

Tertiary Education Financing: International Trends

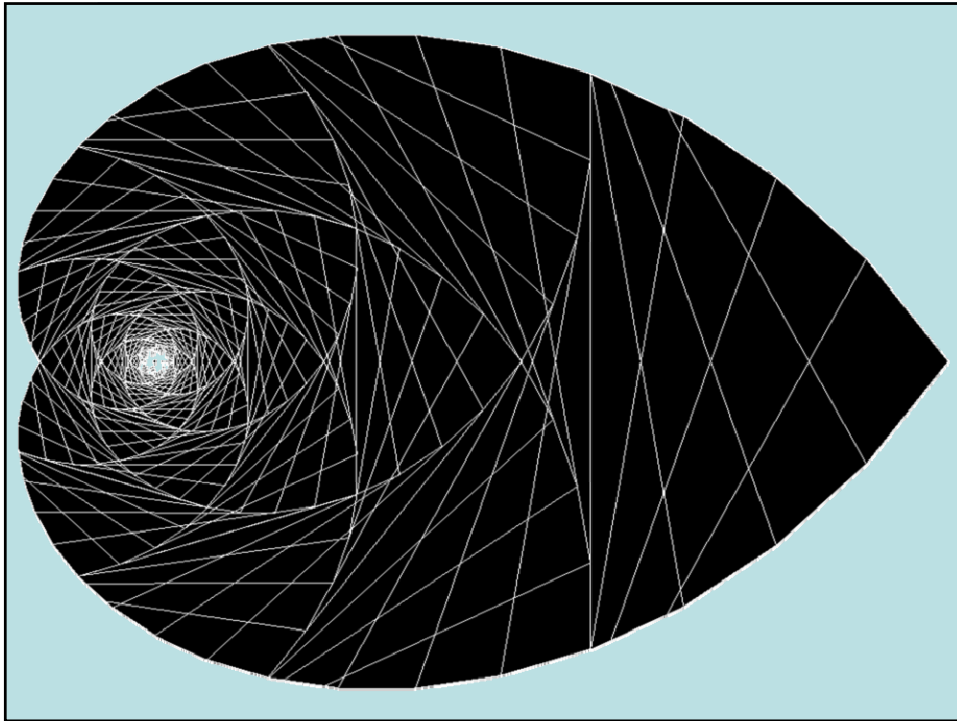
Jamil Salmi
Tertiary Education Coordinator
Ljubljana, 1 February 2010



the future of tertiary education financing?



DANIEL CARDLE 2003



outline

- resource mobilization
- resource allocation
- resource utilization



resource mobilization

- how much should be spent on tertiary education? (macro-level)
- income generation at institutional level
- who should pay, and what share?
- when and how?
- is it affordable? (student aid)



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funding sources (macro)

from
public funding

to
cost sharing



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fees

- for everybody / dual track
- all institutions / some institutions
- undergraduate / postgraduate
- national policy / individual institutions
- special category students (repeaters, mature, part-time, continuing ed, foreign, out of state)



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fees (II)

- one fee or program-linked?
- payment upfront or delayed payment?
- ceiling / freedom to set



