

# Higher Education Finance and Cost-Sharing in Portugal

## I. Brief description of the higher education in Portugal

The general layout of the education system in Portugal was established in 1986 by the Framework-Act for the Education System (*Lei de Bases do Sistema Educativo*). The system is binary, with universities and polytechnics, and public and private institutions within each. Public higher education covers every part of the country. The university sector is composed of 14 institutions<sup>1</sup> including both the older universities and those that were created in the 1970s and 5 other schools (non-integrated). State higher polytechnic education, composed of 15 polytechnic institutes<sup>2</sup> and 16 non-integrated polytechnic schools, includes agrarian higher schools, higher education schools, higher institutes of accountancy and administration, higher institutes of engineering and higher schools of technology and management and higher schools of fine arts and design (Ministry of Science, Technology and Higher Education 2006).

Private institutions need to be approved by the Ministry of Science and Higher Education. They are seen as capable of providing a needed geographical and disciplinary balance and as being more suited to labor market needs. Private higher education institutions developed very rapidly in the late 1980s, especially in Lisbon and Oporto and in the Social Sciences and Law, Humanities and Education programs (in 2007/2008 only 12 percent of the students in private schools were in Sciences and Engineering programs).

As of 2006 there were 13 private universities and 35 other non-integrated schools, 2 private polytechnic institutes and 60 other non-integrated private polytechnic schools (Ministry of Science, Technology and Higher Education 2006). The two systems of higher education (university and polytechnic, and private and public) are linked and it is possible to transfer from one to the other.

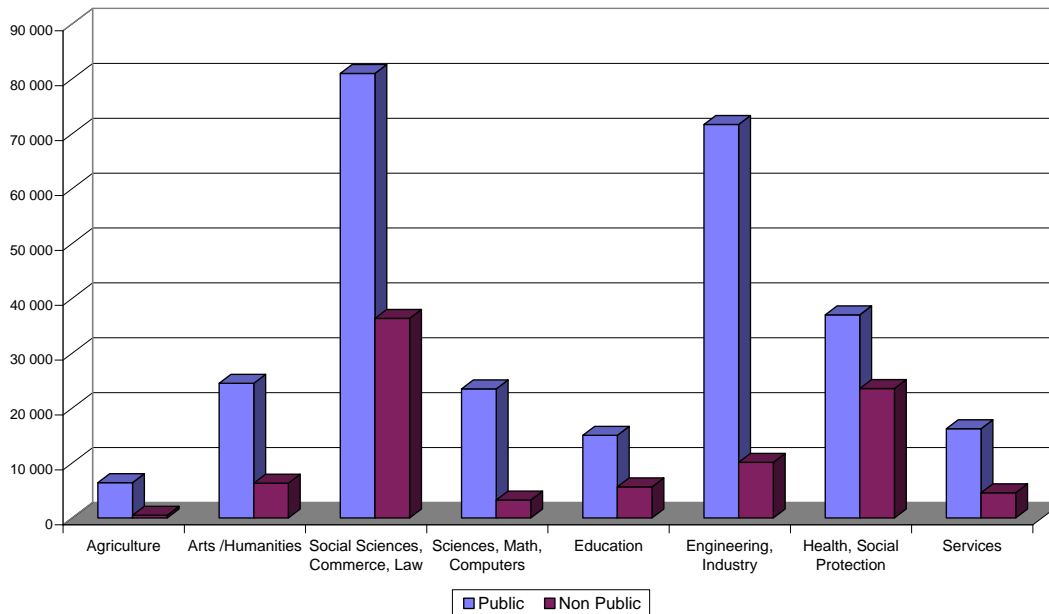
Until 1974, Portugal had one of the lowest levels of schooling among the industrialized nations and its higher education system was an elite system with very low enrolment rates. There were strong social disparities until the instauration of democracy in Portugal in April 1974. Such disparities allowed only a restricted number of people to attend the four existing universities in the cities of Coimbra, Lisbon and Oporto. There were only 9,321 students in 1940/41, 24,149 in 1960/61 and 49,461 in 1970/71.

