

# Education Budget for 2013: Strong Increase in Key Areas

**Funds allocated to education are equal to approximately 20% of the nation's total budget and it has steadily increased in recent years. The proposal for 2013 points at the right direction, fostering preschool education and, in the case of higher education, emphasizing that funds aim at the most vulnerable students and not directly to the institutions.**

There is no doubt that education will be one of the most relevant issues in the discussion concerning the Nation's Budget Law. Although this instance only allows distributing money and not deciding the way to use it, and therefore it does not solve possible inefficiencies in the programs' management, efforts are concentrated these months in getting more and more funds.

When analyzing and comparing last years' budgets, we observe that there has been a notorious increase of education funds. Only in the past year, the budgeted growth equals to 9.4%; this gives the education sector more than US\$12,800 millions, equivalent to more than

20% of the nation's total budget. Thus, this sector would represent 4.6% of the GDP for 2013 (and an average of 4.2% for the period 2010-2013).

## **Expenditure on Education by Level**

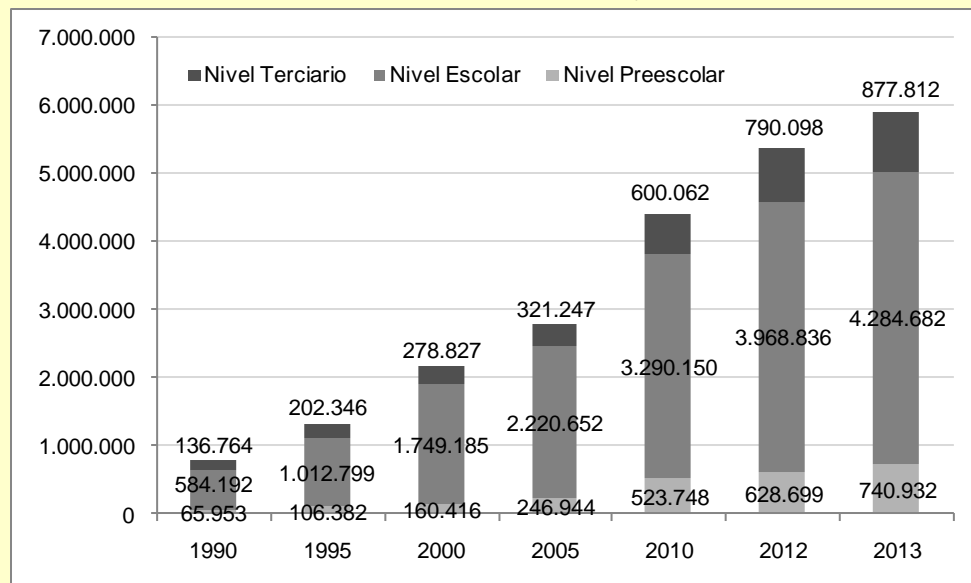
There is a certain consensus regarding the relative importance of preschool education, in the sense that it allows reducing the gap between children coming from different socioeconomic environments. What differs from other education levels is that it has greater effectiveness and it is therefore a socially optimal policy.

Once the young arrive to the tertiary education stage, an important limitation for those who wish to access it is a lack of quality education in the previous levels; thus, this fact should be taken into account when allocating funds and deciding the policies to be implemented.

Chart 1

## PUBLIC EXPENDITURE ON EDUCATION BY LEVEL, 1990-2013 (IN CLP\$ BILLIONS 2013)

Source: *Education Indicators in Chile 2007-2008*, Ministry of Education (MINEDUC), and



Public Finances Statistics, Budget Office (DIPRES), 2010-2013. Prepared by L&D based on DIPRES budget laws and MINEDUC information.

Chart 1 shows how public expenditure is distributed among the different education levels from 1990 to date.<sup>i</sup> The school level takes the greatest part, embracing the highest number of years (12), while preschool education has been historically neglected, even behind higher education, which is not optimal in terms of the expenditure's efficiency. The current government planned to increase the capacity of nursery schools and childcare centers, and to achieve complete preschool education coverage for the first three quintiles by 2014, which has been reflected upon a significant expenditure increase.

### The Preschool Level

The budget for 2013 considers a 19% growth for JUNJI (Nursery School Board) and INTEGRA (Foundation for Integral Child Development) (CLP\$411 to CLP\$505 billions)<sup>ii</sup>, with the aim of creating 10 thousand new quotas in nursery schools and childcare centers, and an increase of approximately 16% in the estimated subsidy budget and the feeding budget for kindergarten and pre-kindergarten, which is mainly explained by the recently approved subsidy increase of 18.5% for kindergarten and pre-kindergarten, which will go from CLP\$38,719 to CLP\$45,511 (without considering the preferential school subsidy (SEP) that will exceed CLP\$80

thousand), in addition to the increase of 25 thousand quotas for the most vulnerable sectors.

