began to elect department governors. On economic grounds, the main rules on decentralization of education are included in Law 60 of 1993, which establishes the responsibilities of each government tier in the provision of education and the rules and formulae to distribute national revenues to the lower governments. This law was revoked by Law 715 of 2001.

The 2001 reform has three main components. First, it establishes two parallel organizations for the provision of education, one more decentralized than the other. To become more decentralized, municipalities must carry out a certification process. Second, the reform proposes an exogenous rule for municipalities to qualify for the certification, that is, to have the more decentralized provision of education. Third, it allows certified entities to sign subsidy contracts with private schools. I will explain these components in the rest of the section.

First, the reform establishes two parallel ways to organize the provision of education, one more decentralized than the other. In the more decentralized organization, municipalities deal with the management of both personnel and non-personnel inputs. In the less decentralized organization, municipalities manage the non-personnel inputs and departments manage the personnel. The mechanism for making national transfers establishes a per-pupil budget for each type of input, so that more decentralized municipalities receive both budgets for each enrolled pupil and the less decentralized municipalities only receive the budget corresponding to the non-personnel input.

Second, all the departments must carry out the certification process. Besides, the reform established an exogenous rule for municipal certification, which says that municipalities with more than 100 thousand inhabitants in 2001 must be certified. Those municipalities with less than 100 thousand inhabitants in 2001 must not follow the certification process (but may do so afterwards). Therefore, after the reform, the smallest municipalities have a less decentralized organization and the largest municipalities have a more decentralized organization.

This rule is completely exogenous since municipalities must attain the official 2001 population size from the National Statistics Office to find out whether they need to undertake certification. This allows me to consider the reform as a quasi-experiment to analyze the effect of decentralization on enrolment.

Municipal certification consists of a reorganization of both personnel (teachers, principals, administrative personnel) and schools, with the aim of devolution of the *optimal* personnel payrolls from the departments to the certified municipalities. The reorganization of personnel is based on the minimum pupils-per-teacher ratios and the organization of the labor time of teachers established by law. The reorganization of schools has the aim of consolidating individual schools into larger institutions providing preschool, primary and secondary education under the administration of a single principal. Forty (40) municipalities were certified in 2003. Four districts were certified automatically under law as were the departments. Two municipalities (Pasto and Armenia) had already been certified in

1997 under the Law 60¹.

Third, certified entities (departments and municipalities) may contract with private schools to increase enrolment. The private schools interested in signing subsidy contracts must previously inscribe themselves into a list of potential private providers, before the respective certified government. The aim of this inscription is to make the contracting process clearer and to guarantee a minimum level of education quality. However, being on the list does not mean signing a subsidy contract.

Subsidy contracts last one year (the school year) and establish a per-pupil price and a number of pupils. Mayors and governors must choose a school or schools from the private schools on the list. Although mayors and governors are free to negotiate prices, the contracted price must not exceed the per-pupil budget transferred by the nation. Indeed, since governments have all bargaining power, the actual contracted price has been a part of the per-pupil transfer.

To sum up, the reform introduced strong incentives for municipalities to increase enrolment either by enrolling more pupils in public schools or by subsidizing pupils in private schools. It also established two parallel organizations of provision of education, one more decentralized than the other; and an exogenous rule that assigns each municipality to one of the two organizations. This allows me to use the reform as a quasi-experiment to study the effect of decentralization on the number of pupils enrolled in pre-college school.

3 A theoretical model

The reform may be considered as entitling local governments with one project: enrolling children in schools. Both departments and municipalities received the correct incentives to do so. However, these governments not only care about increasing the number of enrolled children but also care about education quality. In education as in other services, there is a potential trade-off between the objective of maximizing the number of enrolled pupils and maximizing quality education. Since children out from school is around 15% of population in schooling age (almost 50% for upper secondary education) in 2002, the project, subject of the reform, has important scale effects, i.e. enrolling children may have important effects on education quality.

I build up a model based on Hart et al. (1997). Although the model is very abstract, it draws important insights about the economics of the reform. The model considers a divisible project. The (local) government, G , must choose what proportion of the project will be performed by the private manager (private school), M_P , and what proportion by the public manager (public school), M_G . Both the private and the public manager may implement a cost reducing innovation (CRI) and a quality increasing innovation (QII). These innovations are not contractible and require managers to exert effort. I denote

¹All the departments, except for the poorest department, Chocó, were also certified under the previous law. Chocó was certified automatically with the new law in 2001.

efforts as e and i , respectively. If innovations happen, renegotiation occurs. CRI reduces the project cost in $c(e)$ and reduces social benefit of the project in $b(e)$ (due to a reduction in education quality). The net effect of the QII on the social benefit is $\beta(i)$.

The crucial assumption of my model is that the reduction in quality due to the CRI, $b(e)$, is affected by the fraction of the project assigned. The larger the fraction the larger the reduction. Formally, let α be the fraction of the project assigned to the private sector. The social benefit that comes from the private manager's action is $\alpha [B_0 - ab(e) + \beta(i)]$. The fraction of the *original* project, αB_0 , assigned to the private manager is affected by his prior efforts. The social benefit that comes from the public manager's action is $(1 - \alpha) [B_0 - (1 - \alpha)b(e) + \beta(i)]$. The assumption gathers the scale effect mentioned above. It reflects the fact that putting more students in the same classroom is less costly than building new classrooms for the new students. The literature on economics of education has drawn attention to the negative relationship between classroom size and education quality (Angrist and Lavy, 1999). The model in Hart et al. (1997) does not have this assumption. Therefore, in their model the project is assigned either to the public manager or to the private manager.

The total social benefit B that comes from the project is

$$B = \alpha [B_0 - ab(e) + \beta(i)] + (1 - \alpha) [B_0 - (1 - \alpha)b(e) + \beta(i)]$$

The total social benefit from the *original* project, B_0 is affected by the prior efforts from managers. The first term in the RHS correspond to the benefit from the contract with the private manager. The second term corresponds to the benefit from contract with the public manager. The cost of project is equal to $C = C_0 - c(e)$. Since efforts e and i are costly for managers then the overall cost for managers is $C + e + i = C_0 - c(e) + e + i$.

It is assumed that gains from renegotiation are split 50 : 50. It is also assumed that only the possessor of the residual control rights has the right to approve any innovation. Any innovation in the public school must be approved by the government. No innovation in private school must be approved by the government. However, only the CR Innovation is in the interest of the private school. The QI Innovation in private school will require renegotiation, otherwise no payment will come from the QII. Notice that in the case of the public school, the government will fire the public manager once the innovations are done. In particular it is assumed that G can realize a fraction $1 - \lambda$ of the gains from both innovations by the public manager. Coefficient λ gathers specific human capital embodied in M_G and institutional aspects like union strength. When $\lambda = 1$ the public manager is irreplaceable.

The government pays price P_0 to the manager. The payoff for the manager of the public school is

$$U_{M_G} = (1 - \alpha) \left[P_0 - C_0 + \frac{\lambda}{2} (c(e) + \beta(i) - (1 - \alpha)b(e)) - e - i \right]$$

M_G must renegotiate on both innovations.

The payoff for the manager of the private school is

$$U_{M_P} = \alpha \left[P_0 - C_0 + \frac{1}{2}\beta(i) + c(e) - e - i \right]$$

M_P only renegotiates on the quality innovation.

Finally, the payoff for the government is

$$U_G = (1 - \alpha) \left[B_0 - P_0 + \left(1 - \frac{\lambda}{2}\right) (c(e) + \beta(i) - (1 - \alpha)b(e)) \right] + \alpha p \left[B_0 - P_0 + \frac{1}{2}\beta(i) - \alpha b(e) \right] \quad (1)$$

The proportion $p \in [0, 1]$ is a measure of decentralization. The larger p is, the deeper decentralization is. This coefficient gathers the fact that non-certified municipalities cannot contract directly with private schools. A fraction of the benefits from contracts with the private school goes to the department. In general $p \neq 0$ because non-certified municipalities have the information on the number of children to be potentially enrolled in private schools. Indeed, the non-certified municipalities may differ in bargaining power regarding the department. Larger municipalities and pivotal municipalities in politics may enjoy larger bargaining power.

I assume that functions c and β satisfy Inada conditions. That is, $c(0) = 0$, $c' > 0$, $c'(0) = \infty$, $c'(\infty) = 0$, $c'' < 0$ and $\beta(0) = 0$, $\beta' > 0$, $\beta'(0) = \infty$, $\beta'(\infty) = 0$, $\beta'' < 0$. Besides, function b satisfies $b(0) = 0$, $b' \geq 0$, $b'' \geq 0$. Finally, I assume that $c' - b' > 0$, i.e., that the Cost Reducing Innovation is valuable.

Timing is as follows: first G chooses α ; then, G writes contract(s) with M_G and/or M_P . Afterwards, M_G and M_P choose efforts i and e . Finally, if no renegotiation, the basic good is supplied. However, renegotiation will occur.

From now on let us assume that $\lambda = 1$ (the public employee is irreplaceable) and $p = 1$ (the government is completely decentralized). The first assumption is plausible in a context with a strong teachers union. In Colombia, school principals are teachers elected as directive personnel.

3.1 The first best

Consider the first best as a benchmark. The maximum social welfare is obtained by solving

$$\max_{\alpha, e, i} \{c(e) + \beta(i) - ((1 - \alpha)^2 + \alpha^2) b(e) - e - i\}$$

The optimal α is $\alpha^* = \frac{1}{2}$. Since the quality reduction of cost innovation depends on the fraction of the project given to each manager, the optimal fraction is to give half of the project to each manager. Any deviation will cause additional reductions in education quality. The first order conditions for e and i are

$$c'(e^*) - \frac{1}{2}b'(e^*) = 1$$

$$\beta'(i^*) = 1$$

3.2 Equilibrium

Both M_G and M_P take α^e as given, since it is chosen by the government in a previous stage.

The problem for M_G is $\max_{e,i} (1 - \alpha^e) \left[\frac{1}{2} (c(e) + \beta(i) - (1 - \alpha^e)b(e)) - e - i \right]$. Let us denote the unique solution by (e_G, i_G) , then the first order conditions are

$$\frac{1}{2} (c'(e_G) - (1 - \alpha^e)b'(e_G)) = 1$$

$$\frac{1}{2} (\beta'(i_G)) = 1$$

The problem for M_P is $\max_{e,i} \alpha^e \left[\frac{1}{2}\beta(i) + c(e) - e - i \right]$. Let us denote the unique solution by (e_P, i_P) , then the first order conditions are

$$c'(e_P) = 1$$

$$\frac{1}{2}\beta'(i_P) = 1$$

Proposition 1 $e_P > e^*$, $i_P < i^*$, $e_G < e^*$ and $i_G \leq i_P < i^*$ (with $i_G < i_M$ unless $\lambda = 1$)

Proof

See Hart et al. (1997).

■
In the first stage, G maximizes its utility with respect to α
 $\max_{\alpha} (1 - \alpha) \left[B_0 - P_0 + \frac{1}{2} (c(e_G) + \beta(i_G) - (1 - \alpha)b(e_G)) \right] +$
 $\alpha \left[B_0 - P_0 + \frac{1}{2}\beta(i_P) - \alpha b(e_P) \right]$
s.t. $\alpha \in [0, 1]$

The first order condition for the interior solution is
 $\frac{\partial U_G}{\partial \alpha} = - \left[B_0 - P_0 + \frac{1}{2} (c(e_G) + \beta(i_G) - (1 - \alpha)b(e_G)) \right]$
 $+ \frac{1}{2}(1 - \alpha)b'(e_G)$
 $+ \left[B_0 - P_0 + \frac{1}{2}\beta(i_P) - \alpha b(e_P) \right]$
 $- \alpha b'(e_P) = 0$

From which
 $\alpha^G = \frac{b(e_G) - \frac{1}{2}c'(e_G)}{b(e_G) + 2b'(e_P)}$

Proposition 2 *The proportion in equilibrium α^e assigned to the private sector is*

$$\alpha^e = \begin{cases} 0 & \text{if } c(e_G) \geq 2b(e_G) \\ \alpha^G & \text{if } c(e_G) < 2b(e_G) \end{cases}$$

Proof It comes directly by examining α^G and taking into account that α^e must be in $[0, 1]$. ■

The proportion α^e is equal to zero if the reduction in cost coming from CRI is very large (twice the reduction in quality). This is due to the fact that the public manager is irreplaceable. Notice that the interior solution, α^G , is always smaller than $\frac{1}{2}$. To see this, suppose that is not true. Then, $\alpha^G > \frac{1}{2}$. From the expression for α^G it can be seen that the inequality holds only if $b(e_G) - c(e_G) > 2b(e_P)$. The last expression is not possible under my assumptions because the LHS term is always negative and the RHS term is always positive. Then,

Proposition 3 *The proportion α^e in equilibrium is always smaller than the proportion in the first best, $\alpha^* = \frac{1}{2}$.*

The result comes from the fact that the government only internalizes half of the net benefit from quality innovation in the private school. Furthermore, government bears all benefit reduction (quality reduction) from cost innovation in the private school while perceives no benefits from the cost reduction coming from that innovation.

Let us now consider the case $p < 1$. The following proposition holds

Proposition 4 *The proportion α^e assigned to the private manager increases with decentralization if $b(e_P) < B_0 - P_0 + \frac{1}{2}\beta(i_P)$.*

Proof Maximizing Equation (1) (making $p < 1$ and $\lambda = 1$) with respect to α , we obtain that the interior solution is given by

$$\alpha^G = \frac{b(e_G) - \frac{1}{2}c(e_G) - (1-p) [B_0 - P_0 + \frac{1}{2}\beta(i_P)]}{b(e_G) + 2pb(e_P)} \quad (2)$$

Decentralization is gathered by coefficient p . Taking the partial derivative with respect to p ,

$$\frac{\partial \alpha^G}{\partial p} = \frac{B_0 - P_0 + \frac{1}{2}\beta(i_P) - 2\alpha^G b(e_P)}{2pb(e_P) + b(e_G)} \quad (3)$$

Equation (3) is positive if $\alpha^G < \bar{\alpha} \equiv \frac{B_0 - P_0 + \frac{1}{2}\beta(i_P)}{2b(e_P)}$. Since $\beta(i_G) = \beta(i_P)$, plugging expression (2) in (3) and making some calculations gives

$$\left[B_0 - P_0 + \frac{1}{2}(c(e_G) + \beta(i_G) - b(e_G)) \right] - \frac{1}{2}b(e_G) > -\frac{b(e_G)}{2b(e_P)}(B_0 - P_0 + \frac{1}{2}\beta(i_P)) \quad (4)$$

Since $B_0 - P_0 + \frac{1}{2}(c(e_G) + \beta(i_G) - b(e_G)) > 0$, a sufficient condition for Inequality in Equation (4) to hold is $B_0 - P_0 + \frac{1}{2}\beta(i_P) > b(e_P)$. Therefore, in that case, α^G is smaller than $\bar{\alpha}$ and $\frac{\partial \alpha^G}{\partial p} > 0$. ■

Coefficient p has two contrary effects on the government's utility: it increases the benefit coming from contracting with private school, increasing utility. It increases the effect of quality reduction of CRI in private school on government payoff, decreasing utility. The net effect is positive if reduction in quality of CRI in the private school is not too large. In this case, decentralization increases contracting with private schools. Notice that if the project in the public school is valuable enough for the government then the inequality in (4) always holds. On the contrary, if the project with public school is not very valuable for the government and quality reduction of CRI is large enough in both schools, there may be the case that $\alpha^G > \bar{\alpha}$. In this case, contracting with the private school decreases with decentralization.