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<sup>1</sup> 1. Universidade Aberta Lisboa; 2. Universidade Nova de Lisboa; 3. Universidade Tecnica de Lisboa; 4. Universidade da Beira Interior; 5. Universidade da Madeira; 6. Universidade de Aveiro; 7. Universidade de Coimbra; 8. Universidade de Evora; 9. Universidade de Lisboa; 10. Universidade de Tras-os-Montes e Alto Douro; 11. Universidade do Algarve; 12. Universidade do Minho; 13. Universidade do Porto; 14. Universidade dos Acores.

<sup>2</sup> Polytechnic Institutes of Beja, Cavado and Ave, Bragança, Castelo Branco, Coimbra, Guarda, Leiria, Lisbon, Portalegre, Porto, Santarém, Tomar, Setúbal, Viana do Castelo and Viseu

**Figure 1 – Number of students enrolled in higher education in 2007/2008 by field of studies and by type of institution**



Source: Cerdeira, 2008; GPEARI – OCES/DSEI

In little more than two decades (1980/1981 to 2007/2008), the picture changed dramatically and student enrollments grew to 377,000 (an increase of more than 357 percent). The higher education sector was transformed from a restricted number of universities to a varied set of institutions – public and private universities, polytechnics – distributed in a national network. Educational participation experienced a similar transformation and grew from 6 percent in 1985/1986 to 27.3 percent in 2003/2004.

Portugal has also experienced significant improvements in the qualifications of its active population. Currently, the differences separating Portugal from the European and OECD's average values are smaller in higher education than in secondary education. Approximately 13 percent of the 25-60 year-old Portuguese population has a degree (versus 26 percent in OECD countries and 24 percent in EU) and 26 percent graduated from secondary school (versus 68 percent in OECD and 68 percent in EU19)<sup>3</sup>.

Portugal is facing a serious problem regarding secondary school graduation (in 2004 the

<sup>3</sup> Source: OECD, *Education at a Glance 2007*, Indicator A1: To what level adults have studied?, Year of reference 2003.

secondary education graduation rate was 53 percent, whereas the OECD rate was already 80 percent and the EU19 average had increased to 82 percent<sup>4</sup>), which has consequences for higher education admission. Not only does the number of higher education graduates drop, but there are also problems of early school abandonment and secondary education failure, particularly within the poorer strata of the population. This eventually has an impact on the socioeconomic background of the students eligible for higher education admission and hinders equity and democratization. Recently some measures have been taken to address this tendency, mainly through the special higher education admission program for over 23 year-olds.

The expansion of the higher education system has involved serious financial investment, particularly in the building of facilities for the new universities and polytechnics, as well as in the enlargement of older universities. Between 1980 and 2006, a total of 1.8 million euros (2.8 millions at 2007 prices) was invested.

In a 10-year period (from 1980 to 1990), the management budget of public higher education institutions grew by 877 percent at current prices, due to budgetary increases, and also to the creation of new (university and polytechnic) institutions all over the country. Consequently, it comes as no surprise that, since the 1990s, higher tuition fees have been implemented and governments have created, even indirectly, the conditions to enable the growth of private education, and have thereby decreased the demand for public education.

The introduction of tuition fees in 1992 (Law 20/92, of August 14<sup>th</sup>) and 1994 (Law 5/94, of May 14<sup>th</sup>) was a turning point in student participation in educational costs. Tuition fees were increased in 1997 (Law 133/97, of September 16<sup>th</sup>). The framework approved in 2003 (Law 37/2003, of August 22<sup>nd</sup>) gave institutions the authority to set tuition fees within a minimum and maximum value. Owing to cost pressures and the progressive decline in resources allocated by the Government, public institutions have been pressed to maximize tuition fee revenue.

Thus, the weight of tuition fees in the total budgets of the public higher education institutions has gained importance. According to the latest OECD report *Education at a Glance 2008* (p.254), it can be seen that public expenditure in Portuguese higher education institutions has gradually decreased, dropping from 96.5 percent in 1995 to 68.1 percent in 2005, whereas the overall OECD average remained the same or slightly decreased (it was 79.7 percent in 1995 and it changed to 73.8 percent in 2005).

