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Financing Higher Education in Latin America

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Latin American countries have developed a strong economic growth during the 2000s—the first time since the debt crisis of the 1980s. In addition, with a “demographic bonus,” in which the proportion of children declines and thus the older generation has increased the size of the working-age population. Thus, for aging societies, it is essential to invest in advanced human capital for the quality and productivity of a smaller work force. So, the expanding regional growth could increase the financial resources to train more and better-qualified higher education graduates.

Based on these economic and demographic contexts, three issues are relevant: first, the change in the proportion of national wealth spent on tertiary education in some Latin American countries, as well as the private sector’s contribution to this investment; second, some consequences of this funding pattern in terms of equity; and finally, the innovations in funding mechanisms to allocate public funds.

MORE RESOURCES INVESTED IN HUMAN CAPITAL

Higher education expenditure, as a percentage of gross domestic product, measures the effort for a society (government and private sources) to expand its advanced human capital. From the data available at *Education at a Glance 2013*—covering Argentina, Brazil, Chile, and Mexico—this effort was higher in 2010 than in 2005. The gross domestic product in these four countries increased significantly in this period, so that the total amount of funds devoted to higher education institutions was quite substantial. Expenditure on higher education, as a percentage of the gross domestic product in these countries, in 2010 neared the Organization for Economic Cooperation and Development countries average (1.6 percent) and even higher (2.4%) in Chile. Although Brazil devoted less (0.9%) than that average, the data corresponded solely to public expenditure. Brazil's higher education has mainly been supplied by the private sector, in which the principal source of funding is tuition fees. Brazil is also experiencing an expansion in the for-profit sector, and thus its total investment in higher education is far higher than what this figure reflects.

The enrollment in the private sector increased considerably in some Latin American countries between 2005 and 2009. In Brazil and Chile, the proportion of private enrollment soared to more than 70 percent, while almost half of the tertiary students in El Salvador, Paraguay, Peru, Guatemala, and Colombia currently study at private higher education institutions. In Latin American countries, nearly half of enrollment in tertiary education is concentrated in institutions whose main source of funding is tuition fees. Therefore, students and their parents are already contributing heavily to finance higher education institutions. Moreover, some of these countries charge tuition fees to students at

public universities; a prime example is Chile's public university sector. In other countries where undergraduate programs in public institutions are free of charge and the majority of the enrollment is concentrated in the public sector (as in Argentina and Uruguay), the government is the principal source of funding. Nonetheless, in these countries students usually pay tuition fees in the graduate programs.

IMPROVEMENTS IN EQUITY AND ACCESS

To assess the evolution of higher education enrollment in Latin American countries, the need is to take into account of the initial conditions characterized by a significant disparity in enrollment between the low- and high-income population. For example, in Brazil only 2 percent of the relevant age population was enrolled in higher education, compared to 40 percent for the top quintile in 2000. In this context, the growth rate in basic enrollment in the low-income group increased faster than in the richest group, over the past 10 years. However, given the huge initial gap in student enrollment, a significant difference in the enrollment levels between the poorest and the richest still exists. Among the countries that showed a higher reduction in this gap are Argentina, Chile, and Mexico.

In the context of economic growth, the rise in public and private expenditures for higher education contributed to improving the equity—with greater access to youths from lower-status backgrounds. Nonetheless, despite Latin American countries' success at increasing access to low-income students, higher dropout rates tend to originate in this segment. Moreover, students from disadvantaged backgrounds often attend lower-quality tertiary institutions. A

future challenge should focus on improving the graduation rate of these students and their chance to access better-quality programs and institutions.

INNOVATIONS IN THE ALLOCATION OF PUBLIC FUNDS

In most Latin American countries, with the exception of Chile, negotiating the funding model is still the most relevant mechanism to distribute core higher education funding to institutions. Additionally, since the late 1980s and 1990s, many of these governments have been allocating a small proportion of the total budget via formulas and funds to achieve specific objectives.

The contracts to modernize higher education through a competitive procedure are Chile's performance contracts (*Contratos de Desempeño*). They seek to align the university's institutional missions with national and regional priorities, the university's autonomy with public accountability, and the institutional performance with public funding. In addition, the Argentine government allocates funds via a three-year contract so that accredited state-regulated undergraduate courses could meet their commitment to fulfill improvement plans. The linking of funding with program accreditation results helped legitimize the quality-assurance procedures.

Another noteworthy aspect of this period is the deepening of demand-driven mechanisms in Chile. The percentage of state support for demand (via scholarships and student loans), which in 2005 represented 29 percent of total state contributions to higher education, amounted to 64 percent in 2010. Also, Chile is one of the few Latin American countries that assign state contributions to the private sector.

CONCLUSION

In sum, several Latin American countries took advantage of these boom years and raised public and private investment in higher education. This also contributed to improving low-income students' access to these institutions. Regarding allocation mechanisms, the only novelty compared to the previous decade was the incorporation of several-year contracts, to improve quality and a greater presence of demand-driven mechanisms in Chile. In the future, it should be checked whether the increased funding actually improved the quantity and quality of college graduates, besides enhancing science and technology knowledge in Latin America.