

**OECD IMHE-HEFCE PROJECT ON
INTERNATIONAL COMPARATIVE HIGHER EDUCATION
FINANCIAL MANAGEMENT AND GOVERNANCE**

**FINANCIAL MANAGEMENT AND GOVERNANCE IN HEIS:
JAPAN**

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FOREWORD

The present report has been prepared for the Joint OECD IMHE–HEFCE International Higher Education Financial Management Project as Japan’s contribution. At the request of Dr. Hitoshi OSAKI, Director General of Japan’s Center for National University Finance (CNFU) and member for the steering committee representing Japan, a drafting committee was organized with the following members:

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The Drafting Committee
31 October 2003

ABBREVIATIONS

CNUF	Center for National University Finance
FILP	Fiscal Investment and Loan Program
IAI	Independent Administrative Institutions
JSPS	Japan Society for the Promotion of Sciences
MEXT	Ministry of Education, Culture, Sports, Science and Technology
NUC	National University Corporation
NSSA	National Schools Special Account
NIAD	National Institution for Academic Degrees

INTRODUCTION

1. Japan's higher education system is unique compared to those in most of the other OECD countries in the sense that it comprises both public and private sectors. The public sector consists of the National Universities, which are established by the national government, and Local Public Universities, which are established by prefectures and other local governments. While the private institutions enroll by far the majority of students, accounting for three-quarters of undergraduates, the national institutions play significant roles in research and graduate education.
2. With the advent of globalization and "the knowledge society" on the one hand and the increasing pressure of financial stringency on the other, both national and private institutions are faced with pressures for change. Private institutions will have to respond to the challenge of the declining number of eighteen-year olds in the first decade of the twentieth century. Meanwhile, from the perspective of the restructuring the Japanese economy and society for the coming age, reshaping the national universities assumes particular importance.
3. It is for these reasons that over the past decade the national government has been considering radical changes in the institutional basis of national universities, including their legal and financial foundations. By the spring of 2002, the Ministry of Education Culture, Sports Science and Technology (henceforth "MEXT") developed a comprehensive plan to change the nature of national universities in Japan. In the summer of 2003, the legislature passed National University Corporation Law with revisions of related laws, and the reform will be implemented in the spring of 2004.
4. The reform will shift the present form of national institutions from facilities of the state into more independent forms with legal personalities. The new legal form, *Kokuritsu Daigaku Hojin*, can be roughly translated as "National University Corporation." Even though the general meaning of the word "Corporation" can be very vague, we use this term to refer to the reform. Also, we will call the planned shift from the present to the new institutional form as "Incorporation."
5. While the present report is intended to summarize the characteristics of the financial structure of the Japanese higher education institutions, we will focus more on the incorporation of national institutions. This is not only because the national universities assume a significant role in Japanese society and economy and therefore their change will bear symbolic implications, but also because the nature of the issues that Japan is faced with bear a close resemblance to those in other countries participating in this project.

CONSTITUTIONAL POSITIONS

6. The legal framework in which Japan's education is set is rather complex, because it comprises both public and private institutions. These differ significantly from each other with respect to the relationship with the government.

Legal Status of Universities

The Higher Education System

7. The School Education Law defines four types of institutions at post-secondary level: Universities; Junior Colleges; Colleges of Technology; and Specialized Training Colleges. Universities constitute the core of the higher education system, providing four-year undergraduate (bachelor) courses and possibly postgraduate (typically two-year master and five-year doctor) courses. Junior Colleges provide two (or three)-year courses leading to associate degrees. Colleges of Technology admit graduates from lower secondary schools to five-year courses leading to associate degrees. In addition to these higher education institutions, Specialized Training Colleges provide non-degree courses of occupational and other training for one year or more after the completion of upper secondary education.

“Founders” of Universities

8. The School Education Law stipulates that formal education institutions, such as schools, universities, junior colleges and colleges of technology, must be established by the state, a local authority or a “School Juridical Person” as legally defined “Founder.” A School Legal Person is a non-profit legal entity established to found and operate private schools.

9. Accordingly, universities are classified as “National”, “Local Public” and “Private” universities (Appendix Table A-1). As of 1 May 2002, of all students (approximately 2 786 thousand) in all universities, 22.3% are in 99 national universities, 4.2% are in 75 public universities and 73.5% are in 512 private universities. Although private universities have had a larger role than national universities in undergraduate education, the latter have been the largest provider of postgraduate education. As of 1 May 2002, there is approximately 155 thousand academic staff, of which 61 thousand are in national and 83 thousand are in private universities.

10. National universities play the most important role in developing academic research, in training researchers and in providing postgraduate education. Being located almost evenly throughout the country, national universities have supported the infrastructure of regional education, culture and industry, and provided opportunities for higher education that are less dependent on students' economic situations. The national policy agenda, including the provision of certain professional courses and the promotion of science and technology, has been reflected more in funding of national universities than that of private universities.

Reform for National Universities

11. The present national universities, established by the National School Establishment Law, are parts of the government's administrative structure. The assets, including lands and buildings, for the use of national universities are owned by the state. Their members of staff, including academic, administrative and technical staff, are civil servants.

12. With the enactment of the National University Corporation Law, the incorporation of national universities will be implemented as of 1 April 2004. Through incorporation, each of the former national universities will be assigned a legal personality to become a "National University Corporation." The National University Corporations will own the lands and buildings of the universities. Staff members will no longer be civil servants.

Relations between Universities and the National Government

13. Several laws and ordinances define the relation between the universities and the national government.

Basic Authority of the Government

14. The education system is controlled by the government in the following four ways.

- First, the formal school system is defined by law. Under the School Education Law, any school, including a university that constitutes the national education system has to be under the authority of the national government. The Minister of Education, Culture, Sports, Science and Technology (hereinafter called the Minister of Education) is the responsible minister.
- Second, the government has the responsibility and power of standard setting for assuring the quality of higher education institutions. The Minister of Education, empowered by legislation, sets national standards for universities and requires compliance with the standards. The standards stipulate requirements for academic staff, curriculum, lands, buildings and other aspects of importance. For any university to be established, the standards must be complied with. For the foundation of private and local public universities, the minister's approval is required. For establishing national universities, the legislation for the establishment ensures that the standards are met.
- Third, the government has direct authority in establishing and supporting the national universities, the details of which are described below.
- Fourth, the government has been controlling student population through its power of approving the foundation of private and public universities, approving standard numbers of enrolment at private universities, and prescribing standard numbers of enrolment at national universities. However, with regard to private and public universities, the government will no longer control student population although it will continue to exercise the power of the approval to assure the quality of education. This change of policy aims at enabling universities to respond flexibly to social and academic needs and fostering competitive environment among the universities.

