STRATEGIES FOR FINANCING HIGHER EDUCATION: THE CARIBBEAN CONTEXT*

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OUTLINE OF PRESENTATION

- **Alternative Sources of Financing Higher Education- Stakeholders’ Perspectives**
- **Recent Trends in Financing Higher Education (HE)**
- **Some Socio-economic Considerations**
- **“Best Practice” in the Caribbean Context**
Some Preliminaries:

- Higher education includes universities, colleges and other post secondary/tertiary educational institutions
- Stakeholders: government, students/parents/families, private sector, employees of institutions, alumni etc
- What sources of funds can be identified to meet the cost of providing high quality higher educational services?
Higher education is viewed as a “quasi public good” (ie either non-rival in consumption or non-exclusive in production)

The total cost of higher education has been trending upwards over the years (ie teaching and learning, research, public advisory services). HE is also a labour (knowledge) intensive activity.

Basic Financial Equation:
- Costs = Government Contributions + Tuition and Related Fees + Other Income

HE institutions need to engage strategic financial management to meet their commitments (payment of wages and salaries, supplies, utilities etc)
ALTERNATIVE SOURCES OF FINANCING HIGHER EDUCATION

- Higher Education brings both social and private benefits hence stakeholders have to make differential contributions to meeting the costs of higher education.
- **Main financing stakeholders:**
  - Government (on behalf of all persons/taxpayers in the country)
  - Students at all levels (who are the direct beneficiaries)
  - Private Sector Employers
  - Alumni/Friends of HE institutions
  - Higher education institutions
ALTERNATIVE SOURCES OF FINANCING HIGHER EDUCATION

- **GOVERNMENT**
  - Considerations: *allocation of tax revenue funds* between:
    - Education and other social and economic functions
    - Pre-school, Primary, Secondary and Tertiary/Higher levels of Education
    - Different levels/types of higher education
  - **Options for funding HE:**
    - Full funding of selected HE institutions out of tax revenue
    - Partial Funding (Dollar for Dollar –T&T)
    - Scholarships/Bursaries /Grants (Demand side financing)
    - Graduate /Tertiary Tax - placed on graduates for a number of years after completing education. Challenging to implement.
    - Establishment of a **Higher Education Fund** —general or special HE tax
    - Student Loan Scheme—with subsidized interest rates and long repayment periods
    - Tax incentives for HE insurance or savings instruments
    - Adoption of Formula (enrolment) or Performance Funding (based on the achievement of targets)
ALTERNATIVE SOURCES OF FINANCING HIGHER EDUCATION

**STUDENTS**
- Required to cover tuition and other fees along with living and related expenses
- Challenge with borrowing for human capital in the financial market—lack of physical collateral
- **Options Available:**
  - Family Support (quiet significant in the Caribbean from surveys)
  - Personal savings/Part-time work/Proceeds of Insurance Policy
  - **Income-based or Income–contingent Loans** (risk sharing or risk pooling)—most recommended form of private funding. Recent survey of Barbadian students support low cost loans from banks, credit unions etc:
    - Guaranteed by Government or Individuals
    - Private Equity whereby private investor pays for education and gets returns after graduation (a form of **human capital contract**)
  - **Graduate Tax/Deferred Payment**
  - Scholarships/Bursaries/Grants
  - Education Vouchers (form of grant for educational purposes)
ALTERNATIVE SOURCES OF FINANCING HIGHER EDUCATION

PRIVATE SECTOR
- A major recipient of the output of HE institutions
- Options include:
  - Scholarships/Bursaries for students
  - **Venture capital/Equity** in commercial operations
  - Purchase of licenses for services to a captured market/Franchise holders of university products
  - University-Private- (Government) partnerships/joint ventures
  - Human Capital contracts for selected students
  - Purchase of **University Bonds** for long term specific products
ALTERNATIVE SOURCES OF FINANCING HIGHER EDUCATION

- **ALUMNI/FRIENDS OF HEI**
  - Philanthropy
  - Payment of Graduate Tax or payment in a tertiary fund
  - Provision of Venture and Equity Capital re commercialisation of research
  - In-kind contributions
  - Provision of scholarships and related initiatives
  - Fund raising events
ALTERNATIVE SOURCES OF FINANCING HIGHER EDUCATION

