

Project Name Chile - Higher Education Reform Project

Region Latin America and the Caribbean

Sector Education

Project ID CLPE55481

Borrower Government of Chile

Implementing Agency Ministry of Education  
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#### 1. Country and Sector Background:

In 1981, the tertiary education system was diversified and stratified into 3 tiers: Universities, Professional Institutes (PI), and Technical Training Centers (TTC). Fees were introduced in public institutions. The number of fee-charging private universities and colleges increased sharply. A loan scheme for students was introduced in public institutions, along with a "voucher-like" system negotiable at either public or private institutions. The procedures for financing public universities were changed to encourage income generation and cost saving and award research funding on a competitive basis. Public university personnel lost their regular civil service status.

These reforms, aimed at deregulating the sub sector, have had a profound impact on its size, organization, financing and management. They led to more than a doubling of student enrollment, increasing the gross enrollment rate to 27%; they also resulted in a proliferation of institutions, from 8 universities to a total of 270 institutions, including 200 PIs and TTCs, many of which are in the regions.

Nearly all of the expansion has been financed by private sources. Public expenditures on higher education declined by 40% in real terms though per capita spending rose. By 1990, the state financed 27% of the costs, down from 100%. However, more recently, the resources allocated to the sub-sector have increased by 50 percent in real terms, driving the share of higher education in the education budget to about 12%. Funding comes from student fees in public as well as private institutions, income from services, and public subsidies.

Public funding is allocated through four mechanisms: (a) direct public support (Aporte Fiscal Directo, AFD) to the 25 "pre-reform" public and private universities (54% of public funding); (b) indirect public support (Aporte Fiscal Indirecto, AFI) linked to a "best student formula" which allocates resources based on the number of top scorers admitted in each institution the previous year (12% of public support). Students are classified in 5 categories, with a 12:1 subsidy range; (c) three competitive funds (13% of

public funding), one for science and technology (with 3 windows respectively for general, applied and priority research), a second for institutional development, and a third one for teacher education; (d) assistance to students (22% of public funding) in the form of scholarships and a loan system based on an income contingent repayment scheme, which benefit about 54% of students.

Chile's tertiary education system is not yet as developed as those of industrialized economies, but compares well with that of, for example, Argentina, some of the East Asian countries, and Hungary. Three key indicators leads to that conclusion: (i) qualification of teaching staff: in OECD countries university professors are recruited from the Ph.D. level; in Chile less than 15 % have advanced degrees (Argentina: 15%); (ii) coverage: it is about 27% in Chile, compared to approximately 30% in Argentina (down from 41% in 1993), and is lower than in Hungary (17%), but significantly lower than in Korea (48%) and OECD countries, which are approaching quality tertiary education for all with about 80% tertiary enrollment; and (iii) incomplete diversification: the subsector has relatively very low enrollment rates at the lowest tier (two year vocational and technical level), the highest tier (post graduate programs), and in high cost / low private return fields such as basic science (2.5%).

Recent developments and present status: A new legal framework providing for greater autonomy and more participatory governance for the State Universities is under Congressional review. However, a student unrest spread to the entire sub-sector during May/June of 1997. Although grievances focused on financing and governance issues, they revealed broader concerns having to do with the concept, identity and mission of higher education in Chile, its role in national development and the role of the State in supporting it. The Ministry recognized that in recent years the basic and secondary education reform had mobilized attention at the expense of the tertiary sector, in which a long term vision had been missing. It was both receptive and firm, agreeing to the most pressing financial demands, including a revision of the policy covering contractual funding. At the same time, the Ministry opened a process of broad dialogue which will address, as a matter of urgency, issues of equity, management and participation, regulation, and financing; and in a more strategic perspective, concerns of quality in the context of global competition, regional development, and international cooperation.

## 2. Project Objectives

The impact of the project would be the improvement of the higher education subsector's response to society's needs for democratic social development, and enhanced economic competitiveness in the global market. In this context, the proposed project intends to accomplish the following development objectives:

Increase Equity in and Access to the Tertiary Education System: this objective will be achieved by: (i) redesigning the need-and-merit based scholarship scheme; (ii) redesigning the student loan programs to better target students needs; (iii) establishing mechanisms to facilitate student and graduate transfers between tiers, institutions, and careers; and indirectly, by (iv) providing matching grants to technical training institutions in fields of higher demand from the productive sectors, since this education level should be more targeted to students from low income families.