Control of National Universities

15. In the case of national universities, the establishment of each institution is stipulated in the National School Establishment Law. Furthermore, the basic structures of institutional management, including faculties, numbers of staff and students, salaries and tuition fees, are determined by legislation, cabinet and ministerial ordinances, and annual budgets decided by the government. The laws and regulations applied to personnel and finance of government organizations are in principle also applicable to national universities.

16. The Minister of Education has the ultimate responsibility for the administration of national universities. At the same time, however, with a view to respecting universities' autonomy in academic affairs, special measures are put in place through laws and regulations, budgetary mechanisms, and customary practices to allow them autonomous management within certain frameworks. Especially, regarding personnel affairs, although the Minister of Education has the authority to appoint and dismiss staff members of national universities, the minister's decisions of appointing, dismissing or disciplining an academic staff member, dean of faculty, or president is bound to the president's proposal based on the decisions made by the faculty meeting and academic council (or senate) in accordance with the Law for Special Regulations Concerning Educational Public Service Personnel.

The New Scheme for National University Corporations

17. The legal framework is scheduled to be changed with the reform of national universities into National University Corporation. Since the reform is intended to enhance autonomy and relax regulations in terms of budget, organizational structure and personnel of national universities, it should lead to greater room for discretion and corresponding responsibility for each institution.

18. Since there will be no governing board that supervises the president, the ultimate power of decision-making and its execution will rest with the President. The Minister of Education will appoint the President and two Auditors for each university. The President, in turn, appoints Executives, administrative officers and other staff. Since the academic and non-academic employees of NUC will no longer be the subjects of the National Public Servant Law, more flexible forms of employment, salary structures and working hours will be possible. The new scheme of governance will be discussed in the following sections.

19. After the reform, education/research organizations at the department level and below will not be regulated by legislation or ordinances, but will be set up and abolished by the decision of the institution within the limits of its budget.

20. The specific details of the new legal framework to accommodate the new structures are defined by the National University Corporation Law and related ordinances.

Funding of Universities

21. The National University Corporations will have markedly different funding mechanisms from the present one. The details are given below.

Basic Financial Flow

22. The national government, through MEXT, contributes to the finances of higher education institutions through several channels of institutional and non-institutional funding.

23. The most important channel is institutional funding. The MEXT supports national institutions of higher education directly through National Schools Special Account, which will be discussed below. The Local Public universities are supported by the relevant local authorities, with a small contribution from the national government. With regard to private institutions, based on the Private Schools Promotion Law, the government's subsidies cover a certain proportion of their education costs. The subsidies account for about one-eighth of the total recurrent costs of private institutions.

24. Non-institutional public contributions include the following. First are the programs of National Grant for Scientific Research, which are granted to research projects organized by individual researchers or groups of researchers in higher education institutions. Second, the government contributes to the Japan Scholarship Foundation, a public corporation established by the government, for its student loan programs.

Funding of the National Universities - Present Scheme

25. The state is fully responsible for funding national universities. Under the present system the national budget covers personnel, operating, capital and other costs through the National Schools Special Account (NSSA).

26. The Minister of Education allocates an annual budget to each national university based on its estimated expenditure. National universities must keep their disbursement within the limited amount for each item. The authority for disbursement is delegated from the minister to the head of administrative bureau of each university.

27. Each university cannot directly use the incomes generated from the university, including tuition fees and hospital incomes. Those incomes are regarded as part of the revenue for the special account as a whole.

28. NSSA is a division within the national budget, where the finances of all the national institutions of education are jointly accounted for. Each financial year, an estimated total expenditure for all the national universities is computed and, the estimated revenue generated from all the universities being subtracted from the expenditure, the balance is transferred to the special account from the general account of the government budget.

29. In the 2002 financial year, the transferred amount accounts for 55.5% of the total expenditure (Appendix Table B-1). The rest of the revenue includes tuition and other fees (12.5%), incomes from the university hospitals (21.1%) and contracted research (3.9%). The total expenditure (2 783 billion yen in financial 2002) covers national schools (56.4%), attached hospitals (22.4%), attached research institutes (6.8%) research and other costs (Appendix Table B-2). Each item includes its personnel costs.

The New Scheme

30. Even after reform, the new National University Corporations remains basically “national” in the sense that the state remains responsible for their functions, providing the major part of the funds that they need. Their personnel and other operational costs will be covered by “operational grants” from the government. The grants will be “block grants” which can be used at the discretion of each university without designated applications. It will be also possible to carry the grants over to subsequent years. For facilities of national universities, “capital development funds” will be allocated separately.

Institutional governance and management

31. The changes in legal and financial procedures should be matched with the internal governance and management.

Basic Structure

32. For any university, the School Education Law stipulates that, on the one hand, the “Founder” has the basic responsibility of supporting and managing the university in charge and, on the other, the faculty meeting should be given discretion over academic matters. It is generally understood that the academic freedom stipulated in the Constitution assures the academic autonomy of the universities.

33. For private universities, the Private School Law defines the outline of the governance. A private university is operated by its founder, that is, the “School Juridical Person”. A School Juridical Person should be governed by its Board of Trustees in cooperation with Board of Councilors. The details of the involved procedures are defined by various statutes established by each School Juridical Person.

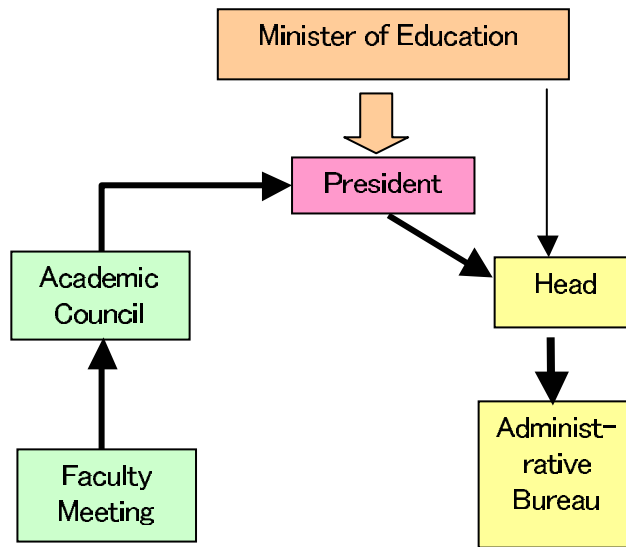
Governance of National Universities - Present Scheme

34. In the national universities, the “president” of each national university has overall responsibility for its operation and supervision of the staff. However, with regard to academic personnel and other academic affairs, the president is bound by the faculty meetings and council’s decisions. The vice presidents assist the president.