Consequently, the 2013 expenditure for the preschool level (childcare center, nursery school, kindergarten and pre-kindergarten) will grow 18% in relation to 2012, reaching over CLP\$740 billions.

### **The School Level**

The school level, which embraces both primary and secondary education (scientific-humanist and technical-professional), increases mainly stimulated by the subsidy budget increase (7% excluding the preschool level estimate), which is explained by the increase of the schooling subsidy, the preferential school subsidy and the inclusion of secondary education (9<sup>th</sup> grade) to the latter. Furthermore, the financial resources for the Fund for Improving Municipal Education Management (FAGEM) are doubled, and in 2013 they will amount to CLP\$91 billions. We should mention hereon that this program was not well evaluated by the Budget Office (DIPRES) in 2011, since it is a money delivery with little follow-up. However, according to information from the Ministry of Education (MINEDUC) new conditions will be applied to these higher funds, such as management and accountability indicators, so as to improve the efficiency of this expenditure. There is no doubt that before allocating more funds, municipal education requires improvement in management and institutional framework matters, and granting money with this type of conditions should entail better results. Finally, the implementation of the Superintendence of School Education and the Quality Assurance Agency commits financial resources amounting to CLP\$28 billions and CLP\$15 billions respectively.

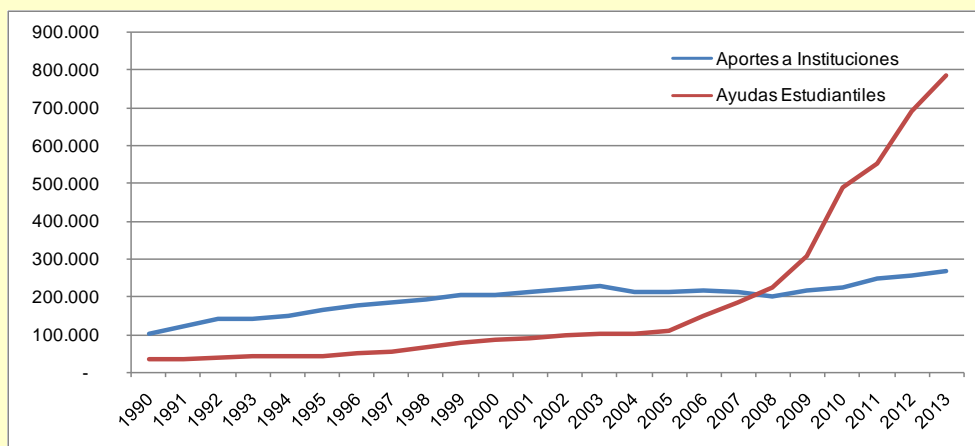
As for schools reconstruction, the MINEDUC informed that there is 80% progress up to now and that it is expected to achieve 95% by the end of 2013. The funds for the Education Infrastructure Program decrease, partly due to a lesser need for post-earthquake reconstruction, and they are also reallocated to improve equipments for technical-professional public schools.

### **The Tertiary Level**

Following last year's trend, the education budget for 2013 considers a significant increase for higher education funds. It strongly increases the expenditure on grants (from CLP\$337 billions to CLP\$391 billions), regular performance funds (*Aportes Basales* - from CLP\$12 billions to CLP\$18 billions) and direct public contributions (*Aporte Fiscal Directo* - 5% growth committed last year, from CLP\$173 billions to CLP\$182 billions), both aimed at the Universities of the Council of Rectors (CRUCH).

Chart 2

### BUDGET FUNDS FOR HIGHER EDUCATION FINANCING BY ITEM, 1990-2013 (CLP\$ MILLIONS 2013)



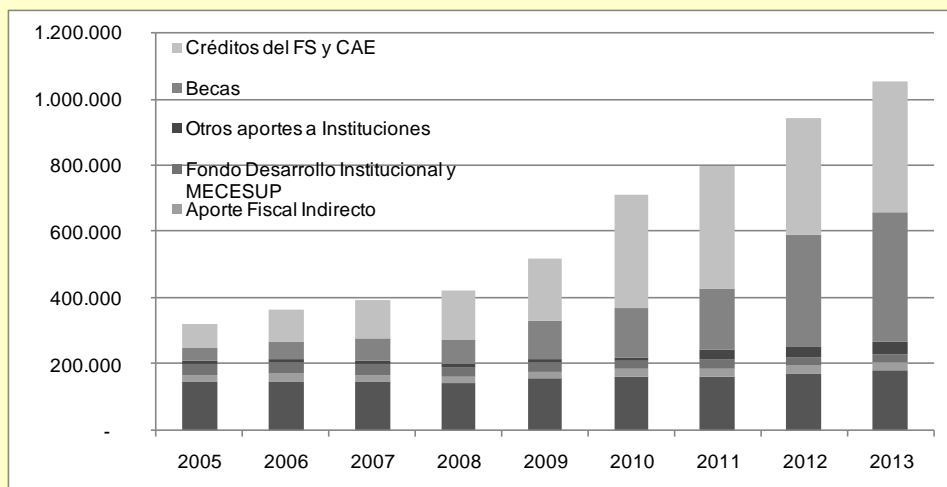
Source: *Sistema de Información de Educación Superior* (SIES – Higher Education Information System), and for 2011, 2012 and 2013, self-preparation based on DIPRES budgets.