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optimal fees policy

- universal
- associated with student aid
- adjusted to cost of living index



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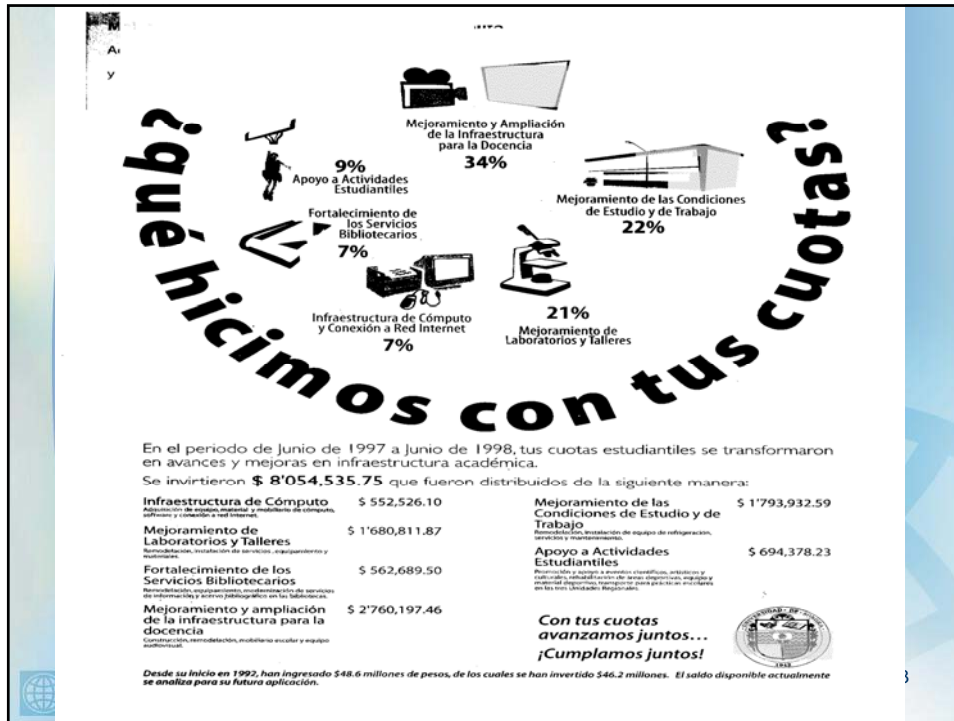
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political economy

- consultation and consensus building
- decentralization / autonomy





**funding sources
(institutional level)**

from
 dependence on public funding

to
 diversified funding

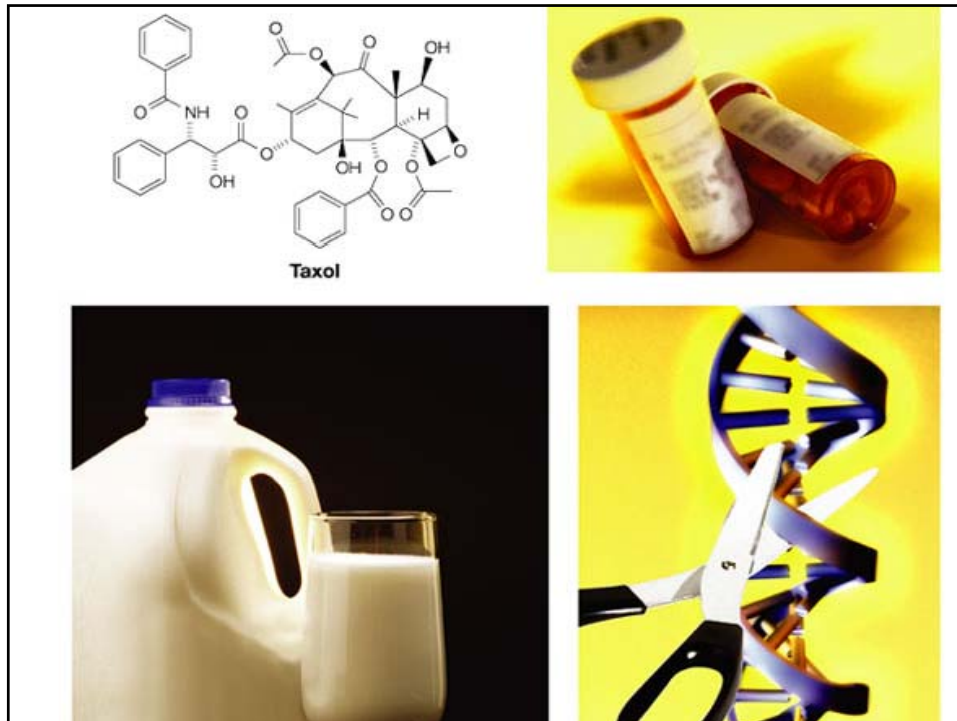
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resource diversification matrix