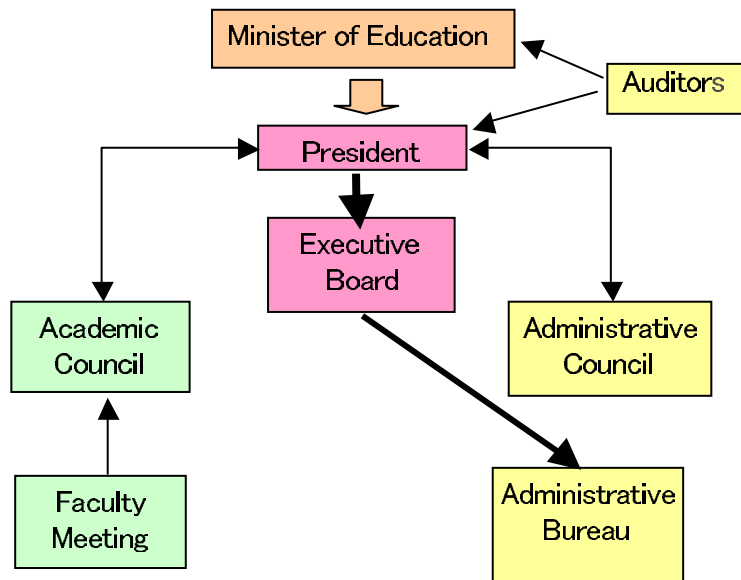
35. The “academic council” of each national university deliberates academic and other issues of importance for the university’s operation. In accordance with the Law for Special Regulations Concerning Educational Public Service Personnel, the academic council selects a presidential candidate for appointment by the Minister of Education, and deliberates such adverse actions as discipline, demotion and dismissal of academic staff members. The academic council membership comprises the president, heads of faculty, academics elected from faculties, and others designated by the president based on the academic council’s deliberations. The president chairs the academic council. At the same time, the decisions over administrative matters are bound by the Minister of Education.

Figure 2. Governance of National Universities

(1) Present Scheme



(2) New Scheme



36. The “faculty meeting” of each faculty comprise all professors (including associate professors in some universities) belonging to that faculty. The meeting deliberates curriculum, admissions, graduation, student status, and other academic affairs of importance. Based on the Law for Special Regulations Concerning Educational Public Service Personnel, the meeting has the substantial authority to designate academic staff members and the head of the faculty.

37. The “head of administrative bureau” has overall responsibility for operation of the university’s administrative bureau and for directing and supervising its staff. He is accountable to the president with regard to carrying out the university’s administrative affairs. He is also answerable to the Minister of Education. The minister appoints all administrative staff at the level of division director or above.

The New Scheme

38. In the National University Corporation, the President, as head of the organization, shall make final decisions, assume ultimate responsibility, and represent the university and corporation. Presidents are expected to show strong leadership and management skills while taking into account consensus within their university. Regarding the selection of president, each university will have a president selection committee made up of representatives from both the “academic council” and the “administrative council”, which will be explained later. After the final selection by the committee, the selected candidate is to be appointed as president by the Minister of Education.

39. Since there will be no governing board that supervises the president, the ultimate power of decision-making and its execution will rest with the President. The President will appoint a few Executives who, together with the president, will constitute the Executive Board. The Executive Board shall carry out voting before a decision is made by the president with regard to important matters such as institutional goals, plans and budget. It is expected that the Executives will usually assume such a position as vice-president.

40. Each university will have two “Auditors”, at least one of who shall be an external person. The auditors will audit the operations of the university corporation, and be able to submit their opinions to the president or the minister.

41. The “Academic Council” of each university shall comprise academic representatives from within the university. It shall deliberate important policies concerning academic affairs including education courses, education/research organizations, appointments of academic staff, and student status. The “Administrative Council” shall comprise both external members and internal members, and deliberate important policies concerning administration, including finance, organization, personnel appointments, salaries and remuneration. The president shall make final decisions on important policies after deliberations by the academic council and/or administrative council.

42. The above structure of management of each national university after the incorporation aims at establishing a dynamic management framework centered on the President and open to society.

CURRENT POLICY CONTEXT

43. The present national policy is set in the context of two significant sets of issues. One is the legacy of past expansion of higher. Second is the challenge of the social and economic factors towards the future.

Higher Education in the National Economy and Society

Mass Participation and Its Legacies

44. In the postwar period, various post-secondary institutions were integrated to form new national universities and colleges. Since most of these institutions lacked adequate facilities, the priority in higher education finance has been to their development. In order to secure enough resources for this purpose, the finances of the national institutions were standardized, and the budgets for each institution were allocated according to standardized unit-. The mechanism still constitutes the basis for financing the national institutions.

45. In the 1960s, policies continued to concentrate the limited resources available for higher education upon the upgrading of existing national universities and colleges, rather than upon increasing their number. However, popular demands for higher education led to an expansion of enrollment in the private sector of higher. By the end of the 1960s the private sector accounted for three-quarters of total enrollments. At the same time, since most of the private institutions were financially dependent solely upon tuition, they had to charge considerably higher fees, and yet offered less favorable educational conditions, than the public institutions. The quantitative predominance of the private sector, together with qualitative disparities between the public and the private sectors, thus created one of the most basic characteristics of the Japanese higher education system.

Current and Future Roles in Economic and Social Development

46. At the same time as Japan is struggling to rectify the negative consequences and confusions arising from the legacies of past expansion, it is faced with the similar challenges to those experienced in other countries

Knowledge Society and Globalization

47. One such current is the coming of what might be called the Knowledge Society, where knowledge assumes an increasingly central role in society. That such trends are becoming salient will be apparent to many. Fierce competition and rapid innovation has made it inevitable that research and development becomes critically important in producing competitive consumption goods. Both applied research, and basic research now have close ties to technological innovations.

48. It does not imply, however, that the society will be more generous to the present universities. On the contrary, the society will be more likely to be critical about the ability of them to respond to the challenge. One important factor is that, in the Knowledge Society the

demands for knowledge will become not only greater but also very varied in nature. Since the knowledge needed may be very different from the traditional academic knowledge, the universities as they presently are will face serious difficulty in responding to those needs. University can no longer enjoy a monopoly over specialized knowledge.

