

FINANCING HIGHER EDUCATION: POLICY OPTIONS FOR THE COMMONWEALTH COUNTRIES

EXECUTIVE SUMMARY

A worldwide perspective on higher education financing provides two important facts of the higher education sector, i.e. the rapid expansion of higher education as demand increases in response to market needs for a high-quality workforce and the constantly rising costs of higher education. As the provision of quality education matters, both the expansion and rising costs necessitate the additional investment into the system. With the decline of public funding, ensuring the sustainability of the sector compels the contribution from the private sector through cost sharing by students and parents (instituting or raising tuition fees) and generation of revenue through other non-governmental sources. The experience of some countries provides evidence of active roles of private players in the provision of higher education, supplementing the role of public higher education institutions.

These recent developments in higher education financing, by and large have raised concerns among many countries including the Commonwealth member states, which in the majority are developing economies. The dominant roles of public institutions in higher education development in most Commonwealth countries and the shrinking allocation of public funding, along with the massification of higher education present major problems which may adversely affect the quality of education (teaching and learning as well as research), access and equity. As students and parents are now expected to shoulder more of the burden of cost of higher education generally through loans arrangement, the question arises as to whether this will affect access, especially among the low-income group. Lack of readiness among public institutions to embark on resource diversification efforts may result in unsustainable financing and in

the absence of sound governance and regulatory framework the situation will become worse.

In light of these pertinent issues, it is timely for the developing member countries of the Commonwealth to consider appropriate policy directions towards higher education financing by combining various tools for financially sustainable tertiary education policies. The policy paper, which will be developed later based on this policy brief will further discuss different types and structures of cost-sharing models and some of the best practices of higher education financing models that would help the member states to plan for their higher education financing reform.

1.0 INTRODUCTION

In recent decades the debate on education finance appears to have dominated the issues surrounding higher education. Many countries, including those of the Commonwealth, are struggling hard to find appropriate financing models that focus not just upon efficiency but that also address matters related to quality, access and equity.

Essentially, the central argument of who should bear the cost of higher education stemmed from the public and private nature that characterized higher education services. The contention that higher education contributes toward external benefits through growth and development, and thus requires public contribution is equally true as the assertion that higher education contributes towards an individual's future values and thus entails private contribution. The compelling argument concerning the 'right

mixture' of private and public contributions is further complicated by the diversity of an individual country's stages of development, political and social atmosphere. The proliferation of the knowledge-based economy and the challenges brought about by globalization require an urgent response from countries in order to strengthen their higher education standards to meet the future workforce demands. Despite an alarming budget cut, the upsurge in the number of students in transition from secondary to higher education has created a challenge for countries to provide more places at affordable prices, ensuring equal opportunities for students coming from diverse socio-economic backgrounds.

Globally, a recent trend of higher education financing demonstrates a consistent shift from public funding towards private contributions through tuition fee increments. The rise in fees is either directly paid from the pockets of (students/parents) or indirectly through student loans. The shift from grants to loans, as being practiced by many governments, describes the extent to which the private sharing of higher education cost is gaining momentum. Focusing on the institutional level, many public universities, which used to receive generous public funds are now called upon to be more stringent in their spending and also encouraged to diversify their sources of revenue through various income generation activities. Increased accountability demands a change in the way funds are allocated to institutions with traditional negotiation of budget is now being replaced with formula- and performance-based funding. Declining public funding has also driven private higher education institutions to play their important roles in light of rapid expansion of higher education. By and large, recent development in higher education financing has undoubtedly improved efficiency but it has also raised concern in terms of access and equity as the cost of higher education is rising.