To sum up, the equilibrium fraction of the project that the local government assigns to the private manager is smaller than the optimal fraction. This is so because the local government does not internalize all the social benefit from the QII in the private school. More important, decentralization affects the fraction of project contracted with the private manager. If the losses in quality coming from the CRI in the private school are low enough, more decentralized municipalities contract a larger fraction of the project with the private school.

Let us now return to the Colombian case. On the one hand, the organization of education provision in which municipalities deal with all responsibilities in providing education (that is the case of certified municipalities) may be associated to a large p in the sense described in the model. They manage to perceive a large portion of the benefits and costs from contracting with private schools. On the other hand, the government organization in which municipalities and departments play a role (that is the case of non-certified municipalities) may be associated to a smaller p . Benefits and costs from contracting with private schools are shared among non-certified municipalities and departments.

The government G has been rationalized as a municipality government. However, notice that, for the less decentralized organization, the government G may also be rationalized as the department. The key point is that the degree of decentralization may affect contracting with the private sector.

The following hypothesis comes directly from Proposition 4,

H1. Provided that the reduction in quality of the cost reducing innovation is not too large, more decentralized municipalities contract more enrolment with private schools than less decentralized municipalities do.

4 Empirical Strategy

The literature of quasi-experiments allows analysis of the effect of an exogenous change or *treatment* when the control group is not random. The challenge of analyzing causality using any reform as the one explained above is to find the appropriate control group so that the effect of the reform can be identified.

I will use a Regression Discontinuity (RD) design to exploit the rule requiring certification of municipalities over a certain size². This rule is completely exogenous since it establishes that all municipalities with 100 thousand inhabitants or more in 2001 must be certified, i.e. must be in charge of all tasks related to the provision of education. This rule provides a well-defined cut-off point that produces sharp discontinuities, i.e., treatment is a discontinuous function of the population size in 2001. The treatment group will be the more decentralized municipalities (i.e. the certified municipalities) and the control group will be the less decentralized municipalities (i.e. the non-certified municipalities).

The RD strategy acknowledges that the control and treatment groups might be different on average. However, assuming that other characteristics of municipalities (observable and non-observable) are continuous at the cutoff, any discrete difference in enrolment between certified and non-certified municipalities can be attributed to the reform. Therefore, I do not identify a general effect of the reform on enrolment. I instead try to identify the effect on enrolment of having a more decentralized system.

Notice that the identifying assumption of continuity of other variables related to enrolment is crucial. To illustrate the point, consider for instance that at the same moment of the introduction of the reform there is an exogenous shock on prices of private education, say tuition fees. Moreover, consider that the size of the shock varies discretely between certified and non-certified municipalities. In this case, any difference in enrolment could not be identified as an effect of the reform.

Some other caveats about the approach are in order. Although department and municipal governments have been subject to the same formal rules, their autonomy with respect to the national government is far from homogeneous. Historically, Bogota and Antioquia have been more autonomous than the other regions. They have had better organized education offices than other departments or cities. Therefore, municipalities in Antioquia, both certified and non-certified, have likely operated in more decentralized systems than other regions. Moreover, Antioquia implemented an scheme of subsidies to private schools since the second half of the 1990s³.

Law and decrees that implemented the reform established deadlines for the process of certification. It is not surprising that some municipalities were certified without having completed payroll reorganization. At the department level it is important to mention the case of Chocó. This department is the least developed in the country. Unlike the

²See Shadish, Cook, and Campbell (2002) for an overview and Hahn, Todd, and Van der Klaauw (2001) for a non-parametric presentation.

³This was a special program financed with a World Bank credit.

other departments, Chocó was not certified under the previous regime. Nevertheless, it was certified automatically in 2001 without having received the personnel payroll from the nation. The lack of technical capacity in Chocó rendered certification of its capital, Quibdó, impossible even though it had to be done by law. This caveat implies that in practice the reform was not carried out as planned. Both delayed implementation and automatic certification might reduce the effect on enrolment. The size of this downward bias is difficult to measure.

4.1 Identification

Let O_m be an outcome variable of enrolment for municipality m and C_m be the dummy variable defining the treatment. It is a discontinuous function of population size in 2001, $C_m = \mathbf{1}(S_m \geq 100000)$. I will estimate the following equation:

$$O_m = \alpha_0 + f(S_m - S_m^c, C_m) + \theta C_m + \varepsilon_m \quad (5)$$

where $S_m^c = 100000$. The polynomial $f(S_m - S_m^c, C_m)$ should reproduce how the dependent variable is distributed across the assignment variable (the population in 2001). Theoretically it can be of any order but often it is of lower order. So, if $f(S_m - S_m^c, C_m)$ is well specified then θ identifies the effect of the reform. Reported results are based on the following specific form of f ,

$$f(S_m - S_m^c, C_m) = \alpha_1(S_m - S_m^c) + \alpha_2(S_m - S_m^c)^2 + \beta_1((S_m - S_m^c) * C_m) + \beta_2((S_m - S_m^c)^2 * C_m). \quad (6)$$

Equation (6) allows for interactions between the assignment and the treatment variables when $\beta_1 = \beta_2 \neq 0$.

I will use two measures of enrolment as an outcome variable. The first part of the analysis focuses on $O_m = \Delta Y_m = Y_{post} - Y_{pre}$, where Y_{post} is the number of students in municipality m in a post-reform year and Y_{pre} is the number of students in municipality m in a pre-reform year. I perform this exercise for students enrolled in public schools. Notice that, if identifying assumptions hold, the effect of treatment is identified by

$$E[\Delta Y_m | C_m = 1, S_m - S_m^c = 0] - E[\Delta Y_m | C_m = 0, S_m - S_m^c = 0] = \hat{\theta}.$$

Afterwards, I conduct the same exercise using the number of students subsidized in private schools. Since there are no subsidies before the reform, the outcome variable becomes $O_m = Y_{s_{m,post}}$. If the identifying assumptions hold, the effect of treatment is identified by

$$E[Y_{s_{m,post}} | C_m = 1, S_m - S_m^c = 0] - E[Y_{s_{m,post}} | C_m = 0, S_m - S_m^c = 0] = \hat{\theta}.$$

Although the law was approved in 2001, it was implemented in 2003. The main part of the results shown below take 2001 as the pre-reform year in order to account for the

reform effects in 2002. Indeed, knowing that in the future, transfers will be based on per-pupil budgets, municipal governments could try to increase enrolment before the law was implemented.

To check the assumption that, in absence of treatment, the dependent variable should be continuous at the cutoff, I take the increase of enrolment between two pre-reform years, 2000 and 2001, as the dependent variable. Estimations of Equation (5) using this dependent variable should show no discontinuity. To check the continuity assumption that other observable variables must be continuous at the cutoff, several variables were included, one by one, as controls in the estimations of enrolment. Among the controls I have tuition fees; population of school age; municipal taxes per capita; investment in human capital (teacher training), buildings, materials; measures of poverty, political elections, conflict, etc.

I run parametric estimations for each year and calculate robust standard errors. I also pool the annual samples. Errors are clustered at the municipal level in order to control for correlations across time in the same municipality. Pooling allows me to obtain estimates with more precision at the cost of losing the variability of the coefficient θ . It also allows me to check whether the results are robust to independent errors (see Lee and Card (2008)).

Colombia has more than one thousand municipalities. Only 40 of them were certified with the reform. To check whether the estimated polynomial is driven by municipalities beyond the cutoff point, I estimate the regressions with interactions as in Equation 5. The rest of the municipalities are non-certified. Two of the 40 municipalities certified in 2003 are very large with respect to the others (outliers). In the estimations, I use two samples. A full sample with around 1021 non-certified municipalities and 38 certified municipalities. A sample defined with a window of ± 80000 inhabitants above and below the cutoff, with around 340 non-certified municipalities and 18 certified municipalities. Quibdó (the capital of Chocó), the 6 municipalities certified before 2003⁴ and the two outliers⁵ are excluded from all estimations.

4.2 Data and descriptive evidence

Data on enrolment comes from DANE (the national statistics office) and the Ministry of Education. Every year both private and public schools report information on different variables including enrolment. This information is used by the Ministry of Education to calculate enrolment rates by sector (public and private) at the municipal level. Data on municipal finance comes from a questionnaire gathered annually by the National Department of Planning. Data on tuition fees come from the questionnaire responded to by secondary senior students for a national test administered every year.

Although a before-after analysis is not a causal analysis, it gives us an idea of how enrolment has changed after the reform. Figure 1 shows the number of students in pre-college education (total and different levels), attending either public or private schools in

⁴Bogotá, Barranquilla, Santa Marta, Cartagena, Pasto and Armenia

⁵Cali and Medellín.

the last eleven years. There is a slightly increasing trend in total number of students after the reform. This is the net effect of a trend increase in enrolment in secondary (upper and lower) and a trend decrease in primary. Besides, trends in gross enrolment rates in Figure 2 seem to increase after the reform. It reflects an increase in the trend of gross enrolment in secondary and pre-primary that outweighs a decrease in gross enrolment rate in primary. The decrease in the growth trend of primary enrolment is reflected in the Net Enrolment Rate (NER) – Primary school NER have not risen after the reform (see Table 1). This reduction in the growth trend of primary enrolment may be due to governments have concentrated efforts in increasing enrolment in secondary. Since there is a large fraction of children and youth out of secondary school, it might be easier to enrol pupils in secondary than in primary. Indeed, in 2001, school-age children out secondary school amounted to almost 50% of school-age children, while school-age children out primary school amounted to 13% (see Table 1).

Table 2 shows some characteristics of certified and non-certified municipalities. In 1993, 45% of households in non-certified municipalities and 31% of households in certified municipalities were poor, on average. Regarding variables on conflict, we see that the conflict intensity has decreased between 2000 and 2005. Both types of municipalities receive a similar number of displaced people per thousand inhabitants. However, displaced people are more often expelled from non-certified municipalities. Regarding taxes on industry and commerce, certified municipalities collect 31 thousand pesos per capita (15 dollars) while non-certified municipalities collect 23 thousand pesos (11 dollars), on average.

The reform affects the municipal spending per capita, transfers to municipalities per capita and the proportion of municipal income made up of transfers. Before the reform 45% of municipal income in certified municipalities was transfers. After the reform it amounted to 63%. Similarly, transfers to certified municipalities were about 85 thousand pesos per capita in 2000 and rose to about 246 thousand pesos per capita in 2005. On the other hand, transfers have represented around 60% of municipal income in non-certified municipalities, and transfers have been around 135 thousand pesos per capita, both before and after the reform. In Figure 3, we have transfers per capita just before and after the reform was implemented. Population in 2001 has been normalized around the cutoff of 100 thousand inhabitants. In 2002, transfers per capita for the municipalities around the cutoff amounted to 110 thousand pesos. At the cutoff, there is no visible difference between certified and non-certified municipalities in that year. In contrast, in 2003, non-certified municipalities received a similar amount as in 2002, while certified municipalities received a bit more of the double of the transfers received by non-certified municipalities (around 260 thousand pesos).

The number of pupils enrolled in public and private schools as a fraction of school-age children appears in Tables 3 and 4, respectively. Pre-college enrolment in public schools from non-certified municipalities is 73.44% of school-age children in 2001, on average. It increases to 81.69% in 2005. In certified municipalities, this fraction is about 67.84% in 2001, on average, and rises up to 75.75% in 2005. Notice that the number of pupils

enrolled in primary is larger than the number of school-age children. In both types of municipalities, around 60% of these students are undertaking primary studies, 25% are following lower secondary courses, 8% are in upper secondary and 7% in pre-primary. Pre-college enrolment in private schools from non-certified municipalities represents 7.19% of school age children in 2001, on average. It decreases to 6.96% in 2005. In certified municipalities, enrolment in private schools also decreases from 17.75% to 17.31% of school age students in the same period.

Finally, the number of subsidized pupils in private schools as a fraction of school-age children appears in tables 5 and 6. On the one hand, non-certified municipalities subsidized 1.29% of school-age children in 2003, on average. This fraction remains relatively stable until 2005. Most of the subsidized students are attending either primary or lower secondary school, which is reflected in the fraction of school-age children (1.32% for primary and 1.67% for lower secondary in 2003). On the other hand, certified municipalities subsidized 1.73% of school-age children in 2003, on average. This fraction rises to 3.42% in 2005. As in non-certified municipalities, most subsidized students are in primary or lower secondary school. But, the number of subsidized pupils in pre-primary school represents the largest fraction of school-age children (4.75%) in 2005. As was mentioned previously, the department of Antioquia had developed a subsidy program before the 2001 reform. Notice that the largest fraction of school-age children subsidized in private schools in the non-certified municipalities is larger than anyone in the certified municipalities. Table 6 shows fractions calculated excluding the municipalities in Antioquia. The maximum fractions subsidized in private schools of non-certified municipalities decreases a lot. This suggests that non-certified municipalities in Antioquia subsidize a large number of students, which may be a consequence of the subsidy scheme implemented in Antioquia before the reform.

5 Empirical results

5.1 Effects on enrolment

Since the 2001 reform establishes a subsidy scheme that regional and local governments can use to enrol pupils in private schools, decentralization may have affected enrolment in both public and private schools. Throughout this section, we will assume the identifying assumptions hold. In the next section, we will verify those assumptions.