Source of Income	Government	Students and Families	Industry and Services	Alumni and other Philanthropists	International Cooperation
Category of Income					
1. Direct Budgetary Contribution	X				
2. Tuition Fees					
2.1 Degree Programs		X			
2.2 Non-Degree Programs		X	X		
2.3 Advance Payments		X			
3. Productive Activities					
3.1 Services					
3.1.1 Consulting	X		X		X
3.1.2 Research	X		X		X
3.1.3 Laboratory Tests	X		X		
3.1.4 Patent Royalties			X		
3.1.5 Operation of Service Enterprise (Hotel, Retirement Home, Mall, Parking)			X	X	
3.2 Production of Goods					
3.2.1 Agricultural Products			X		
3.2.2 Industrial Products			X		
3.3 Rental of Facilities (Land, Buildings, Laboratories, Dorms, Driving-Through)			X	X	
4. Donations					
4.1 Direct					
4.1.1 Monetary Grants			X	X	X
4.1.2 Equipment			X	X	
4.1.3 Land & Buildings	X		X	X	
4.1.4 Scholarships	X		X	X	X
4.2 Indirect (credit card, lottery, % of stock exchange trade)	X	X	X	X	
4.3 Tied (access to patents)			X		
4.4 Concessions			X		
5. Loans	X		X		X

main categories of revenues

- budget
- tuition fees
- productive activities
- donations
- loans



productive activities

- **services**
 - consulting
 - research
 - laboratory tests
 - patent royalties
 - operation of service enterprise (hotel, retirement home, mall, parking)
- **production of goods**
 - agricultural products
 - industrial products
- **rental of facilities (land, buildings, laboratories, dorms, driving-through)**





donations

- direct
 - monetary grants
 - equipment
 - land & buildings
 - scholarships
- indirect (credit card, lottery, % of stock exchange trade)
- tied (access to patents)
- concessions

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Sorteo 50

Fecha: 20 de junio

UABC Universidad Autónoma de Baja California

Primer premio:
Residencia en Mexicali con valor de \$7'000,000

Tercer premio:
Automóvil BMW Z3

Segundo premio:
Residencia en Tijuana con valor de \$2'200,000

Y más de 550 premios

compotec 50 esfuerzos 50 triunfos con calidad y excelencia DARE

EMISION: 235,000 BOLETOS BOLETO: \$210.00 PERMISO SECOP: S-0139/2002 www.uabc.mx/sorteos/



the two extremes - income

State controlled

- Gvt budget 95%
- students' fees 3%
- other income 2%

• Autonomous

- Gvt budget 40%
- students' fees 25%
- research and contract earnings 20%
- other earnings 10%
- donations etc 5%



income in two UK world class universities (2007)

	UCL (\$907m) (Times no 7)	Kings College London (\$609m) (Times no 22)
Government grants	29%	34%
Domestic tuition fees	8%	12%
International fees	10%	6%
Research	33.5%	27%
Other (residences etc)	18%	19%
Investment income	1.5%	2%

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outline

- resource mobilization
- **resource allocation**

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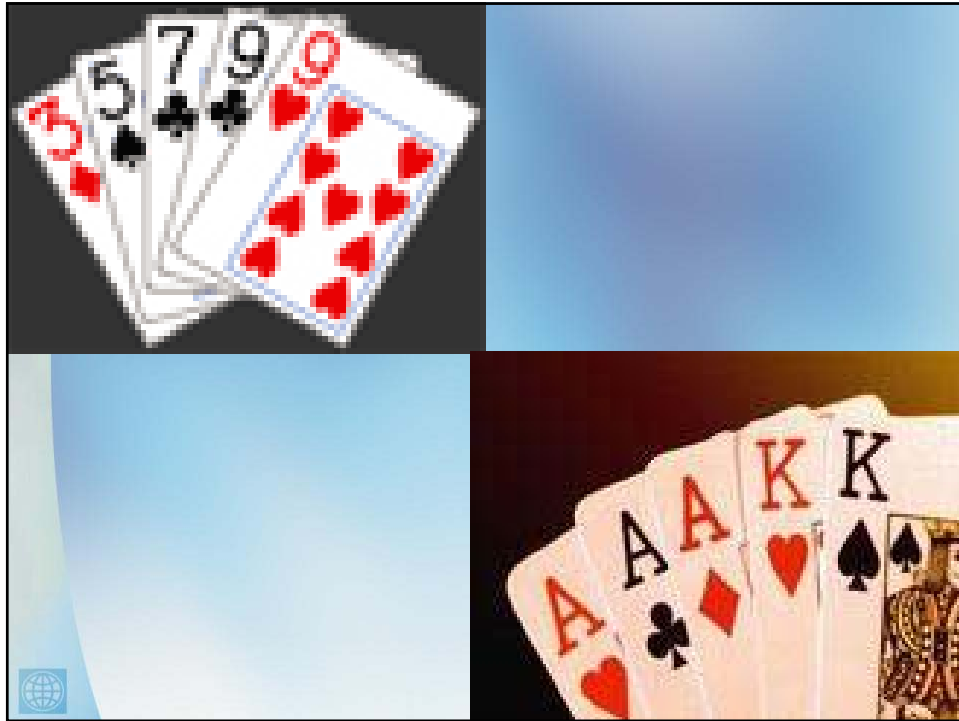
allocation mechanisms

