

Higher Education Finance and Cost Sharing in Chile

I. A Brief Description of Chilean Higher Education System

Participation in Chilean higher education has increased dramatically since the early 1980s. While the participation rate was 7.2 percent of the relevant age cohort in 1981, it had increased to 27.8 percent by 1996 and 37.5 percent by 2005 (Ministry of Education, 2005). Most of the growth took place in the 1990s when enrollments increased by 63 percent. Enrollment by gender has not changed over time and there are similar proportions of women and men enrolled in the post-secondary system with a gross enrollment rate of 44 percent for men and 42 percent for women (UNESCO Institute for Statistics, 2004 data). Enrollment in new private higher education institutions is highly concentrated in Santiago, while enrollment in public universities is distributed in a more proportional way given that almost all the regions (12 out of 13 regions) have regional universities.

With the idea of generating permanent economic growth and giving stability to the country, the military government supported the expansion, privatization and diversification of the education system. In 1981, Pinochet's government diversified the tertiary system into three sectors to provide the professionals and technicians required by the emerging economy. During the 1990s democratic governments lead by Christian Democrats Patricio Aylwin (1990-1994) and Eduardo Frei (1995-2000) continued reinforcing the existing tertiary system created under Pinochet's administration. Thus, the current Chilean postsecondary education system still has three sectors recognized under the 1990 Constitutional Organic Law of Education, which have the following institutional goals:

- a) **universities** focus on long-term (four to seven years) undergraduate programs that lead to the *licenciatura* and to professional titles (e.g., lawyer, civil engineer, doctor, journalist, economist) requiring the *licenciado* degree, and organize postgraduate programs;
- b) **professional learning institutes** offer four-year programs that lead to professional degrees other than those that are awarded by universities; and
- c) **technical training centers** offer two-year programs that lead to a technical certificate (e.g., technician in agriculture, forest technician, technician in foreign commerce, technician in business administration) and provide occupational skills that allow their graduates to support the activities of those who have graduated from professional institutes and universities.

In terms of student enrollments, numbers of teaching personnel, financial resources and research activities, the public universities comprise the most important sub-level of Chilean higher education. As of 2005, the post-secondary system consisted of 64 universities (25 traditional universities¹ and 39 new private universities without direct public subsidy); 48 professional institutes, all of them private; and 117 private technical

¹ Made up of 16 state universities created by law and 9 privately owned universities (6 of which obtained official recognition by means of special laws and 3 of which derive from the Pontificia Universidad Católica de Chile) founded before 1980 that have the right to receive state aid.

training centers. In 2005, 72 percent of students enrolled in post-secondary institutions were enrolled in universities (public and privates), 17 percent in professional institutes and 11 percent in technical training centers (see Table 1).

Table 1
Undergraduate Enrollment in Chile's Higher Education System (2005)

Type of Institution	Number of Students
Traditional universities	246,286
Newer private universities	177,271
Professional learning institutes	101,674 (2003)
Technical training centers	63,932

Source: Ministry of Education, Division of Higher Education, 2005.

The government is committed to improving the amount and coverage of student assistance in order to deal with the inequalities that characterize Chilean society (Ministry of Education, 2005). Participation from the lowest income quintile has increased from 4 percent in 1990 to 15 percent in 2003, and coverage in the second lowest went from 8 to 21 percent in the same time period. Participation has grown more rapidly in the highest income quintile, from 40 to 74 percent (Ministry of Education, 2005).

The 25 traditional universities are coordinated by the Council of Chancellors of Chilean Universities (CRUCH) and share a single admission process, the University Selection Test (PSU) that is made up of several sub-tests (Ministry of Education, Chile, 2005). All students must sit for three sub-tests including the language and mathematics sub-tests (mandatory) and either history and social sciences or science. Each university sets their minimum entry scores on the PSU. Some degree programs require the applicant to take a particular sub-test. A number of universities outside of the original 25 have adopted the PSU.

The Council for Higher Education, an autonomous public institution, created in 1990 by Law No. 18.962, is responsible for the assessment and accreditation of private universities.

Entrance to traditional Chilean higher education is characterized by the numerus clausus system whereby only a certain number of students are accepted into each career or academic program. There has never been a free entry system. Increased demand for higher education is usually met by creating new campuses of traditional universities or to establish new universities.

Tuition and fees were introduced for higher education as part of the 1981 reforms. A university loan system, one of the fundamental aspects of the new legislation on university financing, was established by decree # 4 of January, 1981. This decree, in line with the neo-liberal tradition, introduced various modifications with the intention of increasing the competition between universities and emphasizing those careers of greater tradition and prestige such as medicine, law, engineering, and journalism.