Owing to the above mentioned issues, the Commonwealth Tertiary Education Facility (CTEF) seeks to call for the Commonwealth countries to work together to find creative, innovative solutions of higher education financing that will enhance productivity, improve results and promote sustainable outcomes. Despite the fact that Commonwealth member countries are so diverse in terms of the historical, political, demographic and cultural context that shaped their higher education system, they still face the common dilemma of the inherently rapid

rising costs and constantly declining rate of per capita grant. As such, sharing the best practices in terms of the mechanism of higher education financing from the international perspective would definitely offer lessons that could act as guidance to policy makers in Commonwealth countries in formulating alternative policy options related to financing higher education.

2.0 WORLDWIDE PERSPECTIVE ON HIGHER EDUCATION FINANCING AND CHALLENGES

The international perspectives on higher education finance provide evidence of common dilemmas of rapid increase in education costs and stagnant or declining governmental revenues. In line with this, a worldwide reform of higher education finance demonstrates the changing pattern of national policies from a conventional system of funding which is based more upon a welfare approach to an emerging system of a more market-based approach.

Obviously, the reform that has taken place reflects the response to the challenges that is facing higher education, in particular;

- declining resources available from public coffers
- a rapid expansion of higher education which requires added capacity
- increase in per-student costs
- changing job markets that necessitate education providers to offer new academic programs

In response to those challenges, many countries are now turning to other non-governmental revenues to continuously support higher education institutions and these include:

- the 'user fees' policy in which students or parents share in the cost of higher education
- other revenue diversification initiatives through business activities and partnership with industries, philanthropy and alumni

Generally, fees represent the substantial and continuing source of non-governmental revenues for higher education as compared to revenues derived from other income generating activities and this reflects the importance of private contributions through instituting or rapidly increasing tuition fees. Nonetheless, the introduction of cost recovery through 'user fees' policy is politically difficult to implement, given that such a manner of redeeming funds is perceived as depriving the right of the poor to gain access to higher education. Literally, cost recovery could not be implemented without the need for the provision of financial support for academically qualified poor students. In an attempt to balance between the important role of private contribution through fees and to cater for the issue of access among the less privileged, a general policy shift from a reliance on grants to a reliance on loans was undertaken with various forms of loan arrangements. These loans arrangements or schemes vary greatly in their features, such as the average level of indebtedness, types of repayment (income contingent or fixed instalment), the rate of interest and the rate of government subsidies (the degree to which the loans are subsidised - in part grants), the sources of funds (whether from treasury, commercial banks, pension funds or other private sources) and the availability of loans (either only students enrol in public institutions or private as well).

Indisputably, loans play a significant role in financial planning for higher education, however, the design of the loan system may pose detrimental outcome on the future life of graduates if they are saddled with debts without the benefit of an educational credential that might lead to higher earnings.

The international experience of other revenue diversification initiatives through business activities and industry partnership, especially through the commercialization of research, shows that the success of the initiatives is very much dependent on the existence of sound governance and regulatory framework which would allow for changes in resource mobilization, allocation and utilization. In other words, for public higher education institutions to strategically and effectively plan for the reform, increased management autonomy along with a clearly defined performance objective and accountability are inherently needed.

Another related response to the declining public funding towards higher education is by encouraging the involvement of private players through the appropriate provision of incentives. To provide solution on the cost side, higher education institutions around the world are now showing great interest in technologically-assisted and distance learning.

Based on the international perspective, it is evident that only a comprehensive approach that combines different tools can provide immediate as well as mid- and long-term solutions to ensure financial sustainability and thus preserve the quality of higher education systems. Above all, financing of a country's system of higher education must be seen in the context of the country's readiness and the nation's history, level of economic development, per capita wealth, population, demographics, degree and nature of social stratification, political system, and prevailing ideologies. Nonetheless, while country situations differ, there have been remarkable similarities in the strategies governments are using to accommodate the explosive growth of university enrolment. Governments have generally employed a combination of strategies intended to improve system efficiency, lowering (or at least containing) public expenditure to higher education and developing new sources of funding for higher education (ADB, 2011).