from
untied funding
to
performance-based funding



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innovative allocation mechanisms

- **funding formula** - output measures are used to determine all or a portion of funding formula
- **performance contracts** - governments enter into agreements with institutions which set mutual performance-based objectives



innovative allocation mechanisms (II)

- **competitive funds** - support peer-reviewed proposals designed to achieve institutional improvement or national policy objectives
- **demand-side vouchers** - finance the recurrent expenses of institutions indirectly through vouchers provided to students who enroll in the university of their choice



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formula funding

- formula linking amount of financing and some measures of outputs
 - number of graduates
 - research productivity (publications, patents, licenses, spin-offs)
- unit costs per level of studies / discipline (actual, average, normative costs)



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The Netherlands

- problem: weak internal efficiency (7.5 years to graduate vs. 4 in theory)
- formula based on graduation rates
 - 4,5 x cost of 1 student-year for graduate
 - 1,5 x cost of 1 student-year for dropouts
- risk: too lenient on grading
 - mitigation: rigorous inspection system



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Poland

- problem: low enrollment and lack of qualified faculty
- formula combining enrollment and proportion of full time professors with a Ph.D.



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competitive funds

- earmarked for specific objectives
- competition on the basis of projects
- transparent rules & criteria
- peer review and selection
- independent monitoring committee



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competitive funds: advantages

- better designed projects
- transparent process
- flexibility to do annual adjustments
- project with results
- aligned with strategic goals of institution
- possibility to channel donor and government resources
- institutionalization of program



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competitive funds: limitations

- hardware projects without vision
- narrow focus, not institution-wide
- difficult to address core management problems
 - LAC: independent faculties
- how do you support the weaker ones?



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competitive funds: creating a level-playing field

- separate windows (Indonesia)
- pre-investment TA funds to help prepare strong proposals (Egypt)
- partnership between stronger and weaker universities (China, Egypt)
- cap on amount or number of projects (Chile)



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competitive funds: lessons learned

- mainstream the fund in the national budgetary so the fund will not disappear with the project
- independent annual evaluation to propose adjustment
- competence and transparency in the review process are necessary to ensure legitimacy
- requesting counterpart funding from the institution is not a necessity
- link eligibility for second round of funding to implementation performance
- private institutions should be able to compete
- technical support and procurement capacity building are essential



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performance contracts

- institutional agreement to achieve certain objectives
- additional funding based on meeting agreed objectives
- examples: France, Denmark, Austria, Finland, Colorado & Virginia in US



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example of contract: McGill

- increased number of students (and foreign students)
- increased number of faculty
- increased graduation rate
- with same research productivity
- renewal of academic programs
- balanced budget



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“contrats d’établissement” (France)

- stock taking of university situation and preparation of university project
- Ministry team visit (government objectives / project objectives)
- contract
- intermediary role played by “conseiller d’établissement”



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“contrats d’établissement”: evaluation

- dialogue
 - Ministry / universities
 - within institutions
- cumbersome procedures and insufficient follow up
- mixed results



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the case of Chile

- competitive fund does not address overall institutional issues
 - independent faculties / rector’s office
 - archaic management methods
 - low internal efficiency
- competition to participate in pilots (4 institutions)
- contract prepared and agreed with help of “negotiator”



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allocation of research funding

- targeting additional resources to programs / institutions with potential of achieving world-class status
- preferably on competitive basis
 - project-funding
 - demonstrated institutional capacity (RAE)
 - centers of excellence



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allocation mechanisms

from
direct funding
to
indirect funding



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indirect funding (demand-side)