In the 1990s, higher education policies implemented by the last two democratic governments carried out two major changes. The means-tested loan scheme (*the Fondo Solidario de Crédito Universitario*) to cover tuition fees in one of the traditional universities was redefined. The interest rate was set at 2 percent, and repayment became income

contingent. At present (2007), repayment begins after a two year grace period and is set at 5 percent of the borrower's yearly earnings for a maximum of 15 years, after which any remnant is written off. Second, a scholarship scheme for students coming from low income families was set up to cover partial or total payment of tuition-fees.

In 2005, a new law was passed that established a need-based student loan system for all accredited (including private) institutions (World Higher Education Database, 2005). The new loan scheme, *the Crédito de la Ley 20.027 para Financiamiento de Estudios de Educación Superior*, provides needy qualified students with student loans to cover their tuition fees². The loans are guaranteed by the State (risk of non-repayment) and the higher education institution (risk of drop outs). The former guarantees up to 90 percent of the capital plus interest through the Treasury. The latter must guarantee the risk of dropout by borrowers through a financial instrument approved by the Comisión that covers up to 90 percent of the capital plus interest of the loan for a student's first year, up to 70 percent for the second year and 60 percent for the third year.

The scheme's resources for loans come from private financial institutions that make payments directly to the higher education institutions. They also manage debt collection starting 18 months after the student has graduated. The scheme is administered by an autonomous body, the Comisión Administradora del Sistema de Créditos para Estudios Superiores that is made up of the Minister of Education, the Budget Director of the Treasury, the General Treasurer of the Republic, the Executive Vice President of the Corporación de Fomento de Producción (CORFO) and three representatives from education institutions. As in the case of the Fondo Solidario de Crédito Universitario, students apply for the new loan using the Formulario Unico de Acreditación SocioEconómica (FUAS) The Comisión (not the individual financial institutions) decides which students will receive the loans.

While the scheme provides an in-school grace period during which neither the principal nor interest is paid, it offers the option of paying the interest in advance to reduce the interest rate. For example if a student pays 70 percent of the interest that was compounded during his/her degree in advance, the interest rate is reduced by 0.5 percent. Repayment begins 18 months after the student³ has finished his/her degree in a series of 240 monthly installments. The payments are divided into three time periods with those in the first being slightly lower than those in the second which are again lower than those in the third to mirror the student's expected increase in earnings over time. The maximum time period for repayment is 20 years and it is possible to pay off the debt ahead of time. The interest rate is calculated based on the government's long-term borrowing rate.

There are two additional student loan programs in Chile, the Crédito CORFO student loan and the Crédito Banco Estado de Chile. The Crédito CORFO loans are made by commercial banks who have a contract with the Corporación de Fomento di Producción (CORFO) to provide CORFO resources to students from middle class families whose monthly income does not exceed UF 120⁴ and who can provide guarantees. The loans are to be used to cover

² Each year the Ministry decides on a reference tuition amount for each field of study. If the reference amount is lower than the actual amount, the student has to make up the difference.

³ If a student abandons his/her degree program, the loan becomes repayable 12 months after he/she has left the university.

⁴ Unidad de Fomento (UF) is a unit of account used in Chile. In January 2007, 1 UF was equal to 18,325 Pesos.

registration and tuition fees (paid directly to the higher education institution) plus an additional margin of up to 20 percent to be used for other expenses. The annual maximum is UF 150. The bank may also provide a one time only credit of up to UF 150 to pay off a student's existing debt with an educational institution. The loans must be repaid within 15 years including any grace periods that the banks allow for payment of capital and interest. The banks set the interest rate up to a maximum authorized by CORFU. The Crédito Banco Estado de Chile is aimed at students whose families have a monthly income below 75 UF. Students can get up to UF 150 per year. They have a six year grace period during which only interest must be paid and a total repayment period of 15 years.

A variety of state funded need and merit-based grants are available for payment of tuition fees and living expenses. The most important of these are outlined in table 2.

Table 2
Grant Opportunities for Chilean Higher Education Students

<i>Grant</i>	<i>Targeted Group</i>	<i>Use of</i>	<i>Amount⁵</i>
<i>Beca Bicentenario</i>	Needy students	To cover part or all of tuition fees in one of the 25 traditional universities.	Depends
<i>Beca Juan Gómez Millas</i>	Needy academic meritorious students who have graduated from a municipal educational establishment	Tuition fees in traditional public or autonomous private higher education institutions	Up to a million pesos (US\$3,335)
<i>Beca de Alimentación para Educación Superior</i>	Needy students	Food	\$1,250 per day for 10 months (US\$4.17/day)
<i>Beca Pedagogía</i>	Students who will study education in accredited higher education institutions.	Tuition fees	Up to a million pesos. (US\$3,335) (Needy students may also receive a complementary grant for books and materials.)
<i>Beca de Excelencia Académica</i>	Top five percent of graduates from subsidized establishments.	To be used toward tuition fees	Up to a million pesos (US\$3,335)
<i>Beca de Mantención para Educación Superior</i>	Needy students who have received either the Beca Bicentenario, the Beca Juan Gómez Millas or the Beca de Excelencia	Living expenses	Monthly allowances of 25,000 pesos (US\$83) for food and 14,500 pesos (US\$48) for living expenses.
<i>Beca Nuevo Milenio</i>	Needy students who are pursuing technical degrees	Tuition fees in eligible institutions	Up to 300,000 pesos (US\$1,000)
<i>Beca Hijos de Profesionales de la</i>	Needy children of teachers	Tuition fees in the traditional public or	Up to 500,000 pesos (US\$1,667)