49. At the same time, the transmission of knowledge will be exposed to more rigorous scrutiny by the society. The authority of universities will not be taken for granted. Thus the general public will no longer be satisfied in entrusting the control of knowledge entirely to the hand of universities; and will demand they be accountable for what they do or do not contribute to society.

Marketization and Higher Education

50. Another important trend is the move away from the predominance of the government and towards the utilization of market mechanisms. Some argue that those moves were a reflection of financial crises brought about by exponential increases in social spending. Others argue that such moves reflect more fundamental shifts in the mode and direction of social development. Since the increased diversity and complexity of the modern society and its needs necessarily have made centralized decision and control obsolete it is argued, market mechanism will be the only way to the diversified and multi-dimensional changes.

51. Whether such arguments, which we may call “new liberalism”, are right is not an issue here. The important point is that governments’ ability to assess and implement societal needs has been increasingly challenged. It may also be said that such move away from direct provision by government to provision through market or quasi-market mechanisms has become a global trend. Universities will find it difficult to resist such pressures. Government will no longer be the primary or the sole agent mediating the exchange between the society and the University. Some even argue that it should not be the government that assumes the responsibility to establish and support higher education institutions. It would imply that each individual university would have to face directly with the society.

Demographic Shift

52. Japan’s higher education experienced a major rise in participation rates until mid 1970’s. Since then the momentum of expansion has been rather contained, due to the restraint policy of the Ministry of Education on the establishment of new institutions and expansion of existing institutions. The restraint policy was concomitant with a new government subsidy to private institutions. Through these schemes the Ministry of Education regained the power to control the total enrollment in the private sector of higher education. Through this power the Ministry has been able to sustain the quality of higher education by constraining over-recruitment. At the same time, existing private institutions have been able to enjoy a practical monopoly over the market of higher education at the undergraduate level.

53. Such a situation will have to change due to the decreases in college-going population. It is envisaged that the population size of 18-year olds will decline dramatically from more than 2 million in 1992 to about 1.2 million in 2010. This will create redundant enrollment capacity at the Universities; and the supply-demand gap will disappear. The selection of students will undergo significant changes, and it is likely that the economic benefit from a university

education will decline at least for some students. Moreover, some private institutions may face the possibility of insufficient applicants for admission, and hence the chance of closure.

Key Policy Issues

54. Against the backdrop of the factors described above, the government set up a few blue-ribbon committees in the past decade to propose changes in higher education. The major policy proposals included such issues as deregulation, university evaluation and quality assurance, and the establishment of “Centers of Excellence” by fields of study. But, by far the most concrete, and in many ways symbolic, is the change in the status of present national universities.

55. It should be noted that the legal status of national universities has been the subject of public debates since the postwar period. But, the impinging demands for changes finally moved the political leaders to engage in actual changes. The factors behind the strengthening momentum are clear. The challenge of global competition and the advent of knowledge society dictate the need for supremacy in research and education in higher education institutions. National universities are considered to be the strategic locus for such change. Moreover, the looming fiscal contingency makes it an imperative for any government spending to be efficient. Many argue that the present government activities should be brought into the hands of the market in order to improve efficiency. Higher education is set in this context as a symbol for such a move. Meanwhile, the sentiment against the disparity between public and private institutions of higher education with respect to government spending has rendered the basis for arguments for more radical changes such as total “privatization” of national universities.

56. Under such circumstances, a new type of public corporation, “independent administrative agency” was established for promoting more effective management of public services. After heated discussions, in 2000 the government decided to apply this new corporation system to national universities with necessary amendment.

57. The MEXT set up a committee of experts and representatives from national universities in 2001 to examine ways to implement such changes. The committee issued its final report in March 2002.

58. The final report proposed the transformation of the existing national universities into “National University Corporations.” The report summarized the goal of the reform in the following three ways:

1. Increased competitiveness in research and education,
2. Enhanced accountability together with introduction of competition, and
3. Strategic and functional management of universities.

59. The intended reform can be summarized as follows. At the system level, regarding the relationship between the universities and the government, the universities will become more autonomous in their management, and the government will put more emphasis on ensuring accountability for results rather than controlling management processes. In other words, this

change can be described as a move from “from regulation in advance to checks on the results”. Accordingly, a more competitive environment will be fostered. At the institutional level, more management techniques originating in the private sector will be introduced into national universities to make their management more dynamic and strategic. And these changes at both the system and institutional levels are expected to encourage national universities to revitalize their organization and management, and raise the quality of teaching and research.

60. It should be added that through the process of legislation of the National University Corporation Law various concerns were expressed on the floor of both Houses, the major point being the possible increases in government control on the universities. These resulted in the supplementary resolutions requesting caution against excessive intervention of the government.

POLICY INSTRUMENTS

61. The reform of national universities includes significant changes in policy instruments to control national institutions of higher education. The development of medium-term goals and plans, and the evaluation based on the goals and plans can be regarded as the reform cycle for improving the quality of universities, and this cycle as a whole is an important policy instrument. The present and the new schemes will be contrasted below with respect to:

1. policy-making, goal-setting and planning,
2. evaluation,
3. funding,
4. accounting, and
5. auditing.

Policy-making, Goal-setting and Planning

The Present Scheme.

62. The MEXT has been making basic policies on universities based on recommendations of such advisory bodies as the Central Council for Education and the Council for Science and Technology. For central government, the major instruments for implementing the policies have been resource allocations through yearly budgets of the government. Traditionally, central government has respected national universities' initiatives in the form of budget requests. However, especially in recent years, the government has introduced, in the special account budget, more and more programs, targeted on policy priorities, for which national universities apply.

63. While their autonomy in academic affairs is respected, the national universities are part of the government administrative structure. Therefore, much of goals-setting and planning for the universities has been carried out through the yearly budget requests and related consultations between the universities and the MEXT. Decisions regarding budgets are made by the government, not by the universities.

64. In short, yearly budgeting is yearly planning for national universities and, although budgeting processes involve the universities, the decided budgets are the government's plans for the universities.

The New Scheme

65. The government, along with the relevant advisory bodies, will continue to be responsible for the blueprint or grand design of long-term higher education policy, and the establishment and revision of laws and ordinances will remain an important device for the government to lead changes.