- grants and scholarships
- student loans
- vouchers



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main features

- money follows the student
 - portability



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the changing paradigm

Old Model



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the changing paradigm

New Model



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main features

- money follows the student
- eligibility criteria
- choice



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eligibility

- clear (and transparent) eligibility criteria
 - personal
 - academic
 - institutional eligibility
 - set amounts



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choice

- optional in the case of grants / scholarships and loans
- mandatory in the case of vouchers



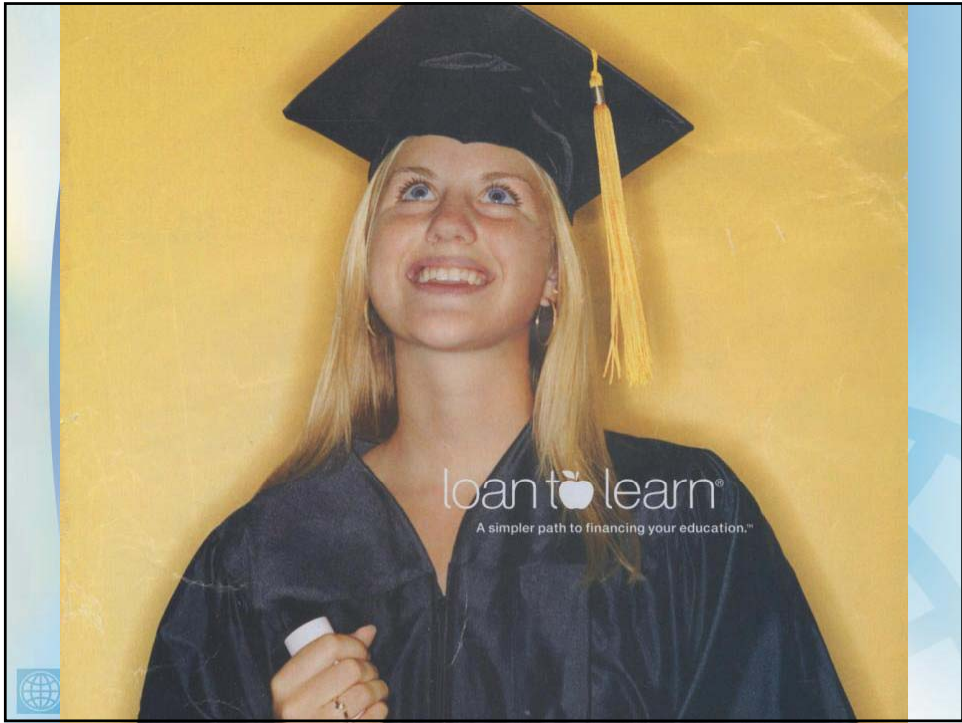
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grants and scholarships

- grants = needs-based
 - income, minority groups
- scholarships = merit-based
 - domestic and foreign studies
- usually accessible to small proportion of students



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why student loans?

- financial viability
- equity
- student motivation
- quality assurance



three main designs

- direct government loans
 - Colombia, Malaysia
- government guaranteed / shared risk loans
 - Chile, US
- income-contingent loans
 - Australia, NZ, England





vouchers: definition

- student receives a coupon representing a sum of money for tertiary education purposes exclusively
- can be redeemed by enrolling in an institution

vouchers: the Dream Policy

- power to the consumer
 - transparency
 - value of the voucher
 - eligibility criteria
- choice drives competition
 - contains costs
 - drives up quality
- ultimate form of accountability: the markets rules



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voucher experiences

Country / State	Estab. in	Institutional Eligibility	Eligibility Criteria	% of total student population	Amount
Bulgaria	2001	public only	master's level only	90%	\$1,300
Chile	1981	public and traditional private only	top scores at national university entrance examination	15% of new entrants	\$900
Colorado	2004	public and private	resident of the state	100% of Pell Grant eligible students	\$2,670 (public) \$1,335 (private)
Georgia	2005	public and private	top scores at national university entrance examination	33% of undergraduate students	\$500 to \$1,340
Hungary	2007	public and private	top scores at national university entrance examination		
Kazakhstan	1999	public and private	top scores at national university entrance examination	14.6%	\$1,200 (public) – \$4,000 (top private)
Lithuania	2009	public and private	bachelor level in six fields of study	60%	depending on field, same for public and private
US (GI Bill)	1944	public and private	2-3 years of active duty	2.2 million veterans	up to \$30,000 (tuition expenses)
US (new GI Bill)	2008	public and private	3 years of active duty after 9/11	all former active duty soldiers	tuition up to most expensive public university in home state, small amount for living expenses

