# PUBLIC FINANCING OF PRIVATE HIGHER EDUCATION IN BRAZIL[1]

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## Introduction

The UN's Sustainable Development Goals include equal access to affordable quality technical, vocational and tertiary education. Growing participation in higher education poses new challenges for governments to insure equitable access. Equitable access is particularly difficult in Brazil given large income disparities and the fact that two thirds of the country's higher education institutions charge fees. The result is that attendance is often unaffordable for significant parts of the population.[1]

Free public universities attract the best students, typically from affluent families as these students have had prior education that better prepares them for competitive entrance exams.

Efficiency is a concern. According to the OECD, Brazil has one of the highest levels of public expenditure in education as a percentage of total public expenditure. However, total public expenditure is substantially lower than OECD average. Estimates that the cost per student at public universities could be as high as four times that of private universities suggest high levels of inefficiency in the use of public resources.

Loans are an important element of student support. Experiments with loans during the 1960s were undermined by high inflation. In 1999, with inflation under control, the government launched the FIES program. PROUNI followed in 2005, as did an overhaul of FIES in 2010.

FIES (a loan) and PROUNI (a grant) help finance higher education tuition for low-income students with high performance in the national secondary exam. PROUNI eligibility criteria include having studied in a public secondary institution, having a physical handicap, or being a public school teacher. As of 2016, FIES loans were offered with a yearly interest rate of 6.5% and a grace period of 18 months.

## Enrollment Data

Enrollment in public (tuition-free) and private (fee-paying) higher education increased from approximately 6 million students in 2009 to 7.8 million in 2014. 1.9 million are in public institutions and 4.7 million in face-to-face programs in private institutions. Table 1 describes the evolution of FIES and PROUNI.

[1] The authors would like to thank Daniel Castro for his valuable research assistance.

**Table 1**. Total initial enrollment, FIES contracts and PROUNI scholarships in face-to-face, private higher education courses.

| Year | FIES contract only | % of total | PROUNI scholarship only | % of total | FIES and/ or PROUNI | % of total | Total Student enrollment |
|---|---|---|---|---|---|---|---|
| 2009 | 17,835 | 1% | 97,787 | 8% | 116,647 | 9% | 1,261,815 |
| 2010 | 31,743 | 2% | 89,443 | 7% | 123,511 | 9% | 1,366,191 |
| 2011 | 65,739 | 5% | 99,438 | 7% | 169,031 | 12% | 1,458,463 |
| 2012 | 206,249 | 12% | 102,856 | 6% | 313,779 | 18% | 1,705,086 |
| 2013 | 356,332 | 21% | 98,309 | 6% | 458,704 | 26% | 1,732,605 |
| 2014 | 544,855 | 29% | 129,235 | 7% | 681,465 | 36% | 1,878,483 |

Table created by the authors with data from INEP/MEC.

The total number of students in the FIES and/or PROUNI programs increased from 116,647 in 2009 to 681,465 in 2014 with a subsequent impact on private university enrollment— 9% to 36% during this period.

Figure 1 presents the distribution of FIES loans for freshmen and upperclassmen. Note the progressive increase in the proportion of freshmen between 2009 and 2012, that stabilized near 40%.