66. While incorporation will expand the discretion of management in individual universities

by relaxing regulations in terms of finance, organization and personnel systems, the autonomous universities should be accountable to the public and compete for the quality of education and research. The development of medium-term goals and plans, and the evaluation mechanisms based on the goals and plans can be regarded as a reform cycle for improving the quality of the universities. In addition, by publicizing medium-term goals, medium-term plans, and evaluations, it will contribute to fulfilling the accountability of the universities to the public.

67. The medium-term goals are the institutional goals that should be achieved within a given time frame, six years in principle. By listing the basic goals, it is expected that the individuality of each university will be clarified. Each university shall make its draft of medium-term goals and submit it to the MEXT. The Minister of Education shall stipulate the goals, taking the draft into account.

68. The “medium-term plan” is a concrete plan for achieving medium-term goals. The plan will act as the basis for requesting annual budgets of operational grants. Each university will carry out an integrated consideration of the draft medium-term goals and plan, and after the medium-term goals are finally decided, the university will finalize the draft medium-term plan and submit it for the minister’s approval. The medium-term plan will thus become a major vehicle for the government to oversee the performances of each individual university.

Evaluation

The Present Scheme

69. In recent years, the universities have been encouraged to engage in self-evaluations to improve their education, research and management. Now all universities are required to do self-evaluations and publicize the results thereof. They are also required to do their best to have an outside third-party verify the results.

70. The evaluation system is still new for higher education in Japan, but becoming more and more important as quality assurance mechanism. It is being further developed.

The New Scheme

71. In 2002, the School Education Law was amended to introduce a new third-party evaluation system for all national, public and private universities. In this new system, the government will certify some evaluation agencies, and then those agencies will evaluate universities periodically to check whether the universities reach certain standards.

72. In addition, the “evaluation system” for national university corporations is being designed as a critical part of the new corporation system. The evaluation system will consist of three levels of evaluation. Each university shall carry out rigorous self-evaluation of the degree to which medium-term goals have been achieved. Based on the self-evaluation, the National Institution for Academic Degrees (NIAD) shall evaluate items concerning education and research from its specialist perspective. Then, the Evaluation Committee of National University Corporations under the MEXT shall complete a comprehensive evaluation of the university corporation as a whole, respecting the evaluation by NIAD concerning education

and research. The committee shall comprise persons with insights into the administration, education and research of universities, representing various social and economic perspectives.

73. The results of evaluations shall be reflected in improvements to education and research at universities, in the contents of medium-term goals and plans for subsequent periods, and in the calculation of operational grants.

74. As public institutions maintained by government expenditure, national universities must fulfill their accountability to the public. Therefore, medium-term goals, medium-term plans and annual plans shall be made public. The results of third-party evaluations by the Evaluation Committee of National University Corporations and NIAD shall also be publicized. Furthermore, each university should actively provide wide-ranging information on various aspects including admissions, learning opportunities, career paths after graduation, and the state of education and research.

Funding

The Present Scheme

75. Each year, Cabinet announces its policy framework for budget request. Based on the policy framework, the MEXT announces the guideline of budget request to universities. Then, taking into account the requests from the national universities, the MEXT drafts a budget request for the next financial year and submits the request to the Ministry of Finance (MOF). After reviewing the request, the MOF makes a draft budget for Cabinet approval. The Cabinet submits it to the Diet, which decides the budget with or without modifications.

76. With regard to personnel costs, the numbers of academic and other staff members of each university are stipulated by law, regulations and budgets, and the levels of their salaries are set by law. Accordingly, the amount specifically for personnel costs is allocated to each university. Non-personnel operating and capital costs are handled as follows:

- a) Each university receives its amount to cover standard operating costs. This allocation was based on numbers of academic staff and students in each academic field until 2000, when the computation was changed to one that makes adjustments on the amount of the year before.
- b) With regard to costs to establish new education/research organizations, if the establishment is approved in the budget, the university receives the amount to cover the costs. For strategically implemented programmers, allocations are made based on the MEXT's examination of the universities' proposals.
- c) Concerning campus buildings and large-scale equipment, the MEXT examines proposals from universities and makes allocations from the total amounts of the respective items included in the budget.

77. Each university cannot directly use the incomes generated from the university, including tuition fees and hospital incomes. Those incomes are regarded as part of the revenue for the special account as a whole. Concerning tuition fees, the government set the exactly same amount for all national universities (Appendix Table E)

78. Donations made to a particular university are allocated through the budget to the president, who is then empowered to disburse the allocated funds.

79. With regard to research projects carried out by individual academics and/or teams of academics, the MEXT and the Japan Society for the Promotion of Science (JSPS) provide them with Grants-in-Aid for Scientific Research. Applications for the research grants scheme are screened and selected through peer review processes. While those grants are awarded to academics and/or teams of academics, the accounting of the grants is taken care of by the university administration.

The New Scheme

80. The incorporated national universities will be funded by the government in principle based on their respective medium-term plans approved by the Minister of Education.

81. As stated in Chapter 1, their personnel and other operational costs will be covered by “operational grants” from the government, which will be block grants to be used at the discretion of individual universities without designated applications. It will also be possible to carry the grants over to subsequent years.

82. The formula to calculate the grant amount for each university will be to add up the following two amounts:

- a) “Standard operational grant”: the difference between revenue and expenditure, as estimated by a standardized formula based on student number
- b) “Specific operational grant”: the sum of costs necessary for running specific education/research facilities and projects, for which the use of student number indicators is difficult

83. The allocation of operational grants on individual institutions will reflect the results of the evaluation undertaken by the Evaluation Committee of National University Corporations on the institutions’ achievements after their medium-term plans have been completed.

84. With regard to revenues generated from universities, those that are expected to result from the normal performance of duties, such as tuition and other fees and incomes from university hospitals, shall be used in the calculation of operational grants. However, donations and other revenues generated by the efforts of universities will be processed apart from operational grants, and incentives will be provided according to the efforts.

85. Concerning tuition fees, the government stipulates the standard amount and range within which each university will set its own amount.

86. In order to develop facilities for national universities, “capital development funds”, separate from “operational grants”, will be allocated to individual universities each year. For the purpose of enhancing autonomy and ensuring diverse resources for stable development of facilities, it will also be possible for national universities to develop their facilities through long-term loans, revenues from the disposal of land or other revenues.

