

Broad National Agreement on Education: More Gains than Losses

The Government put forth an ambitious proposal with the aim of improving the access, financing and quality of higher education in our country. Even though details are still unknown, these announcements consider an important pumping of resources and a set of measures pointing at the right direction, among them, the emphasis on scholarships for the technical-professional careers. Furthermore, it raises the need to discuss the possible coexistence between state and private, and profit and non-profit universities.

Last week, the Government brought up an ambitious proposal whose aim is to improve three important factors in our higher education system: access, financing and quality. Thus, he introduced a project in a panel discussion which, although the details are not defined yet, considers an important amount of resources and measures pointing at the right direction.

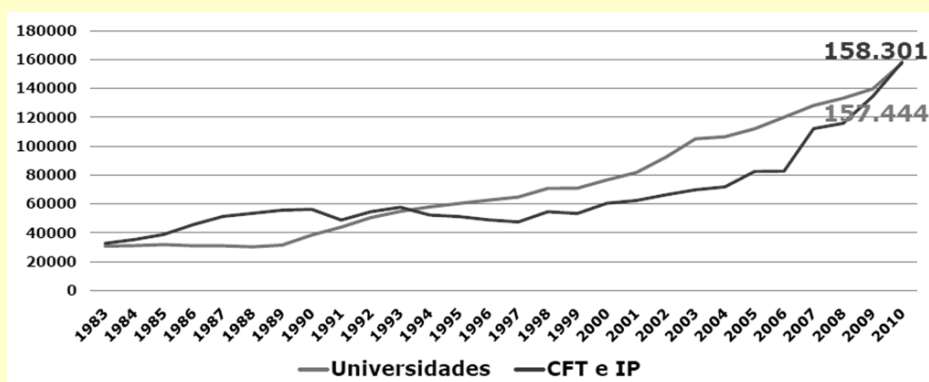
In the first place, it puts forth an Education Fund which commits US\$4 billions, that is, approximately 1.7% of the GDP and 35% of the education budget for 2011, which represents an important amount. However, resources are not enough to ensure improvement. The proposal significantly increases the number of scholarships for higher education, and their value, and at the same time, it seeks to improve the loan system in order to reduce the cost of studying, so that low income students may afford it.

The Gómez Millas Scholarships for students coming from the poorest 40% with proven academic performance (more than 550 points in the PSUⁱ and NEMⁱⁱ over 5.5) will be extended, so that they may study in a certified institution of their choice. On the other hand, the Nuevo Milenio Scholarships shall be increased from 70 thousand to 120 thousand; these are aimed at students of technical professional careers and their amount will increase by 20% (from CLP\$500,000 to CLP\$600,000 per year). Additionally, for the best 4 thousand students entering each year to technical careers, the scholarship will amount to CLP\$800,000 if they are in the first third, CLP\$750,000 if they are in the second third, and CLP\$700,000 if they are in the third one. Table 1 shows that in 2010, 50%

of the new students who entered higher education went into Technical Training Centers (CFT, in Spanish) or Professional Institutes (IP, in Spanish). Moreover, Table 2 shows that most of the students from low socioeconomic segments attend this type of institutions. Therefore, and given the high demand for technicians in the labor market, it seems positive to support students of this type of learning institutes which show an educational handicap in comparison to the universities.

Table 1

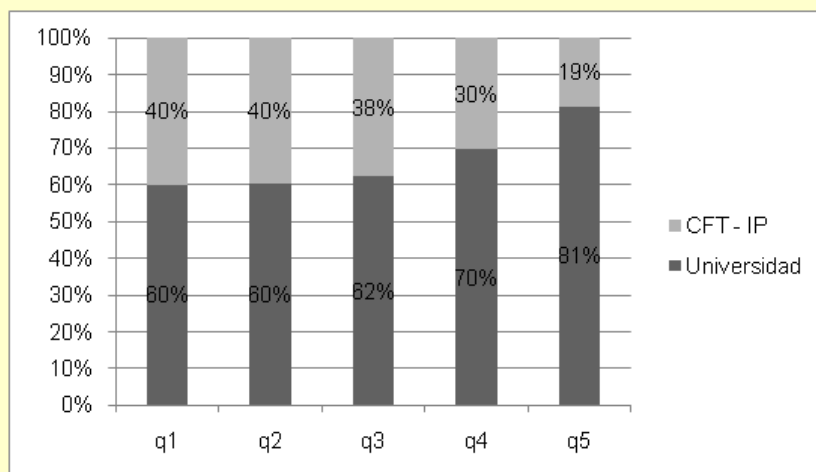
UNDERGRADUATE ENROLMENT EVOLUTION, FIRST YEAR IN CFT-IP AND UNIVERSITIES



Source: Ministry of Education

Table 2

ATTENDANCE TO THE UNIVERSITY VERSUS TECHNICAL PROFESSIONAL EDUCATION, BY QUINTILE



Source: LyD based on CASEN Survey 2009

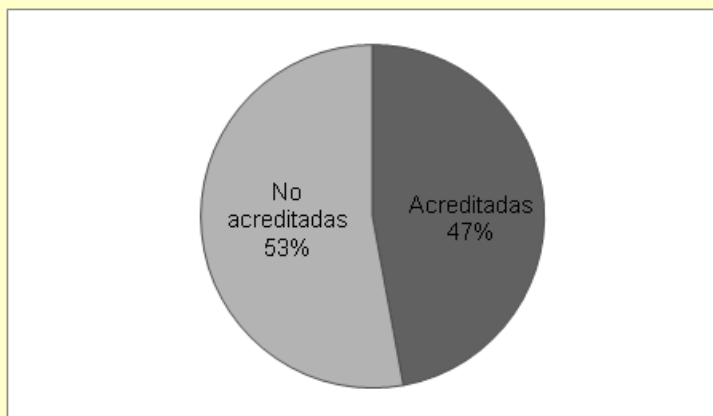
Furthermore, the creation of Academic Leveling Scholarships is proposed for thousand selected students among the best 5% of school graduates, so that they receive a year of university leveling if they come from low performing institutions. This is fundamental, since it is a way of preventing students who are not able to level and do not achieve a good performance from dropping out. Institutions should be encouraged to carry out this type of programs, because they benefit directly if their students remain and complete their studies (currently, the drop-out rate is around 46% in the universities and 56% in the technical professional education).