Colorado experience: the theory

- voucher for undergraduate education at eligible universities; no cash in students' hands
 - \$2,400 per year at public institutions
 - \$1,200 per year for low-income students attending private institutions
- degree-seeking, non-degree, and teacher licensure
- age, income and financial aid eligibility irrelevant to qualify



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Colorado experience: the reality

- insufficient funding overall
- \$2,400 not enough to influence either demand or supply
- complementary financial aid did not materialize
- lack of political support
- champions “expiring”



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Kazakhstan experience

- 15% best qualified secondary school graduates
- choose university
 - \$1,200 for public university
 - up to \$4,000 for private university
- must maintain top academic grades



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Kazakhstan experience (II)

- increased competition generally
- some private institutions have been able to attract a growing number of voucher beneficiaries
- but insufficient resources to finance all students



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Lithuania reform (2009)

- vouchers for 50% best qualified secondary school graduates, plus grant for needy students
- differential amount linked to 11 broad areas of study
- accompanied by autonomy and modern management practices in public institutions



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principles of the reform

- transparent competition
- empowering students and HE institutions
- real autonomy and accountability
- non-discriminatory treatment and inclusion of private HEIs
- state funding allocated mainly on the basis of excellence



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Slovenia experience

- concession contracts with private universities
 - based on public tender
 - about 4% of all students
- initially to stimulate the growth of private tertiary education
- more recently to encourage regional institutions



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Brazil ProUni

- State purchases seats in private universities
- offered to top students from low-income families who don't get a seat in a public university
- no actual payment to the university, but tax exemption



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Colombia (Antioquia) “access with equity”

- partnership among local government, private firms and private universities
- low-income students who don't get a seat in a public university get financial aid to enter a private university
- 75% scholarship and 25% subsidized loan



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issues to consider (design)

- full amount: tuition fees and living expenditures?
- full public cost: only demand or demand & supply?
- all students or specific groups of students?
- same amount for all students or more for disadvantaged students?
- differential amount reflecting actual tuition fees?
- public and private institutions?



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issues to consider (implementation)

- enough money?
 - voucher amount
 - number of vouchers / number of students (equity)
- enough market?
 - number of institutions / programs



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outline

- resource mobilization
- resource allocation
- **resource utilization**



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resource utilization

- how efficiently are available resources utilized?



resource utilization

- proportion of students who complete their degree
- average duration to complete degree
- cost of a graduate
- inter-institutional benchmarking comparisons



resource utilization (II)

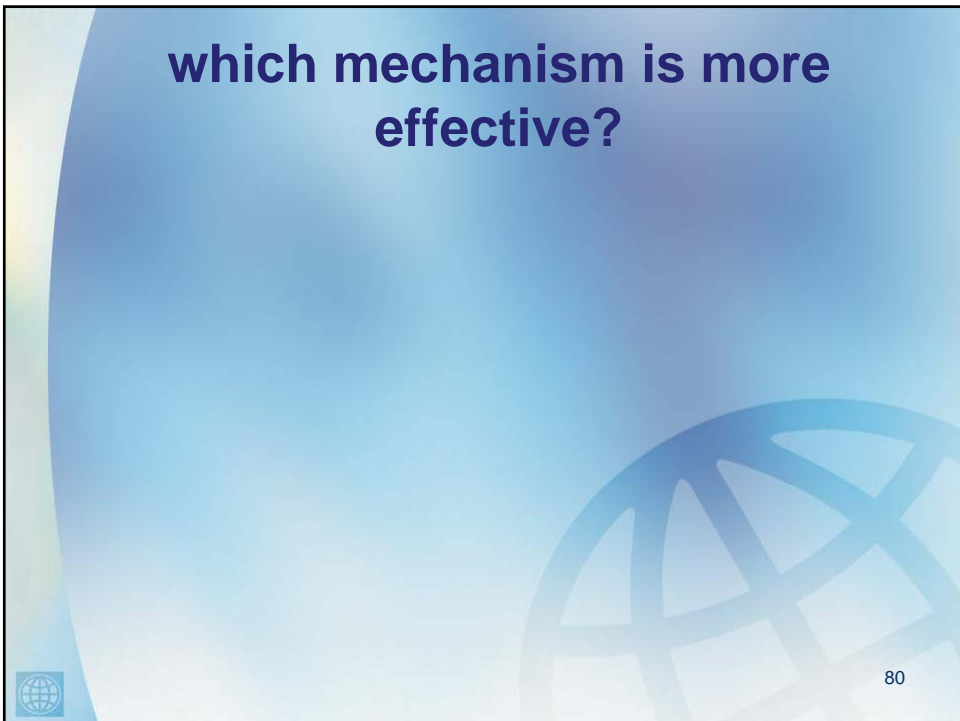
- size and location of institutions
- resource allocation mechanisms and practices
- student performance