Accounting

Present Scheme

87. Regarding the accounting of national universities, laws and regulations applied to the government's administrative organizations, including the Law of Finance and the Law of Accounting, also apply to the universities as part of the government's administrative structure. However, there are a number of special measures, based on the Law of Special Account for National Schools, to provide the funding of the universities with a certain degree of flexibility. This flexibility is not in each university's accounting but in the special account for all the universities as a whole. The major special measures are as follows:

- a) Revenues generated from national universities are not taken away into the government's general account but retained in the special account. Therefore, for example, revenues from disposal of unused assets can be utilized for capital investment projects of the universities.
- b) If there are more incomes generated from university hospitals than forecast in the budget, the Minister of Education can empower the universities to spend more on the hospitals within the income increase without amending the budget in order to deal with the increased costs in related services such as the increase in patients.
- c) In the settlement of the special account each financial year, the plus balance between the revenue and expenditure is put aside as a reserve fund, and other surplus, if any, is carried forward to the next financial year's revenue. The reserve fund is for filling deficits, and can be used for capital investment projects.
- d) Long-term loans are possible to fund capital investment projects for university hospital facilities and campus moves.
- e) Revenues generated by the disposal of unused assets, including the former campuses after campus moves, are put aside as a special facility development fund. This is to be used to fund capital investment projects to renew too old or too small buildings. Borrowings are possible if the repayment is expected to be possible by using the revenues generated by the disposal.

The New Scheme

88. The main features of the accounting systems of national university corporations will be as follows:

- a) Any yearly financial surplus will be used to fill the deficit, if any, of the previous year. Any remaining surplus will be either allotted to intended purposes approved beforehand in the medium-term plan or put aside as a reserve fund. Financial deficits will be filled by the reserve fund, and any remaining deficit will be the minus balance to be carried forward to the next financial year.

- b) Each national university corporation will be able to dispose of its lands and important properties only after obtaining the approval of the Minister of Education. The amount gained by the disposal will be regarded as the university corporation's own revenue. However, in the case of the disposal of lands, a certain portion of the amount will be transferred to a joint organization and used for the capital development projects of all national university corporations as a whole.
- c) To ensure diverse financial resources, it will be possible for each university to engage in long-term loans.
- d) The Center for National University Finance and Management will be established to carry out lump-sum loans of long-term and loan repayments in relation to capital investment projects for university hospitals and campus moves, and distribute loaned amounts and revenues generated by the disposal of unused assets, based on the government's policy of distribution, to individual universities.
- e) Accounting standards for national university corporations will be stipulated with reference to the principles of corporate accounting.

Auditing

The Present Scheme

89. Under the current system, the MEXT is responsible for finance and accounting of national universities. Therefore, the ministry monitors and audits their conduct of finance and accounting.

90. As the official auditing body for national finance and accounting, the Board of Audit regularly audits national universities. If the board finds illegalities or irregularities, it can recommend the ministry to take appropriate measures to correct or improve the situations.

91. The yearly settlement of the special account for national universities is subject to the approval of the committees of both Houses of the Diet.

The New Scheme

92. With the expansion of the autonomy of national universities, there will be a need to establish self-discipline and self-responsibility for finance and accounting of individual universities. For this purpose, it will be necessary for each university to develop appropriate internal audit frameworks, including external finance experts, within the university.

93. The Minister of Education shall appoint two auditors, at least one of whom shall be an external person, for each national university corporation. The auditors shall audit the operations of the university corporation, and be able to submit their opinions to the president or the minister.

94. The yearly settlement of each national university corporation's account shall undergo audits by the above mentioned auditors and those by accounting auditors, and the balance

sheet and other financial sheets, with the comments by the auditors and the accounting auditors, shall be subject to the minister's approval.

95. The Board of Audit will regularly audit national university corporations. The Diet committees will also continue to play their role in monitoring the financial settlement of national universities.

POLICY INSTRUMENTS FOR FINANCIAL VIABILITY

96. This section discusses policy instruments to improve financial viability focusing on the government and each institutional response to the environmental and policy changes. Especially, it will examine the expected impact on financial viability through an incorporation of national universities.

Financial viability in the Context of Japanese Higher Education

97. When financial problems are classified into financial difficulties and financial corruptions, both public and private higher education institutions have so far suffered few financial difficulties. Continuous expansion of demand for higher education after the Second World War saw a large proportion of entrants enrolled in private institutions, while new public higher education institutions were also established and financed by the central and local governments. Public institutions are ensured to be financially viable unless the government becomes bankrupt. Applications consistently exceeded places available. This allowed private institutions to raise student charges. Although the financial conditions of many private universities to some extent deteriorated in the 1960s because of accumulated debts for their expansion, governmental financial support provided under the Private Schools Promotion and Assistance Law of 1975 produced a substantial improvement in financial health. Due to the lack or major financial problems faced by higher education institutions, policy instruments or management tools for coping with financial difficulties have not been further developed or adopted in securing financial health.

98. This favorable situation is now threatened by two factors. The first is the policy change by the government, i.e. incorporation or agencification of public institutions. The second is the decreasing size of the 18-years old population since 1993 who will enter higher education in addition to approaching the saturation (nearly 50%) in enrollment rate. Before examining these issues, we will explain the present instruments for maintaining financial viability using a management process model (see Figure 3 below).

Instruments for ensuring financial viability

99. There are substantial differences between the national and private institutions in the instruments employed to ensure financial viability.

National universities

100. Public higher institutions, especially the national universities, are controlled as an integrated university system, not as individually independent institutions. Consequently the MEXT plays a significant role in coping with any fiscal problems. Each national university has limited powers in financial matters, in contrast to holding a large autonomy in teaching and research activities. Although as shown in Figure 3 below, the levels of enrollment, staff, and investment affect financial performance and position of the individual institution, these factors are centrally appraised and determined by the MEXT. The number of staff in national universities is controlled through the government under the regulation for the number of civil

servants, as explained in section 2. In addition, the government determines remuneration by respecting the recommendation of the National Personnel Authority. Capital expenditures for national universities are also controlled by the government. Most investments in facilities for teaching and research are financed through issuing government bonds, approved by the Diet (parliament), while capital expenditures for university hospitals are funded by loan from the Fiscal Investment and Loan Program (FILP). As a result, in the public sector, it might be said that the financial problems such as bankruptcy are institutionally prevented: the government ultimately is responsible for the financial management in public institutions.