• Higher Educational Institutions:
  - Commercial Operations—food courts, sports facilities, theatres
  - Spin-off companies
  - Publications
  - Educational services (libraries, archives, etc)
  - Consulting
  - Competitive research grants/contracts
RECENT TRENDS IN HIGHER EDUCATION FINANCING

- **State/Government** still a major but declining source of **core/base funding**
- Greater push for “**cost sharing**”---tuition fees paid by students instead of the state. [where tuition is paid by the state, taxes are high—Germany, Finland]
- Increasing emphasis on **performance funding** with respect to state funding (PIs for teaching and research output, internationalisation, equality etc)
RECENT TRENDS IN HIGHER EDUCATION FINANCING

- Partnerships with private sector—UPPs
- Use of incentives by Governments to encourage private sector investment in universities/colleges—use of tax credits
- Matched funding schemes designed to increase philanthropic giving (esp from alumni)
- Use of co-funding by development partners (universities provide resources in kind)—can be administratively costly
- Special schemes for the needy—scholarships etc
The determination of the form, extent and level of funding should be informed by several factors:

- **Affordability** – especially individuals and Governments facing tight budget constraints
- **Sustainability** – of a commitment of funds
- **Access** – to a wide cross-sectional of persons
- **Efficiency and Effectiveness** – in the allocation of funds at different levels of HE and for different programs. Should be informed by a HR plan and a collection plan for loans and taxes
SOME SOCIO-ECONOMIC CONSIDERATIONS

- **Equity and Distributive Justice**—ensuring that every qualified person has an equal chance of getting a higher education— **EQUALITY OF OPPORTUNITY**
- **Return on investment**—benefits (social and private) outweigh the costs
- **Quality**—there is value and relevance in the output of the HE system for the funds expended.
- **Social Welfare Effects**—maximize welfare gains and minimize welfare losses/deadweight loss (given costs and benefits of HE)
“BEST PRACTICE” IN CARIBBEAN CONTEXT

- **T&T Government Assistance for Tuition Expenses (GATE):**
  - Introduced in 2004 with Government paying **50% of tuition fees** but a **means testing facility** used. Approved HE institutions
  - Modified in 2006 with government paying **100% of tuition fees**
  - Conditional access to GATE—residency for 3 years prior to access; period of national service, grant converted to loan if programme is incomplete, maintenance of a minimum GPA (**partly performance based**)
  - Covers level 2 TVET
  - Supplemented by a **HELP programme** which covers non tuition expenses
  - In the case of **Guyana, the Government contributes to UG by way of subvention and tuition fees** (through a student loan which the Government pays directly to the UG). This is a **Supply side financing/Cost Recovery programme** introduced in 1994/5
In the case of Barbados, there is a Student Revolving Loan Fund established in 1977 within the Ministry of Education:

- **Collateral security** (land, cash, property etc) or two **sureties** for Bds$50,000 or less and for loans over $50,000 (two sureties for first $50,000 and collateral security for the remainder)
- Accredited programmes—acceptance/enrolment—part time, full time or distance
- Loan covers tuition and living and school expenses
- Loan covered by group life insurance
- Interest rate is variable—1.5 percent above minimum savings rate
- Payment after completion up to 12 years with a six months grace period (for part time and distance)
- Signing of a bond is needed
Barbados 2015 ‘budget’:

- Establishment of a scholarship and grants program to aid with Barbadian students who have to pay tuition fees (a policy in effect from 2014/5 academic year).

- To be eligible for partial tuition grants persons must be at the university and their household income must be Bds$25,000 or less, or Bds$45,000 or less if more than one person in the household is at the UWI (a form of means testing). Preference will be granted to applicants who withdrew from their studies for financial reasons.

- Effective year 2015/16
“BEST PRACTICE” IN CARIBBEAN CONTEXT

- Hugh Hart/PROVEN Human Capital Fund:
  - Introduced by Jamaican lawyer
  - A Human Capital contract with an initial investment of US$2,500,000 plus development cost.
  - This is an “equity like” investment in a person’s human capital
- Little use of performance funding, incentives for private funding, match funding. Need to explore these options in more detail.