

STRATEGIES FOR FINANCING HIGHER EDUCATION: THE CARIBBEAN CONTEXT*

Andrew S Downes PhD

Pro Vice Chancellor

University Office of Planning and Development

University of the West Indies

June 2015

* Conference on Institutionalising Best Practice in Higher Education, St Augustine, June 24-26, 2015

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*

ALTERNATIVE SOURCES OF FINANCING HIGHER EDUCATION

- 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?

ALTERNATIVE SOURCES OF FINANCING HIGHER EDUCATION

- 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 meets 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 (quite 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

SOME SOCIO-ECONOMIC CONSIDERATIONS

- The determination of **the form, extent and level of funding** should be informed by several factors:
 - **Affordability**—esp 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

“BEST PRACTICE” IN CARIBBEAN CONTEXT

- 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

“BEST PRACTICE” IN CARIBBEAN CONTEXT

- **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.