Improve Quality, Efficiency and Responsiveness of the Tertiary Education System: this objective will be achieved by: (i) enhancing of the legal and regulatory framework; (ii) integrating the HE levels and consolidating study programs; (iii) consolidating the national system for quality assurance, including certification and accreditation of institutions, and evaluation of programs; (iv) building capacity for strategic planning and management at MINEDUC, other governing bodies, and tertiary institutions; (v) improving the funding formula (AFD) and contracting system, (accountability); and (vi) establishing a competitive fund, which will provide grants to promote quality and responsiveness of undergraduate study programs in priority fields, in areas of importance for regional development; of doctoral programs; and technical training programs in fields of higher demand from the productive sectors

Progress towards these development objectives and outputs will be monitored and assessed based on key performance indicators shown in Annex 1. The main performance indicators are: (i) enrolment rates by socio economic group and regions; (ii) proportion of faculty with advanced degrees; (iii) real unit costs per student; (iv) average length of study cycles; (v) drop-out rates; (vi) proportion of funding under new formula, conytracts, and competitive grants mechanisms; and (vii) number of autonomous institutions.

### 3. Project Description

The reforms of the 80s and 90s have stimulated expansion and diversification of the subsector. However, these reforms were introduced over a number of years, in response to market pressures, and do not form a wholly coherent or comprehensive framework. Both, the Chilean situation after 16 years of unregulated development and, a contrario, the experience of more industrialized (OECD and East Asian) economies point to the need for a well defined role for the state in higher education.

Therefore, the main reform to be supported by the project is the redefinition and completion of a political, legal, financial, and regulatory framework for the higher education system. This framework will be designed in a way that promotes a substantial increase in the equity, quality, and efficiency dimensions of the HE system. In order to establish legitimacy and ownership, the HED is organizing a high level non partisan body to help the process of developing this new overall policy framework. As a consequence, this process will involve wide stakeholder participation. The reform effort will be undertaken in parallel with the project. This particular situation will reinforce the project viability and sustainability, as long as the reform has a broad consensus base. The new HE framework will have redesigned policy tools to reinforce the concept of increasing equity, quality, and efficiency. A new financial system for institutional support will be performance oriented as opposed to the current "historic" or "traditional" orientation. A new and very important element in financing institutions will be the implementation of contracts between the gov and the institutions. This will also allow to extend public funding to non-AFD private universities, PI, and TTC (that receive almost not public support at present) according to policy priorities. A much more comprehensive quality assurance system will help the cohesion of the HE system. Regarding student aid, it will be sought to extend coverage, targeting the poorer, and to increase scholarships benefits to cover all tuition costs and in some cases, maintenace costs. The ultimate goal of the project will be to materialize and integrate all the reforms in a new overarching law for HE.

#### 4. Project Financing

Project costs are estimated at US\$220 million. Bank financing would be for US\$35 million, the central government and co-financiers would finance US\$185 million.

#### 5. Project Implementation

The executing agency will be the Ministry of Education.

#### 6. Project Sustainability

We have identified the following factors likely to be critical for the sustainability of project benefits:

(i) Institutional Sustainability: As a result of the reform of sub-sectoral policy component, a legal and regulatory framework must be established with common consent, preferably within the first years of implementation, and by mid-project as the latest. Individual institutions should be able to function with total autonomy

(ii) Financial Sustainability: The competitive funding mechanism would require increasing budgets over time, as they should encourage performance, and overall performance is expected to increase. The adequacy of the entire financial envelop, and of each funding instrument should be reviewed in light of the new policy framework the government proposes to develop. To have legitimacy, the new funding system should be represented as an integrated and balanced package, and should be based on transparent criteria. Chile intends to compete with industrialized economies and has developed a diversified system of higher education funding. However, as indicated earlier, some financial instruments do not support their stated purpose (AFI); others, such as the student stipend and loan schemes, are insufficient. The AFD on the other hand is mostly based on a historical formula and could be used much more aggressively to support policies, reward quality, efficiency, output and responsiveness

#### 7. Lessons Learned from Past Operations in the Country/Sector

The Bank has recent experiences from similar projects in Indonesia, Vietnam, Romania, and Argentina. These experiences suggest that the most effective investment is to establish competitive funds within a well designed policy framework, supported by adequate sectoral management capacity and quality assurance systems. The purpose of this new paradigm for higher education financing, such as the one initiated in Argentina as a result of the 1995 higher education law, is to move away from the traditionally negotiated budgets and to establish transparent and performance based resource allocation mechanisms for public funding, and to stimulate diversification of income for higher education institutions.

The initial lessons from the Argentina: Higher Education Reform Project (13935-AR) are:

there should be technical assistance for the universities to improve their strategic and budgetary planning and management; (ii) need for enhanced university management information system; (iii) the formula based funding mechanism should be based on differential unit costs per student, according to disciplines; (iv) the selection criteria for the competitive fund should be more tightly linked to the improvement of productivity or budget management; (v) annual legal covenants should be set for the implementation of the financing policy, rather than setting a global target; and (vi) need for salary incentives to professors doing research.

8. Poverty Category N/A

9. Environmental Aspects

The project does not present environmental risks and has an environmental rating of "C". Increased capacity in basic sciences and engineering disciplines might impact favorably on the development of environmental teaching and research.

10. Program Objective Categories

The primary categories are policy and institutional building.

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Note: This is information on an evolving project. Certain activities and/or components may not be included in the final project.

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