Let me first consider the effect in public schools. The dependent variable is the increase in the number of pupils between a post-reform year and 2001. I look for differences between more and less decentralized municipalities, i.e. certified and non-certified municipalities, respectively.

The results show that there is almost no enrolment effect in public schools (See Tables 7 and 8). I estimate Equation (5) for each post-reform year (2002 - 2006), each level of schooling (pre-primary, primary, lower secondary, upper secondary) and all pre-college education. Table 7 reports the estimations of coefficient θ of equation (5). The quadratic form

of this equation reproduces relatively well the distribution of enrolment across population size (see Figure 4). There are few significant effects. In 2002, the certified municipalities enrolled 212 more students in upper secondary than did the non-certified municipalities. This number is the mean treatment effect over all municipalities evaluated at the treatment cutoff. This difference represents around 6.5% of the 16-17 year-old population and 12% of upper-secondary students in public schools in 2002 for the municipalities nearest to the cutoff on both sides. Since the law approved in 2001 was implemented starting in 2003, the difference may be interpreted as the more decentralized municipalities' anticipation of the reform's implementation. Indeed, since 2001 all municipalities knew that from 2003 onwards a national transfer will be assigned according to the number of pupils. Both types of municipalities had incentives to enrol more students in 2002 because of the national transfer to be paid at the beginning of 2003 was based on 2002 enrolment. The results show that more decentralized municipalities were more successful in increasing the number of pupils in upper secondary than the less decentralized municipalities.

In addition, non-certified municipalities seem to have a larger increase in the number of pupils in pre-primary in 2005 (774 students) and in primary in 2006 (1672 students). However, these differences disappear once controls for department fixed effects are introduced (see Table 8). These fixed effects account for institutional differences among departments that cannot be attributed to the reform.

The difference in upper secondary mentioned above does not disappear with the department fixed effects (see the fourth line in Table 8). I further check the robustness of this result with different specifications of the model. These specifications differ from each other in the polynomial of the assignment variable. Both the quadratic and the linear polynomials with and without interactions between the assignment and the treatment variables are estimated. The first panel in Table 9 shows the results for upper secondary in 2002. The coefficients of the quadratic polynomial with interactions seems to be non significant (Model 1). Besides, the difference in upper secondary in 2002 is not robust to different specifications. Neither are the differences found in the number of pupils enrolled in pre-primary and primary levels that are mentioned above (see Panels 1 and 2 in Table 9). Although the RDD methodology only provides evidence at the treatment cutoff, comparing how data is distributed at each side of the cutoff along all the sample also helps to see why there are no differences in public school enrolment. Figure 4 shows that observed data have no important differences in the dependent variable's support.

In conclusion, if there is any difference in the number of pupils enrolled in public schools between more and less decentralized municipalities, the difference is temporary (lasts one year- 2002) and is present only in the number of pupils enrolled in the upper secondary school.

Let me now look at the effect of decentralization on subsidized enrolment in private schools. Since there is no subsidized enrolment before the reform implementation⁶, the de-

⁶As stated in the second section, the municipalities from the department of Antioquia subsidized some

pendent variable is not the increase but the number of pupils subsidized in private schools in each year after implementation (2003 - 2006). Once again, I look for differences between more and less decentralized municipalities, i.e. certified and non-certified municipalities, respectively. Under the identifying assumptions, estimates of θ estimate the mean treatment effect evaluated at the treatment cutoff, which is the treatment effect of interest.

I estimate the six specifications already shown in Table 9 for each level of school in the study, for each year. To illustrate this, Table 10 shows the estimates of the polynomials' coefficients and the Certification Dummy's coefficient for 2005. Each panel of the Table shows the results for each level of education. The coefficient of the Certification Dummy, θ , estimates the difference in the number of subsidized pupils among both types of municipalities. All the estimates of θ are statistically significant and robust to different specifications. This result provides evidence that more decentralized municipalities have subsidized more pupils in private schools than less decentralized municipalities have done.

The estimates of θ of Model 4 of Table 10 for all school levels and years are summarized in Table 11. It shows that the treatment has an effect on the number of pupils subsidized in private schools for all school levels in the period 2004 - 2006. The largest differences were in 2005. In that year, the more decentralized municipalities subsidized 833 students more than did the less decentralized municipalities. At the cutoff, it represents around 20% of the number of pupils in private schools and 3% of the population of school age. These students are distributed in pre-primary (97 students), primary (430 students), lower secondary (253 students) and upper secondary (53 students). In pre-primary, the difference represents around 22% of pupils enrolled at that level in private schools and 4% of the 6-year-old population. In primary, the difference represents around 30% of pupils at that level in private schools and 3.4% of the 7-6-year-old population. In lower secondary, the difference amounts to about 20% of pupils at that level in private schools and 2.8% of the 12-15-year-old population. Finally, in upper secondary the difference goes up to 7.5% of pupils in upper-secondary private schools and 1.3% of the 16-17-year-old population. The estimates with linear interactions and the observed data for 2005 are depicted in Figure 5.

Since the mean treatment effect is estimated at the treatment cutoff, the estimates may be biased by the observations far from the cutoff in both directions, that is, by data from the smallest and the largest municipalities included in the sample. To check for any bias of this type, I restrict the sample to the municipalities in the window of ± 80 thousand inhabitants around the treatment cutoff. The estimates of the treatment effect are summarized in (Table 12). It shows that the treatment effects are still significant for all the school levels in 2005 and 2006.

In conclusion, there is evidence showing that more decentralized municipalities subsidized more pupils studying in private schools than did less decentralized municipalities. The difference in subsidized pupils is significant for all school levels affected by the reform and, at least, for 2005 and 2006.

pupils in private schools before 2003. All the municipalities from Antioquia are excluded from regressions.

5.2 Continuity checks and Robustness

Let me first have a look at how results are affected by using different samples. In particular, I want to compare the results obtained with and without the municipalities of Antioquia, the department that implemented subsidy contracts before the reform. The comparison appears in Table 13. It presents the difference between certified and non-certified municipalities in the number of subsidized pupils in private schools for 2005 by school level. Columns (1) and (2) show the results fitting the model using the full sample with and without the municipalities in Antioquia, respectively. Columns (3)-(4) show the results using the small sample with and without the municipalities in Antioquia, respectively. First, notice that all estimates of θ are statistically significant for the four samples. Second, remark that, as expected, including the municipalities in Antioquia bias downwards the effect of decentralization. This is true for the full and the small samples and for all school levels except for pre-primary, which is bias upwards.

Findings in the previous section are valid if the identifying assumptions hold. In the first place, in absence of treatment, the number of pupils in public and private schools must be continuous at the treatment cut-off. If so, any discontinuity in presence of treatment can be attributed to the treatment itself. Table 14 reports the estimates of θ using the increase in the number of pupils between 2000 and 2001 as the dependent variable. The estimates correspond to the specifications of Models 1 - 5 of Table 9. A significant estimate of θ would reveal the existence of discontinuities at the treatment cutoff before the treatment occurs. Any discontinuity would threaten the identification of the treatment effect. Table 14 shows that there are no discontinuities at the treatment cutoff for all levels of education and specifications for both public and private schools. This provides evidence that supports the claim that the discontinuities found in the previous section are caused by the decentralization reform.

Moreover, Urquiola and Verhoogen (2009) show that the RD design should be applied with caution in settings where parents have significant school choice and schools are free to set prices. In this case, there may be discontinuities that are not caused by the treatment. The authors illustrate the issue using data from Chile, a country in which there is a widely spread voucher system. Although I do not use data at the level of households, it is worth saying that Colombian households do not have such a school choice because there is no a substantial voucher system⁷ and big cities, the places in which school choice is more likely, are excluded from all regressions. Besides, prices of private schools are regulated since the early nineties, so that competition on prices is limited. However, nothing of this prevents discontinuities in prices across municipalities. To check discontinuities in prices I use data on tuition fees reported by senior secondary students each year as a proxy of tuition fees of all pre-college schools. Table 15 reports estimates of θ using tuition fees as the dependent

⁷The largest voucher program in Colombia, the PACES program, assigned 125000 vouchers in mid-nineties. It amounts to less than 2% of the overall enrolment. See Angrist et al. (2002) and Angrist et al. (2006) for an evaluation of the PACES program.

variable. It shows no discontinuities in tuition fees in either public or private schools for all years in the period of study. The absence of discontinuities in the pre-treatment years means the continuity assumption holds for tuition fees. The absence of discontinuities in the post-treatment provides evidence that supports the idea that the reform's effect on the increase of pupils do not pass through tuition fees.

Another crucial variable to check is the structure of population. Discontinuities in the population of school age at the cutoff may cause discontinuities in the number of pupils. If they exist, it may be the case that the difference in the number of pupils across types are explained not because more decentralized municipalities do better but because they have more population of school age. To check for these discontinuities I estimate the same models as before using the number of inhabitants of school age corresponding to each school level as the dependent variable. Estimates of θ with the specification of Model 4 of Table 9 for all years are summarized in Table 16. They show no difference between more decentralized and less decentralized municipalities at the cutoff regarding their population of school age (See Figure 6).

In general, I should check whether all other observable and non-observable characteristics of municipalities affecting enrolment are continuous at the treatment cutoff. Of course, continuity of most of non-observable variables will remain as assumption. But, all observable variables must be checked. There are two alternatives to check continuity: either one estimates Equation (5) using those variables as dependent variables or one adds those variables, one by one, to the regressions of the previous section.

New regressions of the number of subsidized pupils controlling for the observable variables were done. Table 17 shows the results for 2005⁸. Column (1) reports again the treatment effect from Model 4 in the last panel of Table 10– the baseline estimation. Column (2) shows the treatment effect once one controls for department fixed effects. Although the treatment effect decreases a little bit, it is significant. The other columns control by some measure of poverty. Column (3) shows that the proportion of poor population does not affect the number of subsidized pupils. Columns (4)-(6) show the effect of the number of people targeted for welfare programs. In Colombia, there is an index implemented to target poor people for welfare programs. This index, the SISBEN index, defines some levels of welfare, that I call WELFARE (level 1 to level 3). Column (4) shows that the number of subsidized pupils decreases with the population in WELFARE-1 (the poorest people) and Column (6) shows that it increases with the population in WELFARE-3 (not so poor).

The second panel of Table 17 shows the treatment effects controlling by municipal budget variables, like tax income per capita, transfers per capita, municipal education spending per capita and transfer dependence (Transfers/Total income). It also reports the effect of tuition fees. Education spending per capita (Column (3)) and transfers per capita (Column (4)) have a positive effect on the number of subsidized pupils. The effect is small and significant at the 90% level of confidence.

⁸These exercises were also performed for the other years. The results are similar.

The third panel of Table 17 shows the treatment effect controlled with other municipal variables. The effect of municipal bankruptcy appears in column (1). Columns (2)-(6) show the effect of other spending variables. Indeed, Drazen and Eslava (2010) find that politicians may use some expenditures to target voters in pre-electoral periods. In particular, they find, using Colombian data, that politicians may increase current spending (bureaucracy) and some investment expenditures like recreation, housing and health in order to attract voters. None of these variables are significant.

The fourth panel of Table 17 shows the treatment effect controlled by other variables of education investment by municipalities, including (lagged) proportion of investment in new infrastructure, maintenance of infrastructure, material and equipment, training of teachers, non-earmarked transfers per capita spent on education and own resources spent on education. None of these variables are significant.

The fifth panel of Table 17 shows conflict variables like forcibly displaced population (expelled and received people), killings in attacks or combats by illegal armies and number of attacks and combats by different illegal armies. The guerrilla attacks have a significant negative influence on subsidized enrolment, as do the attacks of illegal armies combined. All the other variables have no effect.

The last panel of the same Table shows political variables. Indeed, part of the effects of decentralization may arise from political grounds. The Same-Party dummy is a dummy equal to one if the department governor and the municipal mayor belong to the same party. I also include a dummy for the main political parties in Colombia (the Liberal and the Conservative), the percentage of winning votes in elections and the voter turnout. All these variables have no effect on the number of subsidized pupils.

In conclusion, the treatment effect is robust to many different kinds of observable variables.

As observed in Figures 4 and 5 there is very large variation in the certified municipalities. This is so because of the small number of certified municipalities. I have dealt with the lopsided sample introducing interactions between the assignment and the treatment variables. To gain additional precision in the estimation of θ , I pool the sample for the period 2003-2006. The cost of doing so is that I lose the yearly variability of the coefficient. The estimates provide the average number of subsidized pupils in the period 2003 - 2006. Table 18 shows the results for each specification. The average difference in subsidized enrolment among certified and non-certified municipalities amounts to 541 students. All schooling levels have significant differences. The pooled sample is also useful to check for robustness to specification error. Following Lee and Card (2008), the literature usually deals with this problem by clustering errors by each observation of population (municipalities), as I have done. The authors show that clustering is useful when the specification error is identical. However, when the specification error is independent we need to inflate standard error even more to account for different errors. Following the procedure in Lee and Card (2008), I estimate the robust confidence intervals. With identical specification error the confidence intervals come from the standard error of running the regression with the micro data clus-

tered by municipalities. The inflated variance with independent specification error comes from estimations on the collapsed data at the cell level. Notice that the confidence interval with 95% level of significance for independent standard error is wider than the interval for identical standard error. The treatment effect survives for all levels and the total except for upper secondary.

6 Discussion

The reform established two ways for regional and local governments to increase enrolment: either enrol more students in public schools or subsidize pupils through contracts with private schools. Why is it that the more decentralized municipalities subsidize more pupils in private schools than less decentralized municipalities? Why isn't there a difference between the two types of municipalities in the increase in pupils enrolled in public schools?

Let me discuss the first question. Once the reform is launched, the easiest way for governments to increase enrolment is to put more children in public schools. In Colombia there is no cap on the number of pupils per teacher. So, the governments, subject to the technological constraints (i.e. the size of classrooms), can establish any cap level they wish. However, at some point in time, the seats in the public schools will be completely full. At that point the governments must decide: either they contract private schools or they build new public schools. How might decentralization affect this decision?

Contracting with private schools increases the number of children and youth attending school. This provides benefits to the local governments, which may take the form of political or economic rents. Indeed, increasing enrolment may improve the chances for the incumbent political party to stay in power or for an incumbent politician to be promoted to more important positions. There may also be economic rents. There is anecdotal evidence that contracts with private schools are signed at a lower price than the transfer per pupil received by the certified government, so the government may save money by contracting with private schools.