⁵ National currency converted to US\$ by 2004 PPP of \$US1 = 299.80 Chilean Pesos.

<i>Educación</i>		autonomous private higher education institutions.	
<i>Beca Presidente de la República</i>	Needy students	Living expenses	Monthly stipend of 1.24 UTM ⁶ (US\$133)
<i>Beca Zonas Extremas</i>	Students from isolated areas	Living and transportation expenses	Monthly stipend of 1.87 UTM (US\$107) per month plus transportation costs
<i>Beca Estudiantes de Ascendencia Indígena</i>	Needy Indigenous students (priority given to those who study agricultural sciences).	Living expenses	506,142 pesos in 2006 (US\$1,688)
<i>Beca Para Puntajes Nacionales</i>	Needy and academically excellent students (who receive the highest scores on the PSU examinations) who have graduated from a municipal educational establishment.	Tuition fees	One million pesos (US\$3,335)

The government has shown considerable commitment to improving access of low income students to tertiary education. “Between 1997 and 2003, public support for student financial assistance increased 87 percent in real terms to 31 percent of public spending on higher education” (World Bank, 2005). In 2005, 170,000 (of a total of 600,000 students in the higher education system) received public financial aid with a total between grants and loans of 83 billion Chilean pesos (about US\$148 million) set aside in the 2005 budget (Bitar, 2005).

There is no set policy for fees and tuition and each institution has the freedom to set up both without government restrictions.

⁶ Unidad tributaria mensual (UTM) is another unit of account used in Chile mainly for taxes and fine. In January 2007, 1 UTM is equal to 32,142 pesos

II. Estimated Expenses of Higher Education in Chile

Higher Education Expenses Borne by Parents and Students in Chile First Degree, Academic Year 2006 (9 months)

[National currency converted to \$US by 2004 PPP of \$US 1 = 299.80 Chilean Pesos]

Expenses		Public			Private
		Low Public	Moderate Public	High Public	Moderate Private
	Special "One-Time" or "Up Front" Fees	Ch\$60,400 \$US201	Ch\$78,000 \$US260	Ch\$78,000 \$US260	Ch\$120,000 \$US400
Instructional Expenses	Tuition	Ch\$1,700,000 \$US5,670	Ch\$2,100,000 \$US7,000	Ch\$2,780,000 \$US9,270	Ch\$2,230,000 \$US7,438
	Other Fees	n.a	n.a	n.a	n.a
	Books & Other Educational Expenses	Ch\$80,000 \$US266	Ch\$80,000 \$US266	Ch\$80,000 \$US266	Ch\$ 80,000 \$US266
	Subtotal Expenses of Instruction	Ch\$1,840,400 \$US6,140	Ch\$2,258,000 \$US7,530	Ch\$2,938,000 \$US9,800	Ch\$ 2,430,000 \$US8,105
Student Living Expenses	Lodging	0	Ch\$990,000 \$US3,302	Ch\$1,575,000 \$US5,253	Ch\$1,575,000 \$US5,253
	Food	Ch\$300,000 \$US1,000	Ch\$1,080,000 \$US3,602	Ch\$2,430,000 \$US8,105	Ch\$2,430,000 \$US8,105
	Transportation	Ch\$180,000 \$US600	Ch\$360,000 \$US1,200	Ch\$360,000 \$US1,200	Ch\$360,000 \$US1,200
	Other Personal Expenses	Ch\$100,000 \$US333	Ch\$130,000 \$US433	Ch\$150,000 \$US500	Ch\$150,000 \$US500
	Subtotal Expenses of Student Living	Ch\$580,000 \$US1,935	Ch\$2,560,000 \$US8,540	Ch\$4,515,000 \$US15,060	Ch\$4,515,000 \$US15,060
	Total Cost to Parent & Student	Ch\$2,420,400 \$US8,073	Ch\$4,818,000 \$US16,070	Ch\$7,453,000 \$US24,860	Ch\$6,945,000 \$US23,165

Low Public: moderate public tuition, living at home with parents.

Moderate Public: moderate public tuition, living in dormitory or shared apartment.

High Public: high public tuition, living as an "independent adult."

Moderate Private: low private tuition, living as an "independent adult"

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