

# Reforming Vocational Education and Training in Chile

Country Study Summary

## THE CONTEXT AND COMPONENTS OF VET REFORM

Vocational education and training (VET) reform, aimed at decentralization, privatization and financial reform, were part of a comprehensive structural adjustment in response to a poorly performing economy.

### Context

The objectives and constraints to reform of VET in Chile are best understood in the context of broader education sector reforms, which began in the late 1970s as a part of a comprehensive structural adjustment in response to triple-digit inflation, unsustainable budget deficits, and sluggish economic growth. The new, decentralized, approach to the funding of social sectors, including education and training, was part of the effort to reduce the public sector deficit and inflation which had reached, respectively, 25 percent of GDP and 600 percent annually by the early 1970s. While the expansion of education was regarded as necessary for economic and social progress, public expenditures had to be reduced. Chile's VET reforms should be judged keeping in mind this tightening budget constraint.

### Components

The main components of the education reform were the decentralization of management at the primary and secondary levels, the removal of barriers to entry by new providers at the postsecondary level, and changed rules for allocating public funds to educational institutions at all levels. In primary and secondary education (including vocational schools), the reformed system was characterized by funding based on per-student subsidies, expansion of the private-subsidized sector, and the administration of publicly managed schools by local governments. The reforms stalled during the recession of 1982 as financial support for the reforms declined, but were resumed and completed in 1986. Since 1990, public funding for education has started to rise again; by 1994, public expenditures were 20 percent above their 1980 level.

### Organization of VET system

Vocational education in Chile begins at the secondary school level, where about 40 percent of students are in the technical-vocational track (it was 31 percent in 1980). Post-secondary education consists of instruction at professional institutes, technical training centers, and universities: the first two add up to 40 percent of postsecondary enrollment.

## THE REFORM OF VOCATIONAL SECONDARY EDUCATION

In spite of budgetary limitations and the lack of experience in countries with similar levels of development with private management of vocational education, the government included these schools in the reform. The reform of management of publicly sponsored education in Chile meant that vocational schools had to modernize or disappear. With the encouragement of the Chilean Planning Office, some vocational schools were transferred to private corporations under a legislative decree that guaranteed these schools a base budget from public funds. The government also retained control over curriculum: the first two years would have a common curriculum for all students, specialization would take place in the third year, and schools could extend their programs to five years.

---

Chile's reforms provide valuable lessons for countries attempting to improve their VET systems

---

### Quality and private sector response

Conforming with Ministry of Education (MOE) curricular requirements required considerable technical expertise on the part of school administrators. For example, CODESSER, a corporation that manages 17 vocational (agricultural) schools, conducts nationwide surveys of farms to determine demands for technicians and skilled workers, and tracer studies of graduates to check on the external efficiency of its programs. Initially, not all vocational schools could respond to these new requirements, and vocational enrollments fell. Also, since first- and second-year secondary students were re-classified into the general track, enrollments in the vocational track fell (temporarily) to 18 percent in 1988. In that year, the process of approval of conversion to the vocational track was simplified, and enrollments began to rise again. The private sector response has been vigorous: the share of the private sector in TV enrollment has doubled between 1980 and 1993 (see table 1). Note also that all private vocational schools are subsidized by the government.

### Mode and level of funding

Per student subsidies are 30-100 percent higher for vocational than for academic schools, which is based on calculations of unit costs of education. In 1992, in municipal and subsidized schools, the per unit cost of secondary academic education was \$1,700 while that of vocational education was \$2,500; in corporation-run vocational schools the corresponding number was \$3,250. Since 1993, aided by changes in the law, schools rely more on voluntary contributions from parents to augment funds, but agricultural schools continue to receive subsidies that are twice as large as for academic schools, industrial school subsidies are 50 percent higher, and that for commercial schools is 25 percent higher than academic schools.

### Are higher government subsidies to vocational schools justified?

On efficiency grounds, the case may be weak because, though vocational students appear to have smoother school-to-work transitions, they capture the benefits from this education - which costs society 25-100 percent more than academic education - themselves. On equity grounds the case appears stronger. Vocational secondary students probably come from poorer families. For example, parents of academic school students have between 3 and 4 more years of education than those of vocational secondary students (see table 2). This implies that the extra per student support from the government does benefit the relatively poor, though it is questionable whether it assists the poorest segment of the population.

### Diversification of funding sources

Vocational schools have other sources of funds. Employer associations sometimes help schools that require more money. While private schools receiving government subsidies cannot make tuition payments compulsory, they do collect money from parents as voluntary contribu

Table 1. The Share of the Private Sector in Provision of Education  
(percent of enrollment)

Type and Dependency	1980	1993
<i>All primary and secondary</i>		
Ministry or municipality	80	57
Private	20	43
Subsidized	6	34
Unsubsidized	14	9
<i>Technical-vocational secondary</i>		
Ministry or municipality	72	44
Private	28	56
Subsidized	28	56
Unsubsidized	0	0

Table 2. Average Education of Parents  
(years)

Type	Academic	Vocational		
		Com.	Indus.	Agricul.
Private	14.2	—	—	—
Subsidized	11.3	7.6	7.4	7.0
Municipal	9.7	8.0	6.8	4.5
Corporation	—	8.8	8.0	7.3

tions. Currently, government subsidies to schools are reduced by 40 percent of the total voluntary tuition fees collected. Vocational schools also generate money through sales of products or services. Public schools sometimes have access to municipal funds, especially in wealthier areas. Despite efforts to treat municipal and private schools alike, the former have ended up with more money because of discretionary funds provided by the ministries of Education, Interior, and Planning.