As for the financing items themselves, if in 1990 higher education financial resources were mainly allocated in the form of direct contributions to the institutions, the trend over time has shifted to the delivery of student financial support, that is, grants and loans, which allows to direct them towards students having major financing needs. This information is observed in Chart 2, where yearly budgets of higher education are classified in two items: student financing and institutional financing. In 1990, institutional financing accounted for CLP\$100 billions and student financing for CLP\$34 billions, while in 2012 these amounts increased to CLP\$255 billions and CLP\$690 billions respectively. The Budget Law for 2013 envisages CLP\$269 billions for institutional financing and CLP\$785 billions for student financing (which includes grants, loans<sup>iii</sup> and interest rate reduction of the State-guaranteed loans<sup>i</sup> (CAE)).

Although there is a tendency to finance higher education through grants and loans, in recent years an effort has been made to increase the institutional financing, and the chart shows that there has been a sustained increase in this matter since 2010; Chart 3 shows this information as of 2005. A positive feature of these new contributions granted to the CRUCH institutions is that they are performance funds, in opposition to direct public contributions, whose allocation criterion is quite obsolete.

Chart 3

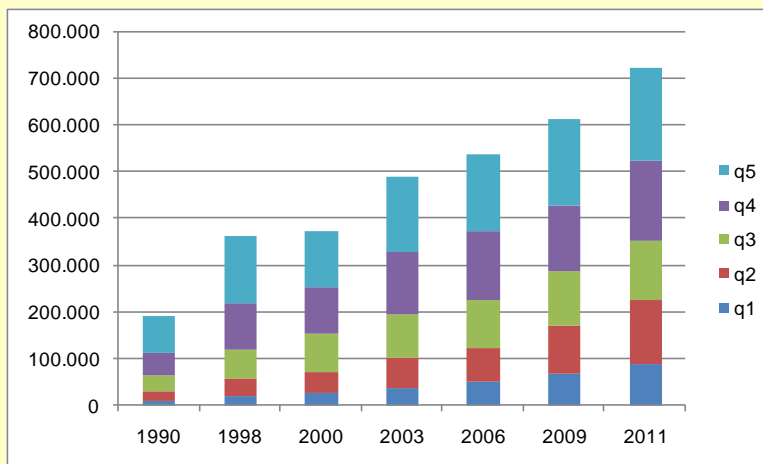
COMPOSITION OF BUDGET FUNDS FOR HIGHER EDUCATION FINANCING BY ITEM, 2005-2013 (CLP\$ MILLIONS 2013)



Source: *Sistema de Información de Educación Superior (SIES)*, and for 2011, 2012 and 2013, self-preparation based on DIPRES budgets.

Chart 4

HIGHER EDUCATION ENROLLMENT 18-24 YEAR OLD BY INCOME QUINTILE



Source: Prepared by L&D based on CASEN Surveys.

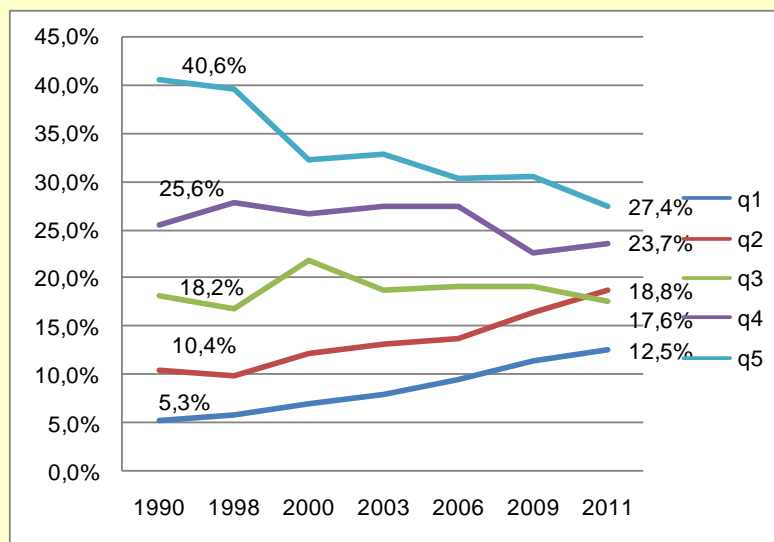
Regarding the greater effort on need-based student grants, it is useful to observe what has happened in relation to the access of formerly disadvantaged sectors to higher education. Chart 4 shows the evolution of the 18 to 24 year olds' enrolment and the socioeconomic composition of this population. Although there is still a majority of young coming from

higher socioeconomic levels, we can see an improved access of those coming from the first income quintiles that were formerly disadvantaged.