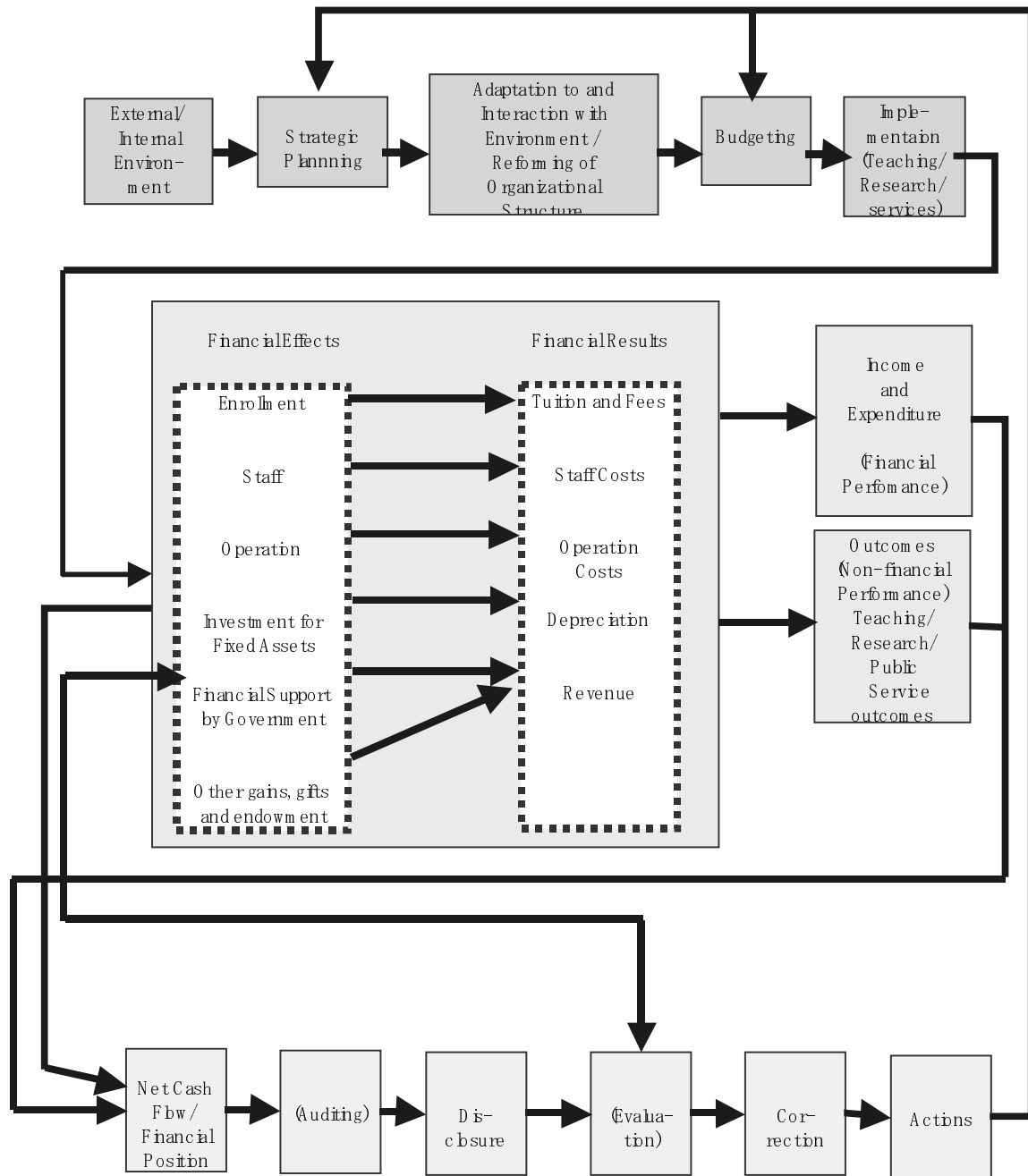
101. Partly as a result of their lack of autonomy in financial matters, the national universities often focus on complying with financial regulations, that is, the Fiscal Law, Accounting Law and the National Schools Special Account (NSSA) Law etc. in financial management, rather than attempting to improve financial performance. As many scholars insist, a cash based and input control budgeting and accounting system that NSSA also adopts is advantageous to ensuring accountability, while accrual based and output control system might encourage institutions to improve financial performance, namely enhancing management accountability by giving more flexibility in financial management. In practice, the financial regulations require each institution to place accounting officers by function and asset type: the direction and implementation officers are separated in function, besides the different officers are in charge of managing cash, credit, non-financial assets such as facilities. This is to provide a system of checks and balances. It is prohibited for accounting officers to have related roles. For example, the officer for revenues (the director of finance in national universities) determines a claim to collect and gives the debtor a notice of payment. A separate officer for collecting revenues (chief clerk of finance division in national universities) collects the money from the debtor. In order to observe financial discipline for public money, internal and external audits for each national university are carried out by the audit section of MEXT and the Board of Audit (national audit office in the central government).

Private universities

102. The government adopts several policy instruments and a particular financial system for ensuring fiscal health to private higher institutions. However, private institutions have a greater degree of discretionary power in management and operations compared to public institutions.

- First, the Investigating Committee for Operation of School Juridical Persons composed of part-time professionals and affiliated to the Bureau of Higher Education in the MEXT, examines the operation, and consults and advises on improvements in management.
- Second, at the budgeting stage, the private institutions that will receive grants for current costs from the government are required to submit their budget to MEXT (Article 14(2) of the Private Schools Promotion and Assistance Law). The MEXT may indirectly execute an influence on financial viability by gaining a forecast report from the private institution, while not having the mandatory authority to approve it.

Figure 3. Management of Financial Viability



Note: Parentheses show that the control activities are implemented by external actors.

- Third, the most influential instrument by the government is the subsidy system for private institutions, delivered through the semi-autonomous public body, known as the Promotion and Mutual Aid Corporation for Private Schools of Japan. The grants allocated to private institutions are composed of a general formula fund (grant for current costs) and a targeted fund (specific grant). The former is calculated as the standard grant (F) by multiplying the numbers of staff and students, a subsidy rate, and a unit cost. Then the amount is adjusted as follows:

$$\text{General grant allocated} = F \times [(30/100) \times A + (50/100) \times B + (20/100) \times C]$$

- A. coefficient of adjustment for the enrollment against the capacity or approval of student places.
- B. coefficient of adjustment for the student to teaching or academic staff.
- C. coefficient of adjustment for the teaching, research and facilities expenses to the tuition and fees.