3.0 HIGHER EDUCATION IN THE COMMONWEALTH COUNTRIES AND FINANCING ISSUES

The Commonwealth covers around almost a quarter of the world land area with an estimated population of 2.3 billion (or a third of the world population). It spans all the continents with a combined gross domestic product of over USD 9 trillion. Based on the classification of the world's economies by the World Bank (2013), out of 53 member states, the majority are in the category of lower-middle and upper-middle income economies or known as developing economies. As a result of dissimilarities in terms of the stages of development, population, size, culture and historical background among the member states, the higher education sector in the Commonwealth is best described as diverse. Essentially there are a small number of high income countries that have experienced rapid expansion of higher education for the past few decades and the education sector in these

countries is characterized by a massified and well organized system of higher education. The Gross Enrollment Ratio (GER) in some of these countries has reached the level of more than 80 percent. On the other hand, the majority are experiencing a small but expanding higher education sector (Figure 1). Based on the trend of higher education expansion, Vargese (2011) had classified the commonwealth countries into three distinct groups, namely:

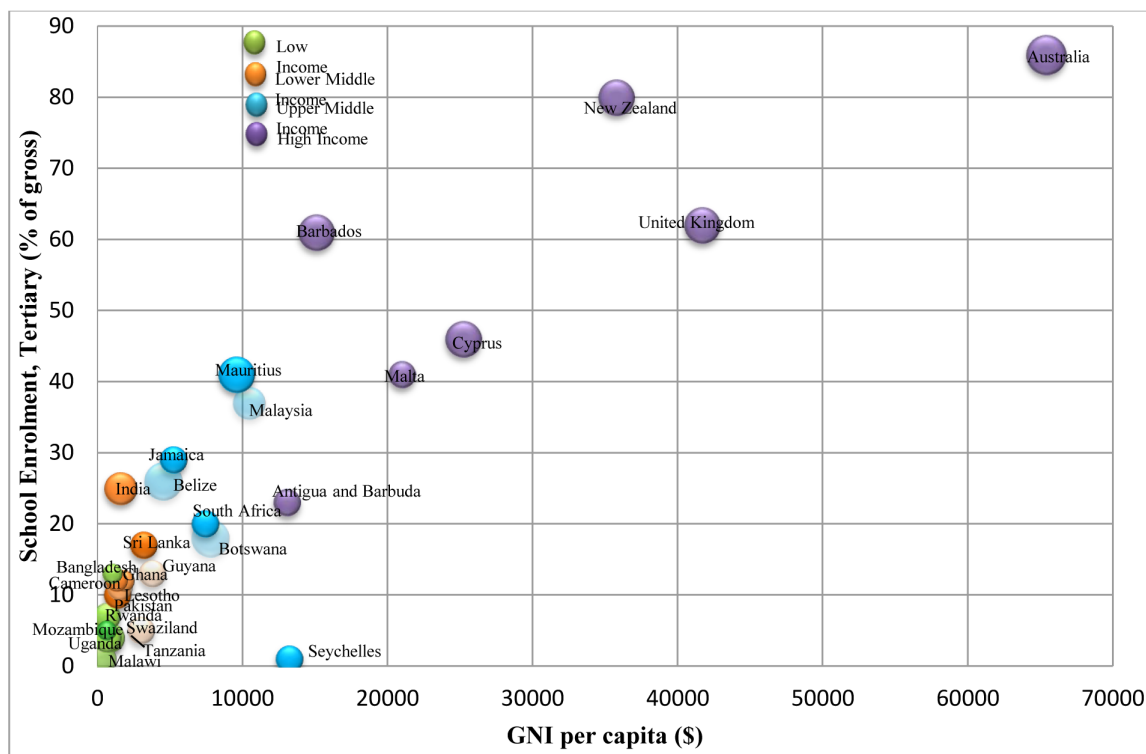
- countries with an extensive higher education system and a stagnating or declining GER (e.g. Australia, Canada, South Africa, UK);
- countries where the GER is rapidly increasing (e.g. Ghana, India, Malaysia, New Zealand, Nigeria, Tanzania, although it is still extremely low in all countries except Malaysia and New Zealand);
- countries where the GER is low and expansion is relatively slow (e.g. Bangladesh, Kenya, Malawi).