It is worth mentioning that the introduction of tuition fees in public education did not result in a decrease in participation, at least not in response to the tuition fee changes in 1992, 1994, and 1997. It was not until Law 37/2003 was passed, and in subsequent years,

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<sup>4</sup> It refers to the latest values compared to OECD values, included in *Education at a Glance, 2008*.

that there was a decrease in the enrolments of higher education students (in the academic years from 2003/2004 to 2005/2006). Nevertheless, it is not possible to know if the decrease was due to the higher tuition fees, or to decreases in the number of students who graduated from secondary education and applied to higher education, since there was a strong decline in the number of candidates (-10,2% in 2003/2004 and -11,1% in 2005/2006) and in the number of 1<sup>st</sup> year and 1<sup>st</sup> time enrolments (-4,2% in 2003/2004 and -2,2% in 2004/2005).

In the mid-1980s, the idea of significantly increasing the role of the private sector gained political support as its expansion made possible an increase in enrolment rates with a minimum cost to public finances (Correia, 2002). Enrolments have greatly increased in the last few years. In 1985, only 5.8 percent of students aged between 18 and 21 were enrolled in higher education. In 1994, the number jumped to 19.3 percent and by 2001 reached 53 percent<sup>5</sup>. The highest growth rates were in higher education where the number of students rose by 72 percent between 1985-1986 and 1990-1991. As seen in Table 1, a long period of declining birth rates is now having a negative effect on student enrollment numbers (Ministry of Science, Technology and Higher Education 2006).

Nevertheless, in recent years a recovery can be noted connected to the governmental initiative (Decree-Law 64/2006, March 21st) to open slots for older students whose education did not follow the “traditional” route to higher education. In 2007/2008, there were 17,302 new students applying for this type of entrance.

**Table 1 – Evolution of students enrolled by type of education**

	1960/61	1970/71	1980/81	1990/91	2000/01	2005/06	2007/08
Public Higher Education	21,927	46,172	74,599	135,350	284,789	275,961	284,333
Private Higher Education	2,222	3,289	7,829	51,430	111,812	91,973	92,584
Total	24,149	49,461	82,428	186,780	396,601	367,934	376,917

Source: For 1960/61 to 80/81 in *A situacao Social em Portugal, 1960-1995*, org. Antonio Barreto, For 1980/81 and 1990/91– Board of Direction of Higher Education. For 2000/01 and 2007/08 – Ministry of Science, Technology and Higher Education 2006.

Until 2006, Portuguese higher education allowed two different learning levels: initial learning which gives a bachelor’s degree (*bacharelato*) and a degree (*licenciatura*), and the postgraduate learning which confers the master’s degree and doctor’s degree. New legislation was introduced in 2006 and 2007 to reform the Portuguese higher education

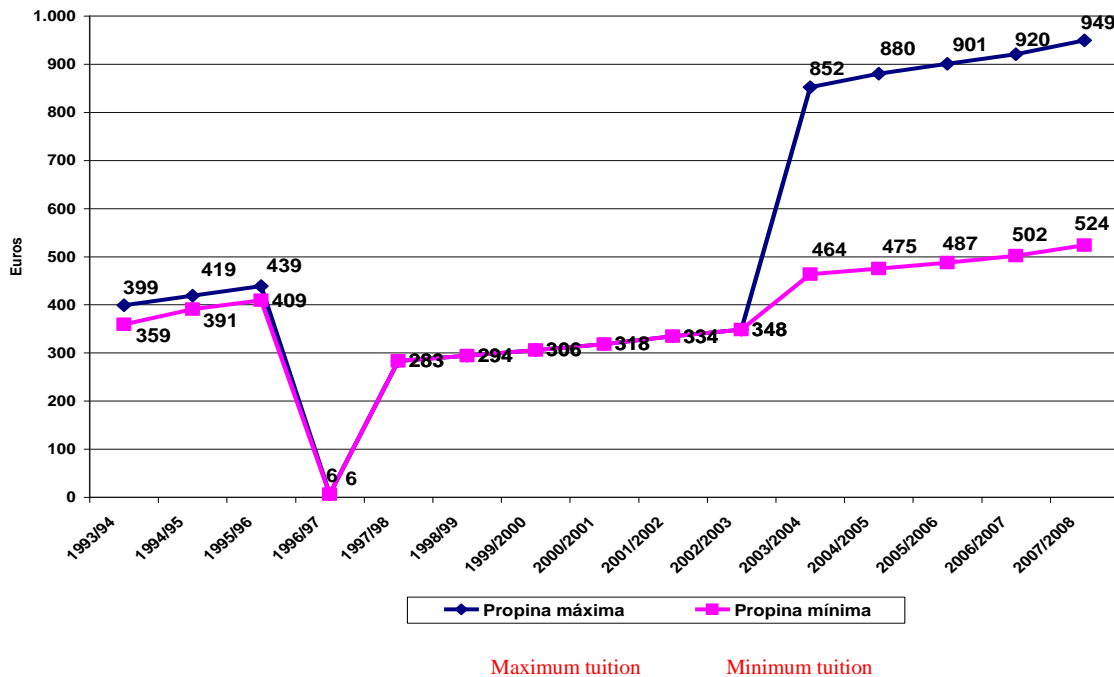
<sup>5</sup> 2001 data looks at 18 to 22 year olds.