The Government's proposal also considers a reduction of the State Guaranteed Loan (**CAE**, in Spanish) interest rate from the present 5.8% to 4%, and the implementation of adequate unemployment insurances. The financing market will thus grow and the capital requirement will be reduced. Today, loans enter into the high risk category, and since 90% is guaranteed by the State, in practice less capital should be required as coverage. In this perspective, reducing the interest rate does not seem such a big challenge, because it can be a direct consequence of increasing the system's competition and transparency. What is really a challenge is to encourage debt payment on due dates and payment in advance; it has been determined that the arrears condition does not vary among borrowers of different educational background or socioeconomic level, which suggests that the problem is caused by the administration and lack of information of the program.ⁱⁱⁱ A working group shall be summoned to analyze and improve this loan system.

In relation to the Solidarity Credit Fund (FS), the debts of 110 thousand in arrears debtors will be rescheduled, so that they may pay and get out of DICOM^{iv}. The system will be improved and incentives to the institutions will be incorporated in order to improve recovery and loan payments. In relation to this, the FS has an important design problem which causes students not to absorb all the loan's cost, since payments must be made in partial payments proportional to the income received the year before (5%), and in a maximum term of 12-15 years. This means that, even if the debtor has the intention to pay his loan completely, if after 15 years, 5% of his income is not enough to cover his debt, then he will not be able to keep paying and the loan will turn into an ex-post scholarship, which is anyhow inefficient. For this reason the loan recovery reaches only 40% and, in the best of cases, if the debtors return payments regularly, this percentage only reaches a 60% recovery. If we want a solvent loan system, it is necessary not only to improve the State Guaranteed Loan (**CAE**), but also to solve this lack of consistency in the payment structure of the Solidarity Credit Fund.

Table 3

CERTIFICATION CONDITION OF HIGHER EDUCATION INSTITUTIONS



Universities	Training Centers	Professional Institutes
53 (90%)	14 (20%)	15 (34%)
6 (10%)	57 (80%)	29 (66%)

Source: Comisión Nacional de Acreditación, December, 2010.
Servicio Información Educación Superior.

In addition to the financing issue, the government's proposal includes measures searching to improve the access and quality of education. This is why strengthening the scope and severity of the certification system is put forth, and also the transparency of the academic and financial information, and the data regarding the labor situation of the students graduated from educational institutions (employability and wages). Therefore, an Undersecretariat to watch over the system's efficiency and transparency, and a Higher Education Superintendence to supervise and regulate the operation and accountability of the institutions will be created. Table 3 shows the current certification condition of higher education institutions, and it makes it clear that these measures are necessary, because, due to the strong increase of resources and the important number of institutions, we have to ensure that the quality of the learning institutions deserve the allocation of public funds.

Concerning the admission, it is proposed, in addition to the PSU and NEM, to include other parameters such as the student's ranking within his class. This idea is consistent with the notion that a student who is one of the best in his class has a great potential to succeed in higher education, even if he comes from a school of low academic level. Since it is a fact that, in practice, the PSU does not determine the access to higher education, since the requirements to enter most of the private universities, CFT and IP do not take into account a high PSU score, but only the fact of giving the test,

it is not a bad idea to introduce the alternative of other parameters and that each institution may properly define the selection criteria.

Finally, a new institutional framework of higher education is proposed, thus distinguishing between state universities, non-state traditional and non-traditional private universities. Regarding the state institutions, a new statute is put forth which gives more management flexibility, modernizes the university government, allows longer term indebtedness, and creates a fund for its revitalization. In relation to the non-traditional private universities, a debate is proposed to discuss the existence of profit and non-profit universities. If the decision is to have profit institutions, they will have to pay profits tax, and the amount collected will be fully allocated to more scholarships and loans for the most vulnerable students. With regard to the controversial profit subject, we believe that students should be free to choose the type of institution they want, regardless of the profit issue; those institutions contributing with quality education should not be kept from existing only because they receive earnings at the same time. However, it is correct and necessary to make the system transparent and define the rules for each type of institution.

The macroeconomic effect of the proposed spending is hard to estimate without knowing the exact term in which the resources shall be spent, which part shall be transitory (one time spending) and how they will be spent. The proposal should include the improvement of the loan recovery process. And it is worth mentioning that an amount efficiently spent in education produces a high social recovery and, from this point of view, it can contribute to improve the country's development perspectives.

The government's proposal is already on the table, and in the next days we should expect that those demanding a quality education appreciate it, so that we may start working together as soon as possible to make the necessary changes.

ⁱ University Selection Test

ⁱⁱ Secondary Education Grades

ⁱⁱⁱ World Bank. "Informe sobre Programa de Crédito con Aval del Estado (CAE) de Chile", March, 2011.

^{iv} Chilean Credit Reports