resource utilization (III)

- composition of expenditures (salary / non-salary, teaching staff / administrative staff, educational inputs, IT expenditures, maintenance)
- deployment of teachers (actual teaching compared to norms)
- utilization of facilities





Alice in Wonderland

Lewis Carroll

Alice

Would you please tell me which way I ought to go from here?

Cheshire Cat

That depends on where you want to get to.



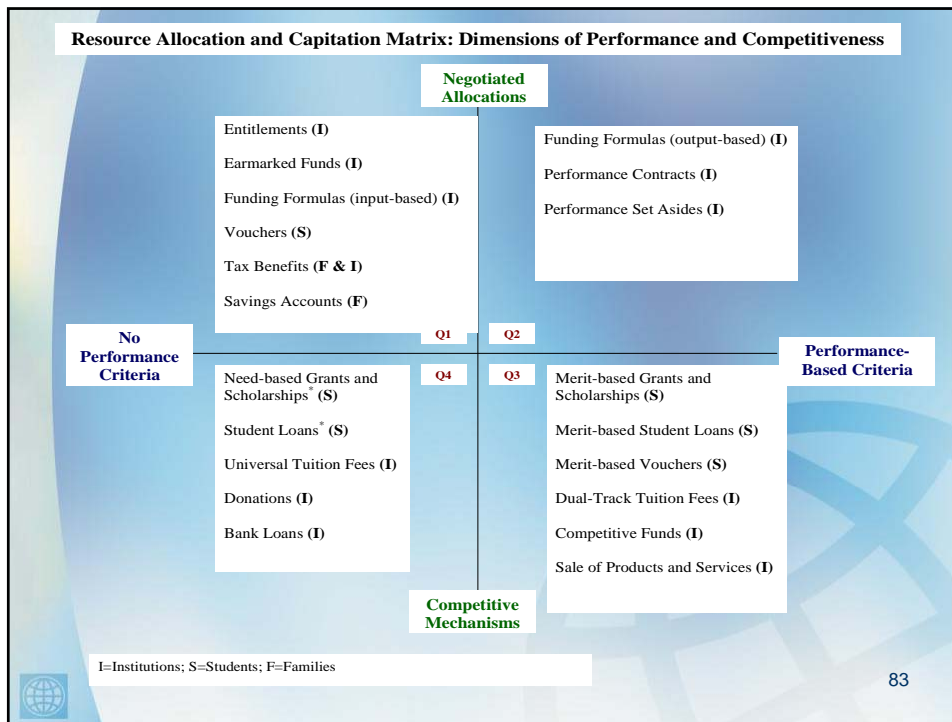
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policy objectives pursued

- improving access and equity
- improving quality and external efficiency
- improving internal efficiency and sustainability



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principles of an appropriate allocation instrument

- linked to performance / policy objectives
- transparent (objective criteria, openness)
- significant amounts
- stability in time
- compatibility

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link to quality assurance

- pro: powerful incentive
- con: punitive, rewards stronger institutions
- link at the margin?



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political economy dimensions

- move to performance-based funding can be controversial
- dealing with the politics (winners and losers)
- not an excuse to avoid reforms
- revisit as conditions change



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