system in line with the Bologna Process including changes to the internal system of governance of higher education institutions and to their external societal relations (Ministry of Science, Technology and Higher Education 2007).

In 2005, 2.1 percent of total public expenditure in Portugal was allocated to higher education. As a percentage of GDP, 1.4 percent was put into higher education. (OECD, 2008).

At present (2008), tuition fees in public universities are fixed by the respective institutions between a minimum of 1.3 times the minimum monthly wage and a maximum determined by updating the value of 1941 to inflation (Ministry of Science, Technology and Higher Education 2006, Education Policy Committee OECD 2008). However, most institutions would like to get more tuition income and almost all the engineering universities, for example, have chosen to charge the maximum tuition fee level.

**Figure 2 – Evolution of the tuition fee value fixed from 1993/1994 to 2007/2008 in public higher education (at current prices)**



Source: Cerdeira (2008)

The situation is different in private higher education. Tuition fees in the private universities vary from university to university and are paid on a monthly basis (CESifo 2007).

### *Student Financial Assistance*

The government provides direct and indirect support to public and private sector higher education students via mean-testing grants for living expenses and tuition fees for needy students who account for approximately one-quarter of total students (as of 2007/08 grants range from €40.30 to €403 [\$28- 285] per month plus a €60.45 [\$43] monthly housing subsidy and a €100.75 [\$71] monthly transportation) and the provision of subsidized food and lodging for all students.

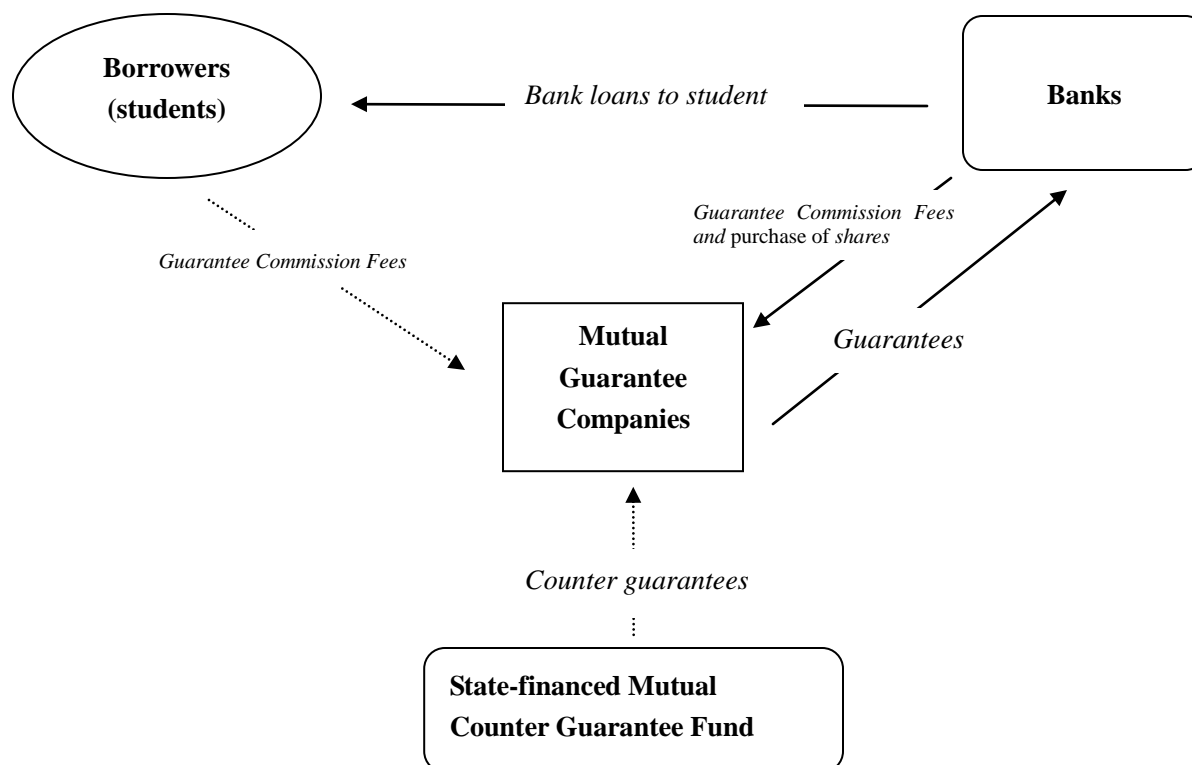
A student loan system was introduced in 2007 aimed at all higher education students that provides loans ranging from €1,000 to €5000 [\$707-3,537] per year with an overall maximum of €25,000 [\$17,685] at a fixed interest rate equal to the Euro Interest Rate Swap (EURIRS) plus a maximum spread of 1 percent (which includes a mutual guarantee commission of 0.35 percent). The spread is reduced by 0.35 percent for students whose yearly classification is equal to or above 70 percent of the best possible academic score and by 0.80 percent for students who are equal to or above 80 percent. Interest is collected during the in school years and one year grace period. Repayment of the principal begins after the grace period and is made up to a maximum of 10 years (or twice the duration of the course).