One important point here is that the certified municipalities can deal directly with private schools, while the others must do so through the department. The less decentralized municipalities have to negotiate the subsidy contracts with departments, which means that they split the benefits of contracting private schools among them. That is, under the less decentralized organization, governments have fewer incentives to contract with private schools.

In addition, recall that the number of children and youth out of school is quite large. They belong to poor households and probably have less ability than children already in school. Since citizens not only care about enrolment but also about quality of education, the more decentralized municipalities may be more accountable on this issue. Enrolling all the children out of school in public schools may deteriorate their average quality. Therefore, it is more beneficial for local governments to enrol them in private schools for at least two

reasons. First, because it reduces quality deterioration in public schools. Second, because private schools are both more accountable to parents and less likely to be controlled by interest groups like teachers' unions.

There may also be alternative explanations. For instance, are the departments more likely to be captured by groups that dislike private providers? The national teachers' union is likely the only group able to do so. I would say that this union is more able to control the lower levels of government, as departments have more negotiation power with the union than the municipalities. However, it is likely that the union provides more votes in department elections than the very small municipalities. Our results are robust to several political variables, including pork-barrel expenditures and several measures on voting results. An investigation comparing the smallest and the largest non-certified municipalities would provide insights on this issue⁹.

Let me now discuss the second question. In a context in which there are no differences in taxes and national transfers are earmarked, it seems that differences in the level of public school enrolment across more and less decentralized municipalities have to do with differences in credit constraints to finance the construction of new schools. More and less decentralized municipalities have no differences regarding the portion of expenditures spent on new infrastructure nor the portion of own resources spent in education. It seems as well, that the problem not only has to do with constraints on the supply side but also with constraints on the demand side. The econometric exercises show that subsidized enrolment decreases with extreme poverty. This can be explained because the poorest households may require additional programs (food-for-school, transport subsidies, etc.) to afford to send their children to school. Why municipalities and departments do not have this type of programs is a question that deserves to be answered.

7 Concluding remarks

The degree of decentralization of the government affects the amount of contracting with the private sector. I have developed a model of incomplete contracts that shows that, in equilibrium, governments contract the private sector less than the optimal level. I also show that decentralization makes the government to choose contracting levels nearer to the optimal.

The empirical part uses the decentralization reform implemented in Colombia in 2001. Results suggest that more decentralized municipalities have subsidized more students in private schools. The difference amounts to 20% of enrolment in private schools and 3% of the school-age population. This fraction represents almost one fifth of children and youth that were out school in 2001. This result is robust to a number of controls including

⁹Seabright (1996) makes a theoretical analysis of how groups that are not decisive in the elections of governments of local jurisdictions can become decisive in the elections of governments of regional or national jurisdictions.

political election variables, expenditures related to political pandering, internal conflict and poverty.

Given the nature of the empirical approach (RDD), validity of my results is local. Issues as strong capacity constraints or capture by control groups (illegal armies, landlords, unions, etc.) are more likely in smaller municipalities than those defined by the population cut-off utilized in the empirical exercise. Exploring how these issues may interact with our findings is left for future research.

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Appendix

Table 1: Net Enrolment Rate

| School Level | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------|------|------|------|------|------|
| Pre-Primary | 52.1 | 54.6 | 60.7 | 56.9 | 58.8 |
| Primary | 87.1 | 87.2 | 86.4 | 86.2 | 86.5 |
| Secondary | 52.1 | 53.0 | 54.4 | 57.6 | 59.5 |
| Total | 79.5 | 80.4 | 81.2 | 83.3 | 84.3 |

Table 2: Means for Certified and Non-Certified Municipalities, 2000 and 2005

| | 2000 | | | 2005 | | |
|----------------------------------|-------------------|-----------------------|--------|-------------------|-----------------------|--------|
| | Certified Mun. | Non-Certified Mun. | Total | Certified Mun. | Non-Certified Mun. | Total |
| Population in 2001 | 135018 | 37755 | 42604 | 135018 | 37755 | 42604 |
| Proportion of Poor in 1993 (%) | 31.17 | 45.26 | 38.21 | 31.17 | 45.26 | 38.21 |
| Forcibly Displacement: | | | | | | |
| Expelled Population | 2.8 | 15.1 | 14.5 | 1.9 | 7.7 | 7.4 |
| Received Population | 8.9 | 8.2 | 8.2 | 3.3 | 4.4 | 4.3 |
| Industry-Commerce Tax per capita | 30.96 | 23.19 | 27.29 | 32.20 | 23.35 | 27.77 |
| Education Spending per capita | 26.53 | 32.90 | 29.59 | 161.65 | 27.78 | 93.87 |
| Transfers per capita | 85.02 | 133.01 | 107.72 | 246.77 | 136.34 | 191.56 |
| Transfer Dependence (%) | 45 | 62 | 53 | 63 | 57 | 60 |

Note.- The population in 2001 for certified municipalities is calculated taking the information of municipalities with population between 100 thousand inhabitants and 180 thousand inhabitants. The population in 2001 for non-certified municipalities is calculated taking the information of municipalities with population between 20 thousand inhabitants and 100 thousand inhabitants. The proportion of poor corresponds to data of 1993. Expelled Population and Received Population are measured as the number of persons per 1000 inhabitants. Industry-Commerce Tax per capita, Education Spending per capita and Transfers per capita are measured in thousand pesos per inhabitant (constant prices of 2004). Education Spending per capita is the money spent by the municipal government in education. Transfers per capita and Transfer dependence include both National and Department transfers.

Table 3: Fraction of School-Age Children Enrolled in Public schools for Certified and Non-Certified Municipalities (%)

| Year | School Level | Non-Certified Municipalities | | | | Certified Municipalities | | | |
|------|-----------------|------------------------------|-----------|-------|--------|--------------------------|-----------|-------|--------|
| | | Mean | Std. Dev. | Min. | Max. | Mean | Std. Dev. | Min. | Max. |
| 2001 | Pre-primary | 52.4 | 23.85 | 3.78 | 135.35 | 55.93 | 10.51 | 38.73 | 73.89 |
| | Primary | 107.42 | 28.82 | 25.37 | 241.75 | 89.93 | 22.96 | 60.73 | 150.13 |
| | Lower Secondary | 52.17 | 20.13 | 7.72 | 103.01 | 57.07 | 13.25 | 34.85 | 84.57 |
| | Upper Secondary | 33.7 | 17.12 | 0 | 109.24 | 36.92 | 11.16 | 20.42 | 69.96 |
| | Total | 73.44 | 18.24 | 14.91 | 139.95 | 67.84 | 14.61 | 44.15 | 100.57 |
| 2005 | Pre-primary | 79.05 | 39.46 | 7.46 | 330.95 | 74.35 | 27.91 | 43.01 | 154.82 |
| | Primary | 106.33 | 29.94 | 25.42 | 196.54 | 92.08 | 25.72 | 62.13 | 154.56 |
| | Lower Secondary | 66.45 | 23.96 | 9.22 | 155.81 | 67.38 | 11.56 | 49.7 | 86.52 |
| | Upper Secondary | 44.72 | 20.31 | 2.99 | 104.7 | 49.4 | 11.67 | 33.13 | 79.26 |
| | Total | 81.69 | 21.99 | 17.65 | 150.23 | 75.75 | 15.4 | 52.57 | 109.7 |

Note.- Statistics for non-certified municipalities are calculated with data of the 343 municipalities whose population was between 20 thousand inhabitants and 100 thousand inhabitants in 2001. Statistics for certified municipalities are calculated with data of the 18 municipalities whose population was between 100 thousand inhabitants and 180 thousand inhabitants.

Table 4: Fraction of School-Age Children Enrolled in Private schools for Certified and Non-Certified Municipalities (%)

| Year | School Level | Non-Certified Municipalities | | | | Certified Municipalities | | | |
|------|-----------------|------------------------------|-----------|------|--------|--------------------------|-----------|------|-------|
| | | Mean | Std. Dev. | Min. | Max. | Mean | Std. Dev. | Min. | Max. |
| 2001 | Pre-primary | 6.53 | 9.98 | 0 | 82.23 | 19.77 | 12.77 | 2.9 | 52.86 |
| | Primary | 7.93 | 10.9 | 0 | 80.05 | 19.33 | 11.25 | 3.71 | 48.49 |
| | Lower Secondary | 6.91 | 11.47 | 0 | 101.86 | 16.4 | 12.3 | 2.93 | 49.47 |
| | Upper Secondary | 6.10 | 10.83 | 0 | 103.36 | 15.17 | 10.86 | 3.25 | 44.58 |
| | Total | 7.19 | 10.32 | 0 | 80.14 | 17.75 | 11.12 | 4.44 | 48.54 |
| 2005 | Pre-primary | 7.2 | 11.77 | 0 | 86.59 | 21.8 | 13.6 | 1.01 | 45.76 |
| | Primary | 7.01 | 11.87 | 0 | 83.84 | 17.42 | 10.76 | 1.12 | 42.3 |
| | Lower Secondary | 7.07 | 11.59 | 0 | 76.59 | 16.39 | 13.89 | 2.66 | 57.56 |
| | Upper Secondary | 6.35 | 14.2 | 0 | 191.43 | 16.44 | 13.04 | 2.31 | 53.4 |
| | Total | 6.96 | 11.21 | 0 | 78.92 | 17.31 | 11.83 | 2.57 | 49.3 |

Note.- Statistics for non-certified municipalities are calculated with data of the 343 municipalities whose population was between 20 thousand inhabitants and 100 thousand inhabitants in 2001. Statistics for certified municipalities are calculated with data of the 18 municipalities whose population was between 100 thousand inhabitants and 180 thousand inhabitants.

Table 5: Fraction of School-Age Children Subsidized in Private Schools, 2003 - 2005 (%)

| Year | School Level | Non-Certified Municipalities | | | | Certified Municipalities | | | |
|------|-----------------|------------------------------|-----------|------|-------|--------------------------|-----------|------|-------|
| | | Mean | Std. Dev. | Min. | Max. | Mean | Std. Dev. | Min. | Max. |
| 2003 | Pre-primary | 0.67 | 3.01 | 0 | 27.67 | 1.85 | 3.54 | 0 | 11.64 |
| | Primary | 1.32 | 5.75 | 0 | 50.83 | 1.84 | 4.01 | 0 | 14.9 |
| | Lower Secondary | 1.67 | 4.56 | 0 | 31.73 | 1.81 | 3.67 | 0 | 13.87 |
| | Upper Secondary | 0.62 | 2.21 | 0 | 23.08 | 1.17 | 2.48 | 0 | 8.66 |
| | Total | 1.29 | 3.98 | 0 | 31.73 | 1.73 | 3.46 | 0 | 13.22 |
| 2004 | Pre-primary | 1.01 | 5.26 | 0 | 53.52 | 3.16 | 6 | 0 | 24.87 |
| | Primary | 1.31 | 5.27 | 0 | 43.02 | 1.99 | 2.63 | 0 | 9.09 |
| | Lower Secondary | 1.43 | 3.7 | 0 | 30.53 | 1.89 | 2.56 | 0 | 8.91 |
| | Upper Secondary | 0.52 | 1.76 | 0 | 18.28 | 1.03 | 2.46 | 0 | 8.65 |
| | Total | 1.22 | 3.6 | 0 | 26.16 | 1.92 | 2.24 | 0 | 6.8 |
| 2005 | Pre-primary | 0.78 | 3.35 | 0 | 34.18 | 4.75 | 6.23 | 0 | 22.55 |
| | Primary | 1.38 | 5.79 | 0 | 47.96 | 3.93 | 4.89 | 0 | 15.64 |
| | Lower Secondary | 1.68 | 4.13 | 0 | 28.34 | 3.19 | 3.97 | 0 | 14.47 |
| | Upper Secondary | 0.56 | 1.83 | 0 | 20.62 | 1.71 | 2.71 | 0 | 9.41 |
| | Total | 1.33 | 3.84 | 0 | 29.78 | 3.42 | 3.86 | 0 | 13.95 |

Note.- Statistics for non-certified municipalities are calculated with data of the 343 municipalities whose population was between 20 thousand inhabitants and 100 thousand inhabitants in 2001. Statistics for certified municipalities are calculated with data of the 18 municipalities whose population was between 100 thousand inhabitants and 180 thousand inhabitants.

Table 6: Fraction of School-Age Children Subsidized in Private Schools excluding Antioquia(%)

| Year | School Level | Non-Certified Municipalities | | | | Certified Municipalities | | | |
|------|-----------------|------------------------------|-----------|------|-------|--------------------------|-----------|------|-------|
| | | Mean | Std. Dev. | Min. | Max. | Mean | Std. Dev. | Min. | Max. |
| 2003 | Pre-primary | 0.09 | 0.56 | 0 | 4.45 | 1.4 | 3.23 | 0 | 11.64 |
| | Primary | 0.1 | 0.58 | 0 | 4.38 | 1.54 | 3.9 | 0 | 14.9 |
| | Lower Secondary | 0.23 | 1.22 | 0 | 11.12 | 1.68 | 3.84 | 0 | 13.87 |
| | Upper Secondary | 0.13 | 0.88 | 0 | 9.15 | 1.06 | 2.55 | 0 | 8.66 |
| | Total | 0.15 | 0.76 | 0 | 6.81 | 1.49 | 3.58 | 0 | 13.22 |
| 2004 | Pre-primary | 0.4 | 3.4 | 0 | 53.52 | 2.01 | 2.71 | 0 | 6.36 |
| | Primary | 0.31 | 1.46 | 0 | 15.98 | 1.65 | 2.04 | 0 | 5.48 |
| | Lower Secondary | 0.64 | 1.97 | 0 | 12.41 | 1.67 | 2.47 | 0 | 8.91 |
| | Upper Secondary | 0.28 | 1.05 | 0 | 10.93 | 0.58 | 1.66 | 0 | 6.67 |
| | Total | 0.42 | 1.26 | 0 | 9.70 | 1.52 | 1.95 | 0 | 6.8 |
| 2005 | Pre-primary | 0.28 | 1.59 | 0 | 17.65 | 4.45 | 6.31 | 0 | 22.55 |
| | Primary | 0.24 | 1.46 | 0 | 16.78 | 3.73 | 4.81 | 0 | 15.64 |
| | Lower Secondary | 0.58 | 1.97 | 0 | 18.59 | 3.16 | 4.18 | 0 | 14.47 |
| | Upper Secondary | 0.2 | 0.85 | 0 | 7.28 | 1.62 | 2.78 | 0 | 9.41 |
| | Total | 0.35 | 1.25 | 0 | 12.21 | 3.27 | 4.02 | 0 | 13.95 |

Note.- Municipalities in Antioquia are excluded. Statistics for non-certified municipalities are calculated with data of the 296 municipalities whose population was between 20 thousand inhabitants and 100 thousand inhabitants in 2001. Statistics for certified municipalities are calculated with data of the 16 municipalities whose population was between 100 thousand inhabitants and 180 thousand inhabitants.