### Teacher related issues

Private schools have the freedom to determine the salaries of personnel, and arrive at employment contracts with individual teachers or unions. Municipal schools must abide by a 1991 statute that establishes minimum standards for teachers.

## THE REFORM OF POSTSECONDARY TECHNICAL EDUCATION AND ENTERPRISE BASED TRAINING

Since the early 1980s, Chile has adopted broad based reforms for its post-secondary education and training institutions.

### Pre-reform situation

Before the reforms, post-secondary education was provided by 8 universities which received about 35 percent of the education budget. About a quarter of all university students were in technical or professional programs. There were 571 private technical training institutes, whose activities were largely unregulated but were prohibited by law from offering postsecondary technical degrees. Two public training institutions funded by a 1 percent payroll tax - INACAP and DUOC - offered training courses for workers. Much of (recorded) in-service training was in public enterprises, which had grown in importance in the 1960s and 1970s.

### Postsecondary education reforms

A law was passed in 1980 that established minimum requirements for postsecondary institutions. But proposals to establish these institutions were dealt with on a case-by-case basis until 1988. In 1989, the minimum requirements universities, professional institutes, or technical training centers were clarified. On the funding side, the reforms sputtered even more. Until 1990, access to direct public funding was reserved for established universities and professional institutes. Indirect funding - which is provided as a scholarship for tuition expenses of the top 20,000 students of every class graduating from high school - was available for old and new universities, and this source was extended to all postsecondary institutions after 1990. Few professional institutes and technical training centers

apply for government funds, though. Nevertheless, enrollments in all postsecondary institutes grew impressively since 1989 (see table 3).

Table 3. Diversification and Growth in Number of Postsecondary Education Institutions

Institutions	1980	1983	1986	1989	1990
Universities	8	20	23	34	60
with public funding	8	17	20	20	20
without public fund.	0	3	3	14	40
Professional institutes	0	24	23	41	82
with public funding	0	7	4	2	2
without public fund.	0	17	19	39	80
Tech. training centers	0	86	122	133	168

### In-service training reform

The payroll tax was abolished in 1980. In its place, a tax credit system was established which has three modes. First, tax credits may fully compensate an enterprise for the cost of training up to 1 percent of payroll. The National Service for Training and Employment (SENCE), a division of the Ministry of Labor (MOL), administers a straightforward certification pro

cess for these tax credits. Second, contributions of enterprise to technical assistance institutions (OTIRs, which are nonprofit organizations established for training and technology assistance by enterprises in specific sectors or regions) are also eligible for the tax credit. Third, up to 60 percent of wages for workers in certified apprenticeship programs are also eligible for tax credits. In short, direct or indirect training expenditures by enterprises are at least partially exempt from taxes.

### A new role for MOL.

SENCE's activities reflect the new role of the MOL since the reforms, which emphasizes a regulatory and redistributive mandate. Rather than being an agent of coercion or a major provider of training (INACAP, the public training institution under the MOL is no longer guaranteed public funds), SENCE pragmatically serves as a quality controller through its certification of training activities of enterprises. And since many workers - especially new entrants and the unemployed - cannot benefit from enterprises' training initiatives, SENCE administers a scholarships program under which courses are auctioned to training providers in return for some guarantees of trainee success in finding jobs for which they have been trained.

## THE LESSONS OF CHILE'S EXPERIENCE

Chile's reforms provide valuable lessons for countries attempting to improve their VET systems.

### Reforms are not always smooth and painless

The major driving force of the reforms was inadequate public funds for continued expansion, so it would be unrealistic to expect that the changes would not trigger resistance. But Chile's experience shows that the judicious use of public funds is an effective instrument for overcoming resistance to reform. This requires continued public support: it is revealing that the severe budget crunch in 1982 stalled reforms. Another obstacle was strong resistance from teacher unions which continues even today, indicating that this obstacle can probably be fully overcome only over the longer term.

### Public funding is often more important than public provision

The fact that privately provided vocational-technical education grew faster than general secondary education is convincing evidence that private sector response can be forthcoming even in low-and middle-income countries if public funding mechanisms are used to encourage private provision, instead of going towards public provision which crowds out private providers. Chile's experience also shows that both equity and efficiency objectives can be well served through simple financing mechanisms.

### Regulatory environment is sometimes more important than public funding

The sharp expansion of postsecondary technical education after 1989 - when the rules were made transparent - and in-service training in 1990 - when the certification process for tax credits was streamlined - points to the importance of a friendly regulatory environment for private provision of training. Note that publicly-funded organizations were a small part of the additional supply of VET at the postsecondary level.

## authors

Prepared by Indermit Gill, based on "Reform of Vocational Education and Training: The Case of Chile" by Alejandra Cox Edwards, prepared for the World Bank-ILO Study on "Constraints and Innovations in Reform of VET." For copies of the paper or others in the series please contact Indermit Gill via email at [igill@worldbank.org](mailto:igill@worldbank.org) or by telephone at 202-473-3449. ❖