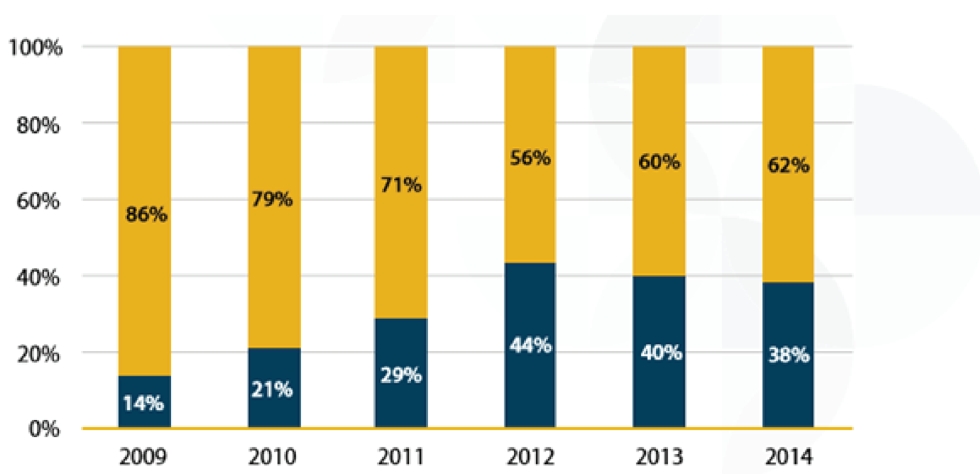
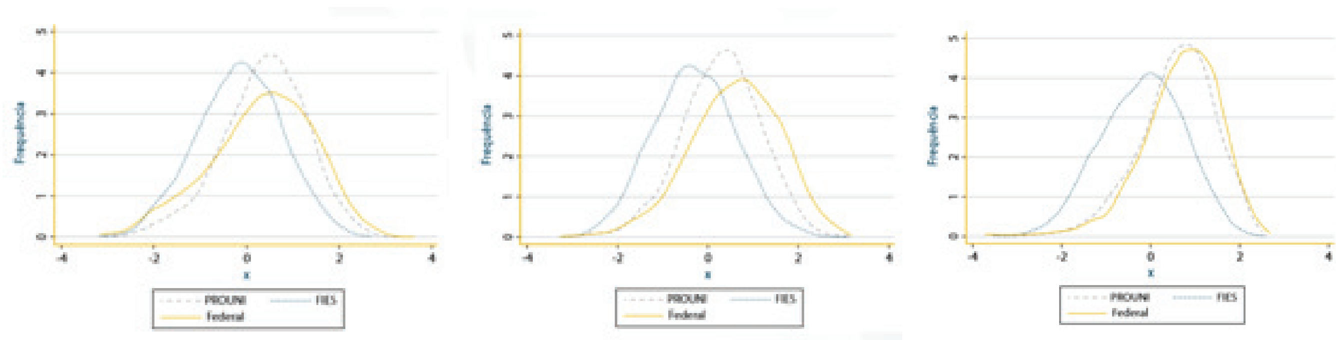



**Figure 1**. Percentage of freshmen and upperclassmen with FIES loans from 2009 to 2014.

## Effectiveness

Figure 2 compares academic performance of FIES and PROUNI students with Public Federal University students. PROUNI performance is close to Federal, with FIES closely behind. Despite differences in socioeconomic level, the performance of FIES and PROUNI students is not substantially different, suggesting that helping students from low-income families attend university is a positive factor in promoting equity.




(a) Law, 2012 (b) Civil Engineering, 2014 (c) Nursing, 2013

Figure created by the authors with data from INEP/MEC.

**Figure 2**. Comparative analysis of ENADE (National Student Performance Exam) scores of students in Public Federal Universities with FIES and PROUNI students

Distribution of program beneficiaries by area of study varies is in part determined by government priorities. Table 2 lists the 9 areas with the highest number of FIES and PROUNI contracts and shows that in all cases the rates of return are sufficient to pay the loans. Yet, FIES default rate as of June 2016 was 46%, indicating problems with recovery efforts.

Table 2

| Subject area | Average course duration (years) | Average monthly salary during amortization period (R$) | Estimated monthly payment (in R$, at 6.5% p.a.) | Payment/salary (at 6.5% p.a.) |
|---|---|---|---|---|
| Management | 4 | 1,878.00 | 423.00 | 0.23 |
| Law | 5 | 11,096.83 | 477.38 | 0.04 |
| Pedagogy | 4 | 3,649.95 | 423.00 | 0.12 |
| Accounting | 4 | 5,155.84 | 423.00 | 0.08 |
| Civil Engineering | 5 | 8,514.25 | 477.38 | 0.06 |
| Nursing | 4 | 4,624.57 | 423.00 | 0.09 |
| Psychology | 5 | 3,849.87 | 477.38 | 0.12 |
| Physical Education | 4 | 3,950.66 | 423.00 | 0.11 |
| Physical Therapy | 4 | 4,025.08 | 423.00 | 0.11 |

Table created by the authors with data from RAIS/MTE.

## Discussion

FIES and PROUNI have been successful and are sustainable. Risk of default for students is mitigated as their expected future earnings ensure payback ability. The programs have helped students from lower socioeconomic groups, and the fast growth of the programs seems to indicate that they have kept pace with students demand.

> “Private sector benefits from enrollment expansion suggests that public resources should be displaced by progressively greater allocations from the host institutions.”

There is room for improvement. Private sector benefits from enrollment expansion suggests that public resources should be displaced by progressively greater allocations from the host institutions. Private institutions should ultimately provide the bulk of the financing, reducing government's role in providing subsidies and guarantees.

FIES and PROUNI have not addressed the problem that free public education is offered by public universities with little consideration for socioeconomic status. Government effectively funds expensive university education at public institutions for high-income students and uses FIES and PROUNI to help low-income students attend private institutions. It has been argued that public education should not be free for all. This is the most important issue for future debate.