Table 7: Difference between Certified and Non-Certified Municipalities in the Increase of Pupils in Public Schools

| School Level | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------|-----------------------|------------------------|-----------------------|------------------------|-------------------------|
| Pre-primary | -109.023 (120.631) | -76.590 (319.882) | 19.085 (312.283) | -773.753 (442.816)* | -749.201 (501.842) |
| Primary | -261.948 (397.362) | -419.572 (918.906) | 39.518 (1102.779) | -871.942 (1103.677) | -1671.956 (995.589)* |
| Lower Secondary | 469.015 (317.181) | -53.220 (488.411) | 532.000 (534.198) | 475.174 (691.066) | 417.533 (643.807) |
| Upper Secondary | 211.967 (110.358)* | 138.477 (157.117) | 166.175 (218.227) | 241.353 (262.423) | -76.674 (191.354) |
| Total | 310.010 (656.444) | -410.904 (1566.482) | 756.778 (1841.266) | -929.167 (2013.452) | -2080.298 (1980.567) |

Note.- Estimates of the certification dummy's coefficient (θ). Robust standard errors are in parentheses. All estimates are calculated using the quadratic polynomial with interactions (Equation (5) in the text). The dependent variable is the difference between the year of the study and 2001 of the number of pupils. Municipalities in Antioquia are excluded from estimations.

* Denotes significance at 10%, two tailed tests.
 ** Denotes significance at 5%, two tailed tests.
 *** Denotes significance at 1%, two tailed tests.

Table 8: Difference between Certified and Non-Certified Municipalities in the Increase of Pupils in Public Schools (with Department Fixed Effects)

| School Level | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------|-----------------------|----------------------|------------------------|------------------------|------------------------|
| Pre-primary | -72.276 (113.707) | 107.927 (278.088) | 226.282 (272.859) | -439.943 (348.016) | -390.957 (368.240) |
| Primary | -108.748 (364.301) | -93.733 (991.381) | 491.126 (1147.510) | -315.274 (1152.775) | -957.898 (896.237) |
| Lower Secondary | 402.734 (274.839) | -68.886 (460.804) | 590.216 (467.079) | 511.221 (689.114) | 497.411 (611.923) |
| Upper Secondary | 200.649 (102.591)* | 125.245 (148.347) | 122.920 (218.209) | 257.157 (244.806) | -85.873 (171.491) |
| Total | 422.359 (609.987) | 70.552 (1521.140) | 1430.543 (1745.298) | 13.160 (1951.855) | -937.318 (1718.622) |

Note.- Estimates of the certification dummy's coefficient (θ). Robust standard errors are in parentheses. All estimates are calculated using the quadratic polynomial with interactions (Equation (5) in the text). All models include a dummy variable for each department. The dependent variable is the difference between the year of the study and 2001 in the number of pupils. Municipalities in Antioquia are excluded from estimations.

* Denotes significance at 10%, two tailed tests.

** Denotes significance at 5%, two tailed tests.

*** Denotes significance at 1%, two tailed tests.

Table 9: Difference between Certified and Non-Certified Municipalities in the Increase of Pupils in Public Schools (Robustness to different specifications)

| Upper Secondary 2002 | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|--|------------------------|-------------------------|------------------------|-------------------------|-----------------------|----------------------|
| Population | .004 (.003) | .002 (.003) | .004 (.003) | .0006 (.001) | .001 (.0006)** | .001 (.0006)* |
| (Population) ² | 2.36e-08 (2.69e-08) | 8.65e-09 (2.56e-08) | 3.16e-08 (2.56e-08) | -6.14e-09 (9.60e-09) | | |
| Certification Dummy | 211.967 (110.358)* | 8.463 (131.757) | 67.385 (86.165) | 49.492 (94.637) | 88.456 (82.348) | 14.052 (74.490) |
| Population*Certification | -.016 (.006)*** | | -.008 (.005) | | -.003 (.002) | |
| (Population) ² *Certification | 1.19e-07 (7.83e-08) | -3.84e-08 (6.33e-08) | | | | |
| Constant | 153.513 (80.982)* | 121.787 (77.987) | 168.348 (78.259)** | 92.563 (44.829)** | 110.106 (43.731)** | 99.321 (41.979)** |
| N | 361 | 361 | 361 | 361 | 361 | 361 |
| r ² | .092 | .07 | .084 | .068 | .075 | .066 |

Table 9 Continued...

| Pre-Primary 2005 | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|--|-------------------------|-------------------------|-------------------------|------------------------|-----------------------|-----------------------|
| Population | .006 (.006) | .010 (.006) | .003 (.007) | .007 (.005) | .005 (.001)*** | .005 (.001)*** |
| (Population) ² | 1.36e-08 (5.54e-08) | 4.69e-08 (5.99e-08) | -1.40e-08 (6.17e-08) | 2.51e-08 (4.86e-08) | | |
| Certification Dummy | -773.753 (442.816)* | -320.139 (291.807) | -278.277 (346.589) | -259.736 (347.671) | -287.627 (326.593) | -114.800 (231.897) |
| Population*Certification | .037 (.036) | | .009 (.013) | | .006 (.010) | |
| (Population) ² *Certification | -4.06e-07 (4.62e-07) | -5.65e-08 (2.03e-07) | | | | |
| Constant | 550.29 (151.41)*** | 621.01 (156.96)*** | 499.45 (158.41)*** | 577.99 (118.36)*** | 525.30 (79.18)*** | 550.35 (84.48)*** |
| N | 361 | 361 | 361 | 361 | 361 | 361 |
| r ² | .141 | .128 | .129 | .127 | .129 | .123 |
| Primary 2006 | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| Population | .030 (.017)* | .033 (.017)** | .024 (.018) | .015 (.010) | .012 (.004)*** | .012 (.004)*** |
| (Population) ² | 1.83e-07 (1.63e-07) | 2.17e-07 (1.62e-07) | 1.26e-07 (1.68e-07) | 2.76e-08 (9.62e-08) | | |
| Certification Dummy | -1671.956 (995.589)* | -1210.921 (774.649) | -638.520 (792.142) | -684.964 (805.412) | -554.849 (741.531) | -525.823 (580.491) |
| Population*Certification | .037 (.076) | | -.021 (.033) | | .001 (.018) | |
| (Population) ² | -8.47e-07 (9.57e-07) | -4.92e-07 (4.51e-07) | | | | |
| Constant | 1244.24 (432.29)*** | 1316.12 (424.03)*** | 1138.21 (438.07)*** | 941.49 (291.48)*** | 906.94 (254.43)*** | 911.15 (250.55)*** |
| N | 361 | 361 | 361 | 361 | 361 | 361 |
| r ² | .067 | .065 | .061 | .06 | .059 | .059 |

Note.— Estimates of the certification dummy's coefficient (θ) and the polynomial's coefficients. Robust standard errors are in parentheses. The dependent variable is the difference between the year of the study and 2001 in the number of pupils in the corresponding school level. Population is the number of inhabitants of municipalities in 2001. Municipalities in Antioquia are excluded from estimations.

* Denotes significance at 10%, two tailed tests.

** Denotes significance at 5%, two tailed tests.

*** Denotes significance at 1%, two tailed tests.

Table 10: Difference between Certified and Non-Certified Municipalities in the Number of Subsidized Pupils in Private Schools, 2005 (Robustness to different specifications)

| Pre-Primary | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|--|-------------------------|-------------------------|--------------------------|-------------------------|-------------------------|------------------------|
| Population | -.00003 (.00008) | .0003 (.0003) | .00004 (.00009) | .00008 (.00003)** | .00006 (.0001) | |
| (Population) ² | -8.00e-10 (7.12e-10) | 2.15e-09 (2.58e-09) | 1.18e-10 (5.38e-10) | | | |
| Certification Dummy | 131.780 (71.773)* | 118.661 (62.829)* | 97.343 (43.341)** | 97.121 (47.413)** | 96.744 (44.985)** | 107.633 (27.909)*** |
| Population*Certification | -.0007 (.001) | -.001 (.001) | | -.00003 (.0003) | | |
| (Population) ² *Certification | 3.17e-09 (2.84e-09) | | | | | |
| Constant | 4.353 (2.703)* | 14.503 (9.338) | 3.752 (5.891) | 7.111 (2.756)*** | 5.643 (11.560) | 1.021 (.313)*** |
| N | 926 | 926 | 926 | 926 | 926 | 926 |
| r ² | .345 | .343 | .329 | .328 | .328 | .326 |
| Primary | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| Population | .00003 (.0003) | -.0002 (.001) | .00004 (.0003) | .0003 (.00009)*** | -.0002 (.0005) | |
| (Population) ² | -1.74e-09 (2.41e-09) | -3.72e-09 (8.09e-09) | -2.01e-09 (1.32e-09) | | | |
| Certification Dummy | 384.255 (224.640)* | 393.053 (195.082)** | 411.080 (129.858)*** | 430.392 (140.581)*** | 421.215 (134.838)*** | 385.288 (98.638)*** |
| Population*Certification | .0007 (.004) | .0009 (.004) | | -.0008 (.0009) | | |
| (Population) ² *Certification | -2.12e-09 (9.02e-09) | | | | | |
| Constant | 18.093 (11.908) | 11.287 (29.054) | 20.378 (20.703) | 24.101 (8.328)*** | -11.655 (39.400) | 3.597 (.982)*** |
| N | 926 | 926 | 926 | 926 | 926 | 926 |
| r ² | .353 | .353 | .352 | .349 | .34 | .338 |
| Lower Secondary | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| Population | .001 (.0008)* | .0001 (.0006) | .00007 (.0002) | .0003 (.0001)** | -.00009 (.0003) | |
| (Population) ² | 7.54e-09 (5.30e-09) | -9.43e-10 (4.46e-09) | -1.46e-09 (7.77e-10)* | | | |
| Certification Dummy | 205.621 (124.701)* | 243.404 (109.474)** | 237.957 (83.986)*** | 252.869 (90.185)*** | 245.341 (87.518)*** | 227.293 (60.308)*** |
| Population*Certification | -.001 (.002) | -.0003 (.002) | | -.0007 (.0005) | | |
| (Population) ² *Certification | -9.12e-09 (7.12e-09) | | | | | |
| Constant | 61.207 (26.322)** | 31.976 (19.670)* | 29.229 (13.784)** | 35.224 (11.493)*** | 5.892 (21.237) | 13.553 (1.538)*** |
| N | 926 | 926 | 926 | 926 | 926 | 926 |
| r ² | .246 | .244 | .243 | .243 | .231 | .23 |

Table 10 Continued...

| Upper Secondary | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|--|-------------------------|-------------------------|-------------------------|------------------------|------------------------|-------------------------|
| Population | .0002 (.0002) | -.0002 (.0002) | .00009 (.0001) | .00006 (.00003)* | .00009 (.0002) | |
| (Population) ² | 1.14e-09 (1.15e-09) | -1.75e-09 (1.84e-09) | -3.58e-11 (5.50e-10) | | | |
| Certification Dummy | 22.651 (44.904) | 35.532 (38.669) | 53.599 (26.543)** | 53.139 (30.100)* | 53.780 (28.038)* | 71.158 (25.803)*** |
| Population*Certification | .0006 (.0009) | .0009 (.001) | | .00006 (.0003) | | |
| (Population) ² *Certification | -3.11e-09 (2.27e-09) | | | | | |
| Constant | 10.990 (5.847)* | 1.024 (7.027) | 10.136 (5.398)* | 7.067 (2.808)** | 9.565 (12.413) | 2.188 (.334)*** |
| N | 926 | 926 | 926 | 926 | 926 | 926 |
| r ² | .215 | .213 | .199 | .199 | .199 | .192 |
| Total | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| Population | .001 (.001) | .0001 (.002) | .0002 (.0006) | .0007 (.0002)*** | -.0001 (.0008) | |
| (Population) ² | 6.14e-09 (7.20e-09) | -4.27e-09 (1.46e-08) | -3.38e-09 (2.29e-09) | | | |
| Certification Dummy | 744.307 (393.14)* | 790.650 (343.34)** | 799.980 (243.16)*** | 833.522 (262.16)*** | 817.080 (252.49)*** | 791.372 (176.074)*** |
| Population*Certification | -.0006 (.006) | .0004 (.008) | | -.002 (.001) | | |
| (Population) ² *Certification | -1.12e-08 (1.72e-08) | | | | | |
| Constant | 94.644 (35.790)*** | 58.790 (54.043) | 63.495 (36.250)* | 73.503 (19.376)*** | 9.445 (64.172) | 20.359 (2.391)*** |
| N | 926 | 926 | 926 | 926 | 926 | 926 |
| r ² | .393 | .392 | .392 | .391 | .383 | .383 |

Note.— Estimates of the certification dummy's coefficient (θ) and the polynomial's coefficients. Robust standard errors are in parentheses. The dependent variable is the number of subsidized pupils enrolled in the corresponding school level. Population is the number of inhabitants of municipalities in 2001. Municipalities in Antioquia are excluded from estimations.

* Denotes significance at 10%, two tailed tests.

** Denotes significance at 5%, two tailed tests.

*** Denotes significance at 1%, two tailed tests.

Table 11: Difference between Certified and Non-Certified Municipalities in the Number of Subsidized Pupils in Private Schools, 2003 - 2006

| School Level | 2003 | 2004 | 2005 | 2006 |
|-----------------|----------------------|------------------------|-------------------------|-------------------------|
| Pre-primary | 17.285 (14.556) | 36.592 (22.753)* | 97.121 (47.413)** | 100.793 (57.883)* |
| Primary | 92.795 (64.651) | 184.516 (78.308)** | 430.392 (140.581)*** | 358.856 (150.958)** |
| Lower Secondary | 67.102 (62.045) | 159.391 (74.196)** | 252.869 (90.185)*** | 231.059 (96.451)** |
| Upper Secondary | 16.766 (23.699) | 33.008 (24.088) | 53.139 (30.100)* | 65.805 (26.467)** |
| Total | 193.948 (160.827) | 413.507 (176.640)** | 833.522 (262.165)*** | 756.513 (272.388)*** |

Note.- Estimates of the certification dummy's coefficient (θ) of Model 4 in Table 10 for each school level. Robust standard errors are in parentheses. The dependent variable is the number of subsidized pupils enrolled in the corresponding school level. Municipalities in Antioquia are excluded from estimations.

* Denotes significance at 10%, two tailed tests.

** Denotes significance at 5%, two tailed tests.

*** Denotes significance at 1%, two tailed tests.

Table 12: Difference between Certified and Non-Certified Municipalities in the Number of Subsidized Pupils in Private Schools (Small Sample)

| School Level | 2003 | 2004 | 2005 | 2006 |
|-----------------|----------------------|----------------------|------------------------|------------------------|
| Pre-primary | 13.310 (15.167) | 29.774 (24.137) | 106.543 (51.362)** | 96.867 (63.296) |
| Primary | 67.012 (68.197) | 120.033 (94.579) | 406.53 (152.20)*** | 339.11 (156.95)** |
| Lower Secondary | 65.844 (68.029) | 92.156 (87.852) | 228.431 (93.112)** | 208.547 (100.531)** |
| Upper Secondary | 21.668 (24.540) | 14.695 (25.138) | 50.810 (28.929)* | 56.598 (28.094)** |
| Total | 167.833 (174.719) | 256.658 (209.230) | 792.321 (277.56)*** | 701.125 (282.32)** |

Note.- Estimation sample includes all municipalities with population between 20 thousand inhabitants and 180000 thousand inhabitants in 2001 except for those municipalities in Antioquia in the interval. Estimates of the certification dummy's coefficient (θ) of Model 4 in Table 10 for each school level. Robust standard errors are in parentheses. The dependent variable is the number of subsidized pupils enrolled in the corresponding school level.

* Denotes significance at 10%, two tailed tests.

** Denotes significance at 5%, two tailed tests.

*** Denotes significance at 1%, two tailed tests.

Table 13: Difference between Certified and Non-Certified Municipalities in the Number of Subsidized Pupils in Private Schools, 2005 (Different Samples)

| School Level | (1) | (2) | (3) | (4) |
|-----------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Pre-primary | 111.399 (47.050)** | 97.121 (47.413)** | 125.084 (50.537)** | 106.543 (51.362)** |
| Primary | 410.881 (158.888)*** | 430.392 (140.581)*** | 393.400 (179.579)** | 406.537 (152.205)*** |
| Lower Secondary | 198.805 (84.352)** | 252.869 (90.185)*** | 181.158 (89.271)** | 228.431 (93.112)** |
| Upper Secondary | 47.897 (29.013)* | 53.139 (30.100)* | 45.004 (27.338)* | 50.810 (28.929)* |
| Total | 768.983 (261.062)*** | 833.522 (262.165)*** | 744.646 (287.435)*** | 792.321 (277.561)*** |
| N | 1044 | 926 | 355 | 310 |

Note.— Estimates of the certification dummy's coefficient (θ) of Model 4 in Table 10 for each school level. Robust standard errors are in parentheses. The dependent variable is the number of subsidized pupils enrolled in the corresponding school level. Results in Column (1) are obtained with the full sample. Results in Column (2) are obtained with the full sample excluding the municipalities in Antioquia. Results in Column (3) are obtained with the sample of all municipalities with population between 20 thousand inhabitants and 180000 thousand inhabitants in 2001. Results in Column (4) are obtained excluding those municipalities in Antioquia from the sample of Column (3).

* Denotes significance at 10%, two tailed tests.

** Denotes significance at 5%, two tailed tests.

*** Denotes significance at 1%, two tailed tests.

Table 14: Difference between Certified and Non-Certified Municipalities in the Increase of Pupils between 2000 and 2001

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | |
|-----------------|-----------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Public Schools | Pre-primary | 105.711 (78.306) | 93.515 (79.582) | 79.909 (71.284) | 78.167 (65.188) | 74.263 (68.850) |
| | Primary | 304.311 (362.763) | 298.008 (378.430) | 254.467 (325.798) | 220.267 (300.444) | 21.068 (320.314) |
| | Lower Secondary | 79.394 (228.458) | -.451 (239.056) | 30.856 (206.020) | 129.253 (185.537) | 92.561 (202.370) |
| | Upper Secondary | -82.509 (85.456) | -128.847 (87.832) | -96.690 (69.840) | -26.826 (63.137) | -25.684 (78.325) |
| | Total | 406.907 (639.074) | 262.225 (664.315) | 268.541 (586.200) | 400.861 (544.130) | 162.208 (588.307) |
| | Private Schools | Pre-primary | 2.892 (73.808) | 4.105 (58.076) | -12.561 (58.272) | -10.445 (57.402) |
| Primary | | -379.555 (374.223) | -30.568 (373.850) | -41.568 (255.067) | -21.980 (264.862) | -75.441 (231.500) |
| Lower Secondary | | 48.808 (247.953) | -112.838 (161.965) | -209.858 (186.723) | -206.349 (184.161) | -205.376 (182.404) |
| Upper Secondary | | 89.469 (134.792) | -43.512 (79.179) | -126.811 (90.621) | -123.494 (87.882) | -130.284 (88.738) |
| Total | | -238.386 (642.812) | -182.814 (501.783) | -390.798 (431.280) | -362.267 (431.200) | -428.724 (409.988) |

Note.- Estimates of the certification dummy's coefficient (θ) of Models 1 - 5 in Table 10. Robust standard errors are in parentheses. The dependent variable is the difference between 2001 and 2000 in the number of pupils enrolled in the corresponding school level.

* Denotes significance at 10%, two tailed tests.
 ** Denotes significance at 5%, two tailed tests.
 *** Denotes significance at 1%, two tailed tests.

Table 15: Tuition Fees Difference between Certified and Non-Certified Municipalities

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|------------------------|
| Public Schools | -0.07472 (0.286374) | 0.117173 (0.30916) | 0.222518 (0.300375) | 0.337281 (0.357833) | -0.25331 (0.35281) | 0.103325 (0.3008) | 0.210001 (0.2901) |
| Private Schools | 0.069669 (0.691119) | 0.026087 (0.817843) | -0.11612 (0.801712) | -0.32477 (0.826128) | 0.935683 (1.028172) | 0.415024 (1.08488) | -0.04963 (1.104675) |

Note.- Estimates of the certification dummy's coefficient (θ) using the quadratic polynomial with interactions (Equation (5) in the text). Robust standard errors are in parentheses. The dependent variable is the average tuition fees paid by senior students in the municipality.

* Denotes significance at 10%, two tailed tests.
 ** Denotes significance at 5%, two tailed tests.
 *** Denotes significance at 1%, two tailed tests.

Table 16: Difference between Certified and Non-Certified Municipalities in the number of inhabitants of school age

| Age | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| 6 years | -93.643 (150.180) | -111.384 (164.377) | -119.744 (172.627) | -127.576 (181.877) | -136.076 (191.780) | -136.923 (196.998) |
| 7-11 years | -52.662 (547.474) | -67.323 (561.923) | -112.068 (613.925) | -169.751 (673.385) | -224.649 (740.657) | -311.407 (825.982) |
| 12-15 years | 383.115 (302.155) | 370.507 (316.782) | 336.057 (330.585) | 302.574 (351.670) | 273.009 (378.522) | 241.603 (419.446) |
| 16-17 years | 73.074 (147.314) | 70.049 (145.030) | 64.924 (144.190) | 59.037 (145.669) | 54.808 (149.149) | 49.775 (154.212) |
| 6-17 years | 309.473 (1021.400) | 261.929 (1070.724) | 169.190 (1143.833) | 63.675 (1234.431) | -32.719 (1340.891) | -156.991 (1474.480) |

Note.— Estimates of the certification dummy's coefficient (θ) using the quadratic polynomial with interactions (Equation (5) in the text). Robust standard errors are in parentheses. The dependent variable is the number of inhabitants of school age. Each age range correspond to each school level in the study, as follows: 6 year olds (pupils in pre-primary), 7-11 year olds (pupils in primary), 12-15 year olds (pupils in lower secondary), 16-17 year olds (pupils in upper secondary) and 6-17 year olds (pupils in pre-college school).

* Denotes significance at 10%, two tailed tests.

** Denotes significance at 5%, two tailed tests.

*** Denotes significance at 1%, two tailed tests.

Table 17: Controls on the Subsidized-Pupils Difference between Certified and Non-Certified Municipalities for Pre-College School, 2005

| Poverty Variables | (1) | (2) | (3) | (4) | (5) | (6) |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Certification Dummy | 833.52 (262.16)*** | 804.95 (248.86)*** | 804.66 (248.66)*** | 810.32 (241.62)*** | 819.21 (248.83)*** | 818.43 (240.26)*** |
| Proportion of Poor (%) | | | -.181 (.315) | | | |
| Welfare - Level 1 | | | | -.005 (.002)** | | |
| Welfare - Level 2 | | | | | .004 (.004) | |
| Welfare - Level 3 | | | | | | .015 (.006)** |
| Department Dummies | NO | YES | YES | YES | YES | YES |
| N | 926 | 926 | 926 | 926 | 926 | 926 |
| r^2 | .391 | .459 | .459 | .485 | .464 | .492 |

Table 17 Continued...

| Municipal Budget | (1) | (2) | (3) | (4) | (5) | (6) |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Certification Dummy | 802.35 (248.65)*** | 802.38 (248.69)*** | 792.32 (249.77)*** | 802.25 (248.68)*** | 807.29 (249.68)*** | 794.39 (232.77)*** |
| Tax Income per capita | .0007 (.0009) | | | | | |
| Industry-Commerce Tax per capita | | .001 (.001) | | | | |
| Education Spending per capita | | | .001 (.0006)* | | | |
| Transfers per capita | | | | .00002 (1.00e-05)* | | |
| Transfer Dependence | | | | | -.192 (.228) | |
| Tuition fee | | | | | | -5.659 (9.307) |
| Department Dummies | YES | YES | YES | YES | YES | YES |
| N | 911 | 911 | 909 | 911 | 916 | 282 |
| r ² | .461 | .461 | .474 | .461 | .461 | .498 |
| Other Municipal Variables | (1) | (2) | (3) | (4) | (5) | (6) |
| Certification Dummy | 805.16 (250.32)*** | 792.67 (249.84)*** | 802.33 (248.65)*** | 790.53 (248.03)*** | 792.35 (250.03)*** | 790.37 (250.03)*** |
| Bankrupt Dummy | -30.618 (38.036) | | | | | |
| Investment per capita | | .00003 (.00003) | | | | |
| Current Spending per capita | | | .0002 (.0001) | | | |
| Health Spending | | | | -.059 (.297) | | |
| Recreation Spending | | | | | .298 (1.986) | |
| Housing Spending | | | | | | -1.566 (1.347) |
| Department Dummies | YES | YES | YES | YES | YES | YES |
| N | 924 | 909 | 911 | 914 | 914 | 914 |
| r ² | .462 | .474 | .461 | .473 | .473 | .473 |
| Education Spending | (1) | (2) | (3) | (4) | (5) | (6) |
| Certification Dummy | 797.00 (250.03)*** | 791.25 (250.30)*** | 789.42 (249.79)*** | 792.37 (250.05)*** | 792.85 (249.81)*** | 792.83 (249.87)*** |
| New Infrastructure (-1) | .249 (.173) | | | | | |
| Maintenance (-1) | | -.267 (.225) | | | | |
| Materials (-1) | | | .448 (.409) | | | |
| Teachers Training (-1) | | | | -.141 (.782) | | |
| Non-Earmarked Transfers per capita | | | | | .008 (.006) | |
| Own resources per capita | | | | | | .021 (.020) |
| Dept. Dummy | YES | YES | YES | YES | YES | YES |
| N | 913 | 913 | 913 | 913 | 909 | 909 |
| r ² | .474 | .474 | .474 | .473 | .474 | .474 |

Table 17 Continued...

| Conflict | (1) | (2) | (3) | (4) | (5) | (6) |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Certification Dummy | 805.46 (248.76)*** | 805.40 (248.75)*** | 801.77 (247.54)*** | 801.00 (244.57)*** | 802.85 (249.14)*** | 798.82 (243.72)*** |
| Expelled Population | .008 (.071) | | | | | |
| Received Population | | -.082 (.090) | | | | |
| Killings | | | -1.600 (1.396) | | | |
| Guerrilla Attacks | | | | -8.182 (4.113)** | | |
| Paramilitary Attacks | | | | | -5.247 (7.181) | |
| Illegal Armies Attacks | | | | | | -8.362 (3.873)** |
| Department Dummies | YES | YES | YES | YES | YES | YES |
| N | 921 | 921 | 926 | 926 | 926 | 926 |
| r ² | .46 | .46 | .461 | .468 | .459 | .47 |
| Elections | (1) | (2) | (3) | (4) | (5) | |
| Certification Dummy | 718.85 (235.90)*** | 722.53 (235.23)*** | 722.02 (235.19)*** | 720.64 (235.30)*** | 725.72 (234.85)*** | |
| Same-Party Dummy | 21.739 (20.918) | | | | | |
| Liberal-Party Dummy | | 7.406 (12.889) | | | | |
| Conservative-Party Dummy | | | | -2.212 (6.479) | | |
| Winning Percentage | | | | | .236 (.419) | |
| Voter Turnout | | | | | | -.585 (.460) |
| Department Dummies | YES | YES | YES | YES | YES | YES |
| N | 776 | 776 | 776 | 776 | 776 | 776 |
| r ² | .44 | .439 | .439 | .439 | .439 | .439 |

Note.— Estimates of Model 4 in Table 10. Robust standard errors are in parentheses. The dependent variable is the number of subsidized pupils enrolled in private schools in the pre-college level. The proportion of poor corresponds to data of 1993. Welfare (levels 1-3) is measured as the number of targeted persons in each level per 1000 inhabitants in 2004. Tax income per capita, Tax on Industry and Commerce per capita, Education Spending per capita, Transfers per capita, Investment per capita and Current Spending per capita are variables of the municipal budget. All of them are measured in thousand pesos per inhabitant (constant prices of 2004). Education Spending per capita is the money spent by the municipal government in education. Transfers per capita and Transfer dependence includes both National and Department transfers. Tuition fees in the average tuition fee paid by senior students. The bankrupt dummy takes value 1 if the municipality is under the bankrupt law. Health, recreation and housing spending are the proportions that the municipality spends on these expenditures. New infrastructure, maintenance of infrastructure, material and equipment and teachers training are the (lagged) proportions of investment spent on these expenditures. Non-earmarked transfers per capita and own resources per capita correspond to those spent on education. They are also measured in thousand pesos per inhabitant (constant prices of 2004). Expelled Population and Received Population measure forcibly displaces population and measured as the number of persons per 1000 inhabitants. Killings is the number of killings than can be attributed to the illegal armies. Guerrilla attacks is the number of attacks and combats in which the guerrilla has participated. Paramilitary attacks is the number of attacks and combats in which the paramilitary has participated. Illegal armies attacks is the sum of the guerrilla and paramilitary attacks. Same-party dummy takes value one if the mayor and the corresponding governor belong to the same party. Winning percentage is the percentage of votes obtained by the winner. Voter turnout is the percentage of eligible voters who cast a ballot in an election.

* Denotes significance at 10%, two tailed tests.

** Denotes significance at 5%, two tailed tests.

*** Denotes significance at 1%, two tailed tests.

Table 18: Difference between Certified and Non-Certified Municipalities in the Number of Subsidized Pupils in Private Schools using the pooled sample (2003 - 2006)

| Pre-primary | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|--|-------------------------|-------------------------|----------------------------|------------------------|------------------------|------------------------|
| Population | .00008 (.0001) | .0002 (.0002) | .0001 (.00006)* | .0001 (.00004)*** | .00008 (.00009) | |
| (Population) ² | -5.32e-10 (1.08e-09) | 7.55e-10 (1.47e-09) | -1.49e-10 (3.13e-10) | | | |
| Certification Dummy | 75.270 (43.427)* | 69.868 (38.655)* | 60.326 (27.730)** | 62.195 (29.938)** | 61.291 (28.893)** | 77.030 (17.886)*** |
| Population*Certification | -.0003 (.0006) | -.0005 (.0008) | | -.0001 (.0002) | | |
| (Population) ² *Certification | 1.37e-09 (1.89e-09) | | | | | |
| Constant | 11.415 (5.090)** | 15.663 (5.957)*** | 10.816 (4.527)** | 13.170 (3.395)*** | 8.368 (7.130) | 1.767 (.364)*** |
| N | 3213 | 3213 | 3213 | 3213 | 3213 | 3213 |
| r ² | .191 | .19 | .187 | .188 | .186 | .182 |
| Primary | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| Population | .0006 (.0006) | .0004 (.0006) | .0003 (.0002) | .0005 (.0001)*** | .00009 (.0003) | |
| (Population) ² | 7.58e-10 (4.42e-09) | -1.32e-09 (4.94e-09) | -1.70e-09 (9.49e-10)* | | | |
| Certification Dummy | 242.267 (137.694)* | 251.003 (120.838)** | 246.996 (86.261)*** | 264.441 (93.005)*** | 257.989 (90.384)*** | 275.934 (63.656)*** |
| Population*Certification | -.0004 (.002) | -.0002 (.003) | | -.0008 (.0006) | | |
| (Population) ² *Certification | -2.22e-09 (6.88e-09) | | | | | |
| Constant | 50.490 (22.088)** | 43.622 (19.455)** | 41.586 (15.015)*** | 47.987 (10.142)*** | 13.704 (25.840) | 6.177 (.972)*** |
| N | 3213 | 3213 | 3213 | 3213 | 3213 | 3213 |
| r ² | .251 | .251 | .251 | .25 | .24 | .239 |
| Lower Secondary | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| Population | .0007 (.0007) | .0004 (.0004) | .0002 (.0001) | .0004 (.0001)*** | -.00003 (.0002) | |
| (Population) ² | 2.46e-09 (4.75e-09) | -1.35e-10 (3.19e-09) | -1.68e-09 (5.67e-10)*** | | | |
| Certification Dummy | 161.643 (103.154)* | 172.551 (91.949)* | 156.226 (69.899)** | 173.918 (74.564)** | 167.089 (73.203)** | 161.009 (45.478)*** |
| Population*Certification | -.001 (.002) | -.0008 (.002) | | -.0008 (.0003)** | | |
| (Population) ² *Certification | -2.77e-09 (5.84e-09) | | | | | |
| Constant | 55.918 (22.036)** | 47.342 (15.408)*** | 39.049 (12.052)*** | 47.786 (10.894)*** | 11.496 (15.949) | 14.047 (1.431)*** |
| N | 3213 | 3213 | 3213 | 3213 | 3213 | 3213 |
| r ² | .142 | .142 | .141 | .142 | .124 | .124 |

Table 18 Continued...

| Upper Secondary | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|--|-------------------------|-------------------------|---------------------------|-------------------------|-------------------------|-------------------------|
| Population | .00006 (.00009) | -.00005 (.0001) | .00007 (.00005) | .00008 (.00002)*** | .00004 (.00008) | |
| (Population) ² | -1.58e-10 (7.26e-10) | -1.08e-09 (1.17e-09) | -2.61e-10 (2.44e-10) | | | |
| Certification Dummy | 26.421 (34.347) | 30.298 (30.675) | 38.954 (22.190)* | 41.290 (24.108)* | 40.640 (23.329)* | 48.531 (15.973)*** |
| Population*Certification | .0003 (.0005) | .0004 (.0006) | | -.00008 (.0001) | | |
| (Population) ² *Certification | -9.85e-10 (1.44e-09) | | | | | |
| Constant | 8.680 (3.156)*** | 5.631 (4.373) | 10.028 (3.507)*** | 9.201 (2.094)*** | 5.751 (6.444) | 2.442 (.287)*** |
| N | 3213 | 3213 | 3213 | 3213 | 3213 | 3213 |
| r ² | .15 | .15 | .145 | .142 | .14 | .138 |
| Total | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| Population | .001 (.001) | .0009 (.001) | .0006 (.0004)* | .001 (.0003)*** | .0002 (.0006) | |
| (Population) ² | 2.53e-09 (9.61e-09) | -1.78e-09 (9.33e-09) | -3.79e-09 (1.66e-09)** | | | |
| Certification Dummy | 505.601 (274.859)* | 523.720 (243.437)** | 502.503 (179.307)*** | 541.843 (192.267)*** | 527.010 (187.701)*** | 562.503 (121.094)*** |
| Population*Certification | -.001 (.004) | -.001 (.005) | | -.002 (.001)* | | |
| (Population) ² *Certification | -4.60e-09 (1.38e-08) | | | | | |
| Constant | 126.503 (46.767)*** | 112.257 (38.642)*** | 101.479 (29.213)*** | 118.144 (22.474)*** | 39.320 (45.143) | 24.432 (2.449)*** |
| N | 3213 | 3213 | 3213 | 3213 | 3213 | 3213 |
| r ² | .261 | .261 | .261 | .261 | .247 | .247 |

Note.— Estimates of the certification dummy's coefficient (θ) and polynomial's coefficients of Models 1-6 in Table 10 for each school level pooling the sample. Clustered standard errors are in parentheses. The dependent variable is the number of subsidized pupils enrolled in the corresponding school level in each year of the study.

- * Denotes significance at 10%, two tailed tests.
- ** Denotes significance at 5%, two tailed tests.
- *** Denotes significance at 1%, two tailed tests.

Table 19: Robust Confidence Intervals

| | School Level | Level of Significance | Confidence | Interval |
|---------------------------------------|-----------------|-----------------------|------------|-----------|
| Identical Specification Error | Pre-primary | 95 | 3.440048 | 120.9493 |
| | Primary | 95 | 81.91736 | 446.9644 |
| | Lower Secondary | 95 | 27.58499 | 320.2517 |
| | Upper Secondary | 95 | -6.023275 | 88.60228 |
| | Total | 95 | 164.5166 | 919.1702 |
| Independent Specification Error | Pre-primary | 90 | 3.5693225 | 120.82 |
| | | 95 | -7.4451348 | 131.83445 |
| | | 99 | -29.474049 | 153.86337 |
| | Primary | 90 | 67.549263 | 461.33253 |
| | | 95 | 30.557502 | 498.32429 |
| | | 99 | -43.426021 | 572.30781 |
| | Lower Secondary | 90 | 10.247198 | 337.58948 |
| | | 95 | -20.503137 | 368.33982 |
| | | 99 | -82.003808 | 429.84049 |
| | Upper Secondary | 90 | -11.083187 | 93.662193 |
| | | 95 | -20.922904 | 103.50191 |
| | | 99 | -40.60234 | 123.18135 |
| | Total | 90 | 138.38983 | 945.29697 |
| | | 95 | 62.589459 | 1021.0973 |
| | | 99 | -89.011277 | 1172.6981 |

Note.- The confidence intervals are calculated following the procedure that appears in Lee and Card (2008).

Figure 1: Overall Enrolment (Number of Pupils)

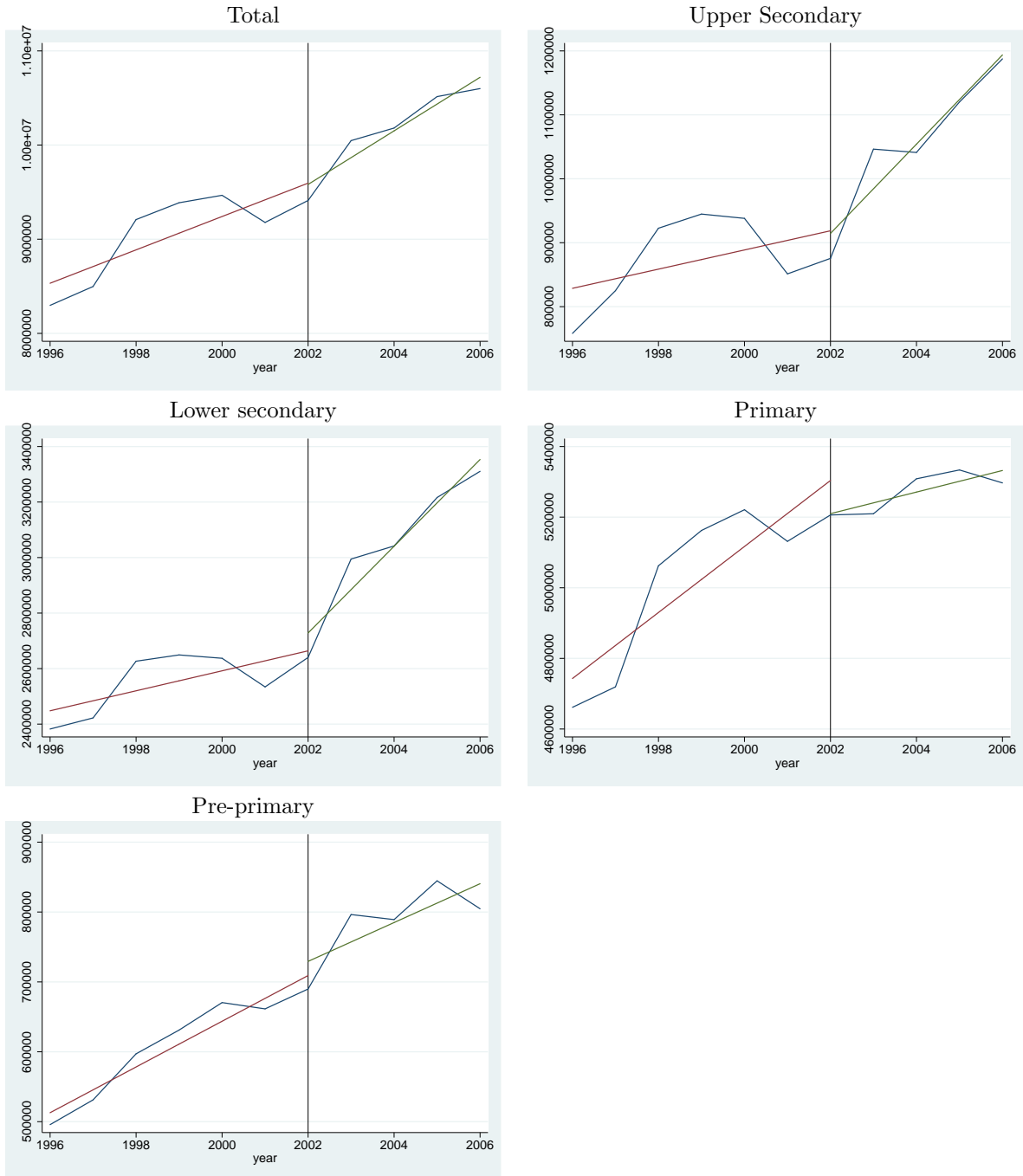


Figure 2: Gross Enrolment Rate (%)