Despite the diversity that characterizes the higher education sector among the member states, the majority of them, however, share similar features in terms of:

- the dominant role of public institutions in higher education development
- massification of higher education
- shrinking allocation to public tertiary education institutions and
- lack of resource diversification efforts

Worth mentioning, one of the pertinent issues that arises from inadequate public financing is the matter related to access and diversity. Reduced public funding entails more private contribution through fee increases which in turn exerts economic pressures on families. Unless there is sufficient financial aid provided, poor students and underrepresented ethnic groups may be excluded. Due to this reason, tuition fees can become a politically charged and ideologically resisted form of cost sharing for the Commonwealth member states which are majority developing economies. Even though student loans are now becoming popular as a form of financial assistance, they are nevertheless politically controversial since the intrinsic nature of loans is to shift the burden of higher education costs to students.

Figure 1: Gross enrollment ratio (GER) of selected Commonwealth countries (Tertiary, 2013)



Source: The World DataBank, World Bank (2013)

Conversely, inadequate public financing and low level of resource diversification effort may also result in the deterioration of quality. A study undertaken by the World Bank (2010) on financing higher education in Africa highlighted the fact that governments and institutions across Africa have implemented drastic cost cutting measures amidst the diminishing public contributions by freezing salaries and the recruitment of teaching staff, reducing financial aids for students and forgoing basic maintenance for infrastructures. It is worrisome that if all these measures are not properly carried out they would have a negative impact on quality.

Another key concern in relation to reduced public funding is a decline in funding for research which would hinder the overall research capacity. Considering that the majority of Commonwealth countries are developing economies, a reduced engagement in innovative research will definitely affect future development of the countries, particularly with respect to competitiveness and economic growth.

As previously mentioned, in order to allow for more effective revenue diversification effort to flourish, sufficient autonomy should be given to higher education institutions and this requires sound governance structure that promotes greater transparency. Given the political and socio-economic landscape of most of the Commonwealth countries, the move towards increased autonomy will undeniably pose a great challenge.

4.0 POLICY CONSIDERATION FOR A SUSTAINABLE FINANCING OF HIGHER EDUCATION

The fast expansion of higher education in many Commonwealth countries poses an enormous challenge especially in the pursuit of sustainable development of the higher education sector. Increasing enrolments without additional investment will be detrimental not only to the quality of services offered but will also have significant negative impact to the long term sustainability of the higher education system. For the low-income Commonwealth countries, such impact would be larger considering the limited availability of public resources which can be allocated for that purpose or similarly, in cases where higher education competes

for the appropriation of public resources with other levels of education that are given more priority. The international experience provides evidence that if enrollments at tertiary level are to increase further, public funding per student is expected to decline to varying degree depending on a country's position, thus raising the following issues related to:

- Access, equity and diversity – especially representation from the less advantaged group and the minority
- Faculty and personnel – recruitments, remuneration and students/faculty ratios
- Intensity and quality of research – research capacity for future development of the country
- Program reallocations – the tendency to be more market driven with unpopular programs being eliminated
- Conflicting pressures on governance and control – on one hand reduced public funding demands greater accountability but on the other hand increased effort on revenue diversification entails larger autonomy
- Narrowing of national missions and visions– since education is considered as a tool for economic development, some of the national missions and visions related to social mobility, growth and distribution may be adversely affected

In response to those pertinent matters, it is therefore crucial to consider policy directions with regards to higher education financing in the developing member countries of the Commonwealth by focusing on:

- Financial support for students (scholarships, loans, vouchers)
- Allocation mechanism of grants to tertiary institutions (formula funding, performance-based funding)
- Governance (financial and managerial autonomy) which enables public universities to engage in income-generating activities

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