The loans are made within the context of the mutual guarantee system that was set up in 2005 to provide support to small enterprises. Under the new student loan system, the banks provide the loans to students and are required to acquire shares in a mutual guarantee company (there are three involved at present) in an amount that is equal to 0.5 percent of the total loan guarantee in return for the guarantee that the company provides. The banks also provide the mutual guarantee companies with a mutual guarantee commission of 35 basis points per year (already included in the interest rate charged by the bank to the borrower). The government guarantees 10 percent of the loans (providing 150 million Euros to the Mutual Counter-Guarantee Fund).

Between November 2007 and May 2008, 3000 loan contracts were established with an overall value of 33.7 million Euros corresponding to a 14 million Euro loan value for 2007/2008.

Sixty percent of borrowers are students in public education institutions, and 40 percent are in private education. In terms of fields of study, the largest numbers of borrowers are studying management (about 9 percent), nursing (about 8 percent), law (with 7 percent), psychology (about 5 percent), and architecture and medical sciences (slightly lower than 5 percent). As expected, and given the regional distribution of the higher education network, in geographical terms, the districts of Lisbon (about 21 percent), Oporto (about 18 percent) and Setúbal (about 9 percent) have the largest number of loans.

**Figure 3. Student Loan System with Mutual Guarantee**



The proportion of students who have taken out loans is still quite small, and did not even reach 1 percent (0.8%; 3000 in 376917) of student enrolments in higher education in 2007/08. The government is aiming to increase new loans per year by 25 percent.

The loan scheme implemented in 2007 (conventional loans) may have to be altered, with the introduction of a “hybrid” loan model. The economic circumstances of the country, as well as of the rest of the world, predicts future critical periods, as higher education graduates may have to face longer waiting periods to become economically active or longer unemployment periods (Cerdeira, 2008).

Loans may also become an interesting form of financial support for employed students, who are being admitted under the new admission programs for older students. In order to conciliate their working activities with their studies, these students have to look for courses in the evening or on weekends, which are scarce in most public institutions. Consequently, a significant number are compelled to enroll in higher cost private education institutions. Loans will also appeal to students who wish to continue their studies in the 2<sup>nd</sup> and 3<sup>rd</sup> cycles but have not been awarded grants to complete their studies.

Despite the great growth and expansion of the Portuguese higher education system, its evolution in terms of equity and accessibility has been less positive and it remains

strikingly elitist. Several studies (EUROSTUDENT 2005, Cerdeira 2008) show that higher education students are aware of their privileged backgrounds, particularly the medium-income group (78%) and medium/ high (12,5%) and only 9,7% indicated belonging to the low-income group.