As a matter of fact, when analyzing the composition of the students enrolled in higher education according to the origin quintile, Chart 5 shows that a much more equitable student distribution has been reached in 2011 compared with past decades. In 1990 only 33% of the 18 to 24 year olds' enrolment came from the poorest 60% of the population; instead, in 2011 this group accounts for half of the higher education enrolment.

Chart 5

### ENROLMENT DISTRIBUTION 18-24 YEAR OLD BY INCOME QUINTILE



Source: Prepared by L&D based on CASEN Surveys.

Although the biggest restraint for young to enter higher education is not the economic issue, but rather the lack of knowledge and capabilities to attend this course levels, it can be inferred that greater financial resources, and the way they are being allocated (in terms of the student's characteristics), have contributed to improve the access to higher education from young coming from economically vulnerable sectors. The fact of allocating funds according to the student's characteristics instead of the institution he chooses, has allowed focalizing the grants on those who were really being restrained for lacking the financial resources to study. However, it must not be forgotten that an essential part of the task of improving equity in higher education is to improve previous levels, so that those who wish to follow higher education courses are not limited by a deficient school education.

### Conclusions

Although the education budget has been highly increased, this is not the instance to make substantive changes, since the discussion only concerns the amounts. The way funds are used is defined throughout the year in the bills' discussion, where parliament members can make their greatest contributions.

#### In brief...

##### EDUCATION BUDGET 2013:

- The current government planned to increase the capacity of nursery schools and childcare centers, and also achieve complete preschool education coverage for the first three quintiles by 2014. Therefore, in 2013 the expenditure for the preschool level will grow 18% in relation to 2012, reaching over CLP\$740 billions.
- The school level increases mainly stimulated by the subsidy budget increase (7% excluding the preschool level estimate), which is explained by the increase of the schooling subsidy, the preferential school subsidy and the inclusion of secondary education to the latter.
- The budget for 2013 considers a significant increase for higher education funds. It strongly increases the expenditure on grants (from CLP\$337 billions to CLP\$391 billions), regular performance funds (*Aportes Basales*, from CLP\$12 billions to CLP\$18 billions) and direct public contributions (*AFI*, from CLP\$173 billions to CLP\$182 billions), both aimed at the Universities of the Council of Rectors (CRUCH).

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<sup>i</sup> See Methodological Annex.

<sup>ii</sup> In relation to the initial budget for 2012. The increase for 2013 in relation to the adjusted budget for 2012 is 18%.

<sup>iii</sup> Although strictly speaking, the fact that the public treasury buys the debt from the State-guaranteed loans is not expenditure, since they are expected to be returned to the state.

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### \* Methodological Annex: Expenditure Classification in the Different Educational Levels

Preschool level data from 1990, 1995, 2000 and 2005 were obtained from the MINEDUC's *Anuario de Indicadores de la Educación en Chile 2007-2008* (Year Book of Education Indicators in Chile) and Public Finances Statistics of the Budget Office (DIPRES).

Information concerning 2010, 2012 and 2013 was built based on the initial budget laws, and although they are modified as the year goes by, they nevertheless give an approximate idea of the actual financial resources.

Each level includes the following budget items and programs:

- Preschool Level: transfers from the Education Undersecretary's Office to INTEGRA, budget for JUNJI, JUNAEB items (National Board of School Support and Grants) aimed at this teaching level (JUNJI, pre-kindergarten and kindergarten feeding) and expenditure estimate on subsidies based on MINEDUC's enrolments and amount of the current subsidy (without Preferential School Subsidy, SEP).
- School Level: subsidy budget (excluding preschool estimates), Subsidy Management, Supervision of Educational Institutions, Educational Infrastructure Programs (former School Shift Extension), Education Quality Improvement, Curricular Development and Evaluation, Education Resources, and JUNAEB items for this stage.
- Higher Education Level: Higher Education Budget, Higher Education Operating Expenses, CRUCH, National Council of Education (CNED), and JUNAEB grants for this level.

The following items are excluded in each one of the programs included: debt service, cash balance, and buying financial claims. In the case of JUNAEB, only the pertinent items for each level were considered, and the School Health Program was not included.

Finally, it should not be forgotten that total expenditure of these three levels, by construction, does not have to be consistent with the Ministry's total budget, since programs that are not directly attributable to any specific level were left out.