103. Here each unit cost is determined as a standardized cost for every institution by types of staff and department, even though the real costs are higher than the unit costs. Also over or under enrollment against the available capacity decreases the general grant received through lowering the weighting index A (see Appendix D). Therefore, in terms of financial viability, this formula funding system encourages private institutions to not only suppress the personnel costs but also to secure the enrollment level at the near capacity or approval. Besides, the system promotes the institutions to improve the teaching and research conditions through the adjustment factors of B and C, because the more academic staff and research expenses the university have, the more grant would be gained. It is noteworthy that the private institution receives no general grant when the enrollment rate is lower than 50% of the capacity. On the other side, the targeted fund is directly allocated based on institutional performance in teaching and research, while the general fund is basically related to the scale of institution such as staff and students numbers or input and process levels. At the process of funding to private universities, the Corporation advises and consults the universities on management issues in order to improve their financial health/viability.

104. An important but controversial accounting system is adopted in private institutions, known as the Accounting Standards for Private Schools. This is based on accrual accounting, in contrast to the cash accounting used in public institutions. In addition, a particular accounting treatment is allowed. While private institutions prepare the statement of income and expenditure, the cash flow statement, and the balance sheet, in the first statement the total income is defined as the amount of deducting a transfer to the Basic Fund or Net Assets from the total revenue. Here the Basic Fund is composed of fixed assets for academic activities, reserves for future acquisition of fixed assets, and preserved financial assets for institutional operations (Article 30 of the Accounting Standards). Since the transfer is considered a reservation for the institution, the net surplus or deficit in the statement of income and expenditure has a different meaning from that of the profit and loss statement in corporate or business accounting. It is indeed not transparent, because the amount of transfer, except for the planned fixed assets, might be discretionally determined by the institution. Putting aside this manipulative character, the specific transaction would contribute to securing financial viability in the following three ways.

- First, it ensures institutions can finance future investment for fixed assets by their own money, rather than through borrowing from the outside.
- Second, by indicating a net deficit, it makes easier for the institution to increase the tuition fees. In practice the fees have risen by 222% from 1980, in contrast to other public services in which have been stable or declined slightly.
- Third, it suppresses the staff to demand their wage increase by decreasing income through deducting the transfer to the Basic Fund. Thus it plays a buffer role from external financial pressures.

105. The financial statements of the institution examined by internal and external professional auditors shall be submitted to MEXT. In the process of auditing, some recommendations for improving financial management system, including internal control, are made.

106. The outcomes of institution's activities accompanied by financial statements are used for the data in calculating the grants, as noted. Performance is linked to the two types of funding through the numbers of staff and students, education/research (academic) and facilities expenses, and academic performance. The Promotion and Mutual Aid Corporation has a mandate to stop or reduce grants for an institution whose financial conditions are not viable and educational conditions or operations are inappropriate (Article 5 of the Private Schools Promotion and Assistance Law). For example, recently a private university was penalized for improper financial management by being required to refund the grants and being denied further grants. Such disciplinary actions can occur in the following cases:

- i. An institution delays to pay taxes or repay loans from the Corporation for more than one year.
- ii. An institution faces severe financial problems, such as bankruptcy.
- iii. Accounting practices do not comply with the Accounting Standards for School Juridical Persons.
- iv. Administration and operation are seriously inadequate.

Effectiveness of Policy Instruments

National universities

107. Although there are few instances of public and private universities facing severe financial problems, they are not completely sheltered from financial pressures. University budgets have been affected by a policy of fiscal constraint followed by the government since the mid-1980s. Since it was not easy to make drastic reductions in running or current costs, cuts were largely directed towards capital spending. As a result, capital spending for national universities decreased from JPY 154 billion in 1979 to JPY 78 billion in 1987. This has led to the undermining of university facilities.

108. To respond to poor conditions and shortage in facilities, the national universities and their member organization, the Japan Association of National Universities, have no other avenues apart from appeals to public opinion. Repeated appeals to the public and approaches

to the media at last made the Science Council, the Council for Science and Technology, the University Council, report on the necessity for facility improvement in public institutions from 1992 to 1996. The parliamentary committee also raised serious concerns. The reports drove an increase of capital spending in the FY1993 budget. While facilities built over 39 years ago have been improved, in 2001 obsolete facilities still amounted to 31.9% of all national universities in floor space. On the other hand, exceptional funding for university hospitals has led to steady investment, as was intended. Accordingly, capital spending increased to JPY 41 billion in the same period (1983 to 2001) and obsolete facilities in 2001 reduced to 15.8%, compared to the national average of 31.9%. The figure is partly explained by the fact that the FILP until recently positively loaned public corporations and Special Accounts including NSSA because of a lot of deposits from the postal savings and public pension system, while issuing government bond has been severely controlled by the Fiscal Law in order to ensure the repayments.

109. Additionally, the instruments for preventing corruption have worked well. According to the annual report of the Board of Audit, dishonest acts in NSSA are infrequent. In the FY1999, three “inadequate or illegal fiscal acts” and no cases of corruption were reported. In the FY2000 and FY2001 two cases of corruptions were discovered. Such good performances may be an outcome of the external control system, coupled with the Responsibility Law for Budget Execution Officers, under which accounting officers are required to compensate any losses which they cause against the government through an illegal act or great mistake.

Private universities

110. If and when financial problems come to light in private institutions, several actions and corrective measures are available, corresponding to the extent or content of the problem.

- First, when an institution is faced with greater liabilities than assets, the Promotion and Mutual Aid Corporation can decide to not deliver the current cost grant to the institution. The institution can also choose to dissolve itself according to the Public Schools Law.
- Second, the board of trustees can decide to transfer or be merged the organization with another School Juridical Person.
- Third, if the second effort fails, the institution will can make a statement for regeneration in civil affairs or insolvency to the court.

The former action is taken in cases where there is a significant chance of rebuilding the institution, while the latter is adopted where there is seen to be no possibility for recovery.

111. Other than these measures, the local government where the institution is located might provide direct financial support, particularly when the founder is the local government. In practice, the first action has not been implemented in this decade because institutions falling in a large deficit do not voluntarily apply the current costs (general) grant. The second and third actions have so far been little used, although in coming years private institutions will likely face severe financial constraints, including the possibility of failure owing to the decrease in the revenues from new entrants. This critical recognition of possible failure is reflected in a report on crisis management for School Juridical Persons published by the Japan

Federation of Private Universities in 2002. The final measure has also appeared in junior colleges whose founders are the local governments. Recently a small city directly subsidized the School Juridical Person operating the junior college that the city had set up.

112. On the other hand, the policy instruments and management system for private institutions have worked well. We can indicate two major measures to improve the financial viability.

- The first is the subsidiary system for current costs. As a direct effect on finance, it can be indicated that the small private institutions whose enrollments are under 1000 would be in a *deficit* unless they will be subsidized through