## II. Student and Family Expenditures on Higher Education

The higher education costs borne by a student and his/her family depends on the type of education attended, the regional location of the higher education institution and the student's living arrangement (that is, if he/she is living at their family home or in a house of his/ her own, or if he is staying at a hall of residence or rented room/ apartment).

Table 2 presents cost information for the following categories of students:

- **Public/ Low costs** = Public Education, Autonomous Regions (Madeira and Azores), Students living at parental home (1% of the students) = 3.967,85 euros;
- **Public/ Moderate costs** = Public Education, Coastal area, Students living at parental home (32% of the students) = 4.761,29 euros;
- **Public/ High costs** = Public Education, Coastal area, Students living at their own house (3,3% of the students) = 7.006,90 euros;
- **Private/ Low costs** = Private Education, Coastal area, Students living at parental home (20,8% of the students) = 7.680,69 euros;
- **Private/ High costs** = Private Education, Inland area, Students living at their own house (3.3% of the students) = 12.015,17 Euros.

Although there has been a tendency to extend the social support grants to more students in public and private higher education (the percentage of students awarded grants rose from only 5 percent in 1990/91 to 15 percent in 1998/99 and to 21 percent in 2007/2008), the amount of the grants remains low and is insufficient to cover all higher education costs. The average value of the grant in private education (1,858 Euros [\$1,314] in 2006/2007) covered about 62 percent of the average value of the tuition fee applied in this sub sector (3,023 Euros [\$2,138] in 2006/2007) and the average value of the grant for public education students (1,531 Euros [\$1,083] ) covered the value of the average tuition fee (it was estimated to be 779 Euros [\$551] in 2006/2007), but did not cover the remaining educational and living costs.



**Table 2 – Total costs borne by higher education (universities and polytechnic institutes) students in Portugal in Euros (academic year of 2004/2005)**

[National currency (Euro) converted to \$US by 2005 International Comparison program purchasing power parity estimate \$1 = 0.7074]

		Public			Private	
		<i>Low Public</i>	<i>Moderate Public</i>	<i>High Public</i>	<i>Low Private</i>	<i>High Private</i>
	Special “One-Time” or “Up Front” Fees	31€ (\$22)	24€ (\$17)	23€ (\$16)	216€ (\$153)	169€ (\$120)
<i>Instructional Expenses</i>	Tuition	646€ (\$457)	743€ (\$533)	751€ (\$531)	2,871€ (\$2,030)	2,723€ (\$1,926)
	Other Fees	NA	NA	NA	NA	NA
	Books & Other Educational Expenses	513€ (\$363)	347€ (\$245)	621€ (\$439)	474€ (\$335)	521€ (\$369)
	<b>Subtotal Expenses of Instruction</b>	<b>1,190€ (\$842)</b>	<b>1,113€ (\$787)</b>	<b>1,395€ (\$987)</b>	<b>3,561€ (\$2,519)</b>	<b>3,413€ (\$2,414)</b>
<i>Student Living Expenses</i>	Lodging	0	401 € (\$284)	2,190 € (\$1,549)	228 € (\$161)	2,041 € (\$1,444)
	Food	774 € (\$548)	1,110 € (\$785)	1,334 € (\$944)	1,136 € (\$804)	2,453 € (\$1,735)
	Transportation	642€ (\$454)	753 € (\$533)	770 € (\$545)	979 € (\$693)	1,442 € (\$1,020)
	Other Personal Expenses	1,362 € (\$963)	1,383 € (\$978)	1,318 € (\$932)	1,776 € (\$1,256)	2,668 € (\$1,887)
	<b>Subtotal Expenses of Student Living</b>	<b>2,778 € (\$1,965)</b>	<b>3,648 € (\$2,580)</b>	<b>5,612 € (\$3,970)</b>	<b>4,119 € (\$2,914)</b>	<b>8,603 € (\$6,086)</b>
	<b>Total Cost to Parent &amp; Student</b>	<b>3,968 € (\$2,807)</b>	<b>4,761 € (\$3,368)</b>	<b>7,007 € (\$4,956)</b>	<b>7,681 € (\$5,433)</b>	<b>12,015 € (\$8,499)</b>

Source: Cerdeira L, (2008)

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