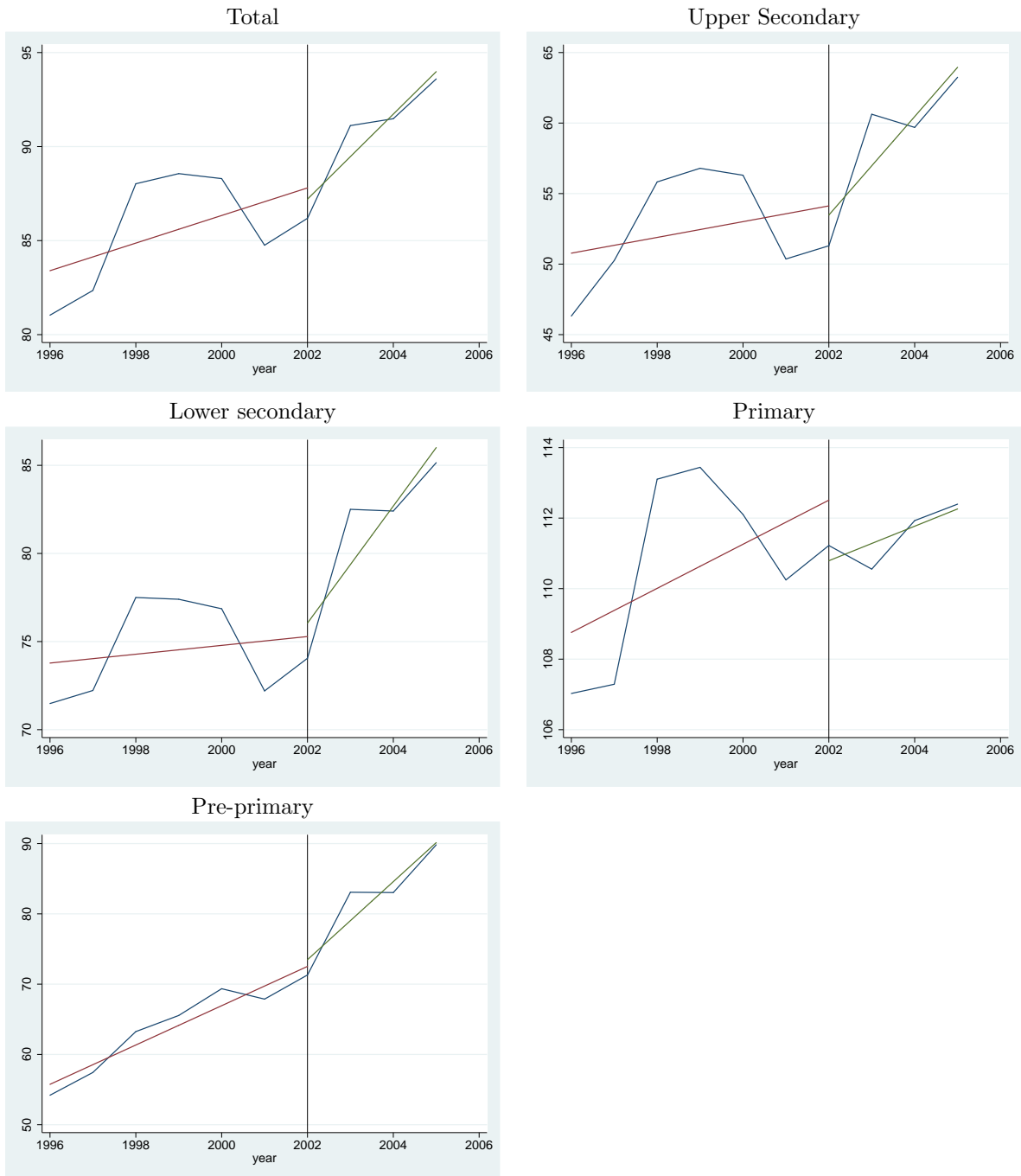
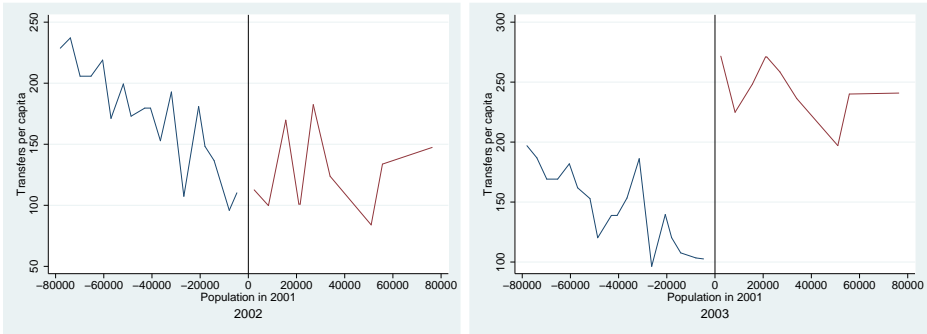


Figure 3: Transfers to municipalities per capita



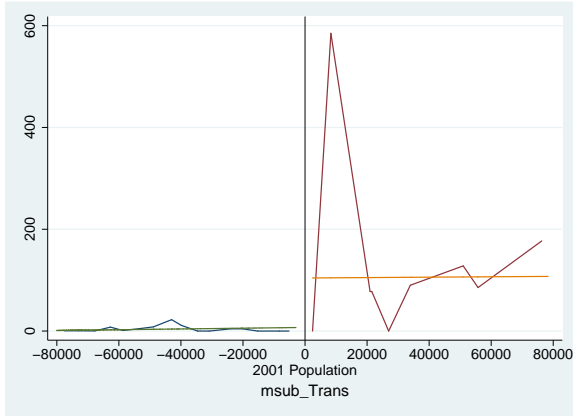
Note.- Transfers per capita are measured in thousand pesos per inhabitant (constant prices of 2004). It includes both National and Department transfers to municipalities.

Figure 4: Increase of the Number of Pupils in Public Schools Compared to 2001

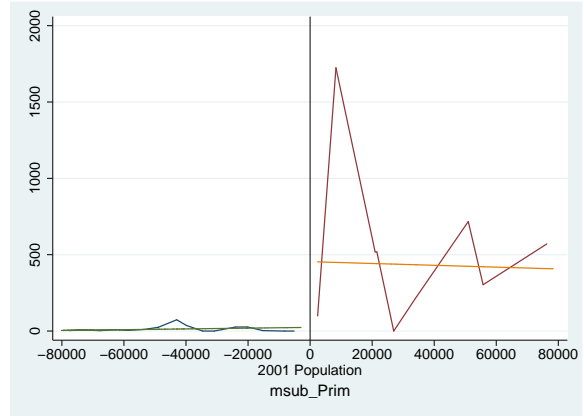


Figure 5: Number of Subsidized Pupils in Private Schools by school level, 2005

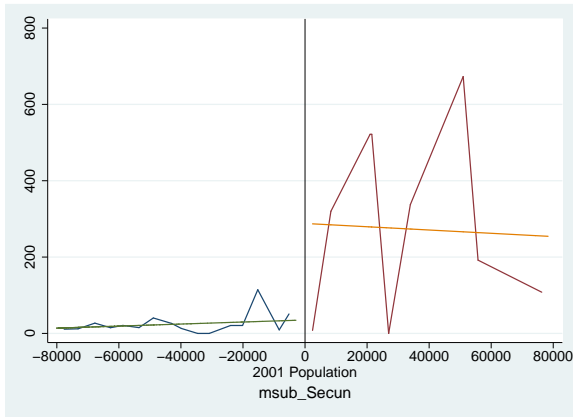
Pre-primary



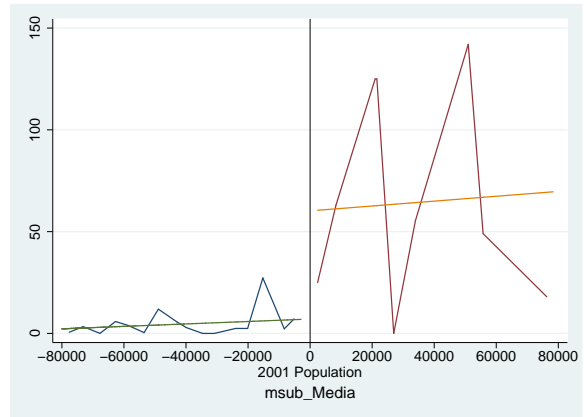
Primary



Lower Secondary



Upper Secondary



Total

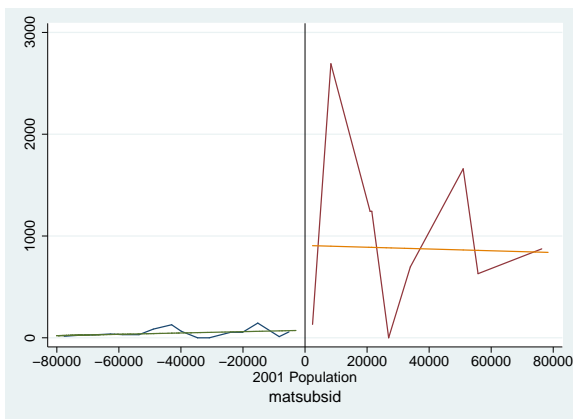
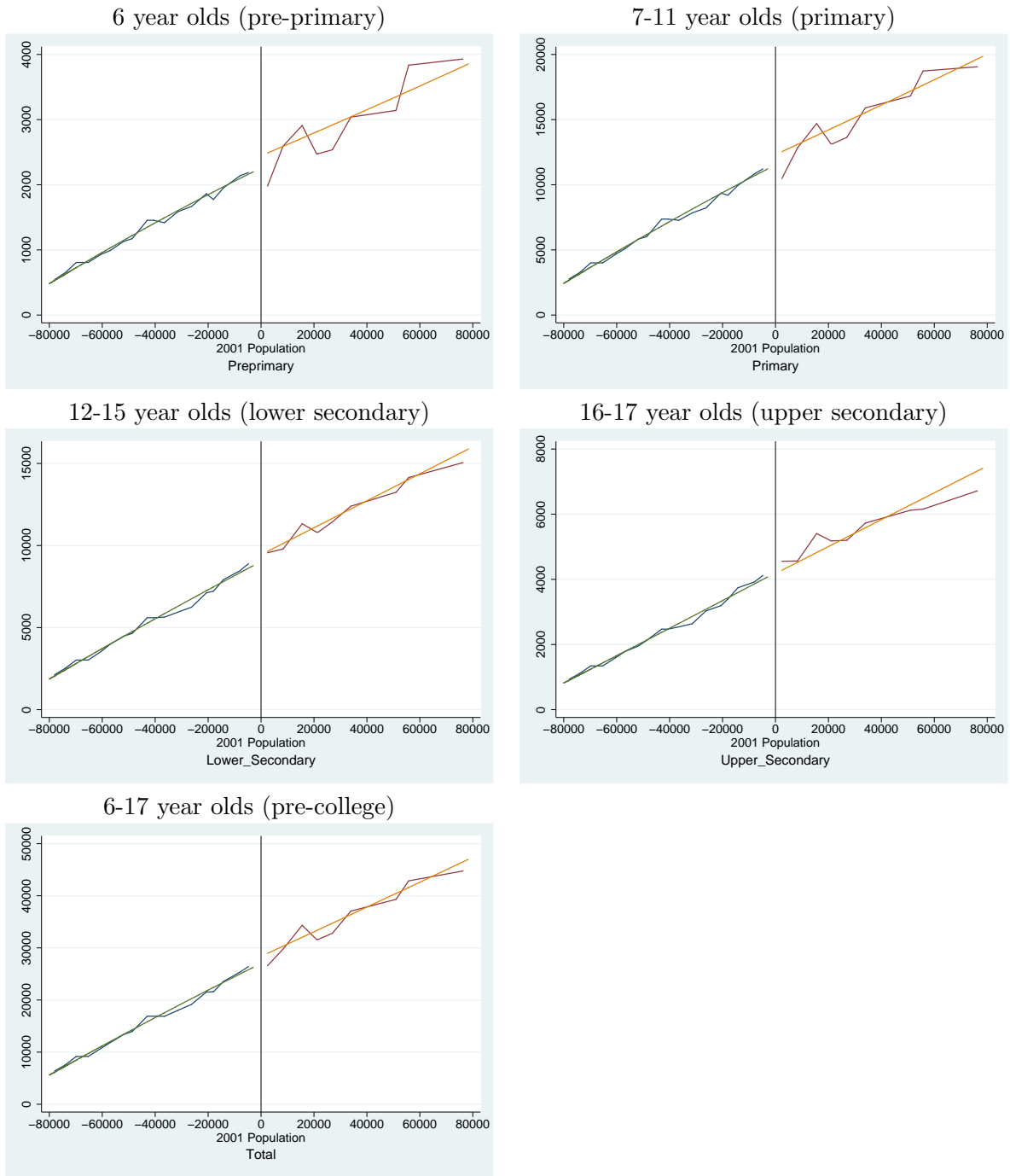


Figure 6: Population of School Age in 2005



2010

- 2010/1, **De Borger, B., Pauwels, W.:** "A Nash bargaining solution to models of tax and investment competition: tolls and investment in serial transport corridors"
- 2010/2, **Chirinko, R.; Wilson, D.:** "Can Lower Tax Rates Be Bought? Business Rent-Seeking And Tax Competition Among U.S. States"
- 2010/3, **Esteller-Moré, A.; Rizzo, L.:** "Politics or mobility? Evidence from us excise taxation"
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- 2010/7, **Jametti, M.; Joanis, M.:** "Determinants of fiscal decentralization: political economy aspects"
- 2010/8, **Esteller-Moré, A.; Galmarini, U.; Rizzo, L.:** "Should tax bases overlap in a federation with lobbying?"
- 2010/9, **Cubel, M.:** "Fiscal equalization and political conflict"
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- 2010/13, **García-Quevedo, J.; Mas-Verdú, F.; Polo-Otero, J.:** "Which firms want PhDs? The effect of the university-industry relationship on the PhD labour market"
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- 2010/16, **Dragu, T.; Rodden, J.:** "Representation and regional redistribution in federations"
- 2010/17, **Borck, R.; Wimbersky, M.:** "Political economics of higher education finance"
- 2010/18, **Dohse, D.; Walter, S.G.:** "The role of entrepreneurship education and regional context in forming entrepreneurial intentions"
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- 2010/20, **Pelegrín, A.; Balance, C.:** "International industry migration and firm characteristics: some evidence from the analysis of firm data"
- 2010/21, **Koh, H.; Riedel, N.:** "Do governments tax agglomeration rents?"
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- 2010/23, **Bosch, N.; Espasa, M.; Mora, T.:** "Citizens' control and the efficiency of local public services"
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- 2010/25, **Folke, O.:** "Shades of brown and green: Party effects in proportional election systems"
- 2010/26, **Falck, O.; Heblich, H.; Lameli, A.; Südekum, J.:** "Dialects, cultural identity and economic exchange"
- 2010/27, **Baum-Snow, N.; Pavan, R.:** "Understanding the city size wage gap"
- 2010/28, **Molloy, R.; Shan, H.:** "The effect of gasoline prices on household location"
- 2010/29, **Koethenbuenger, M.:** "How do local governments decide on public policy in fiscal federalism? Tax vs. expenditure optimization"
- 2010/30, **Abel, J.; Dey, I.; Gabe, T.:** "Productivity and the density of human capital"
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2011

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- 2011/22, García-Quevedo, J.; Mas-Verdú, F.; Montolio, D.: "What type of innovative firms acquire knowledge intensive services and from which suppliers?"

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- 2011/25, Mongrain, S.; Wilson, J.D.: "Tax competition with heterogeneous capital mobility"
- 2011/26, Caruso, R.; Costa, J.; Ricciuti, R.: "The probability of military rule in Africa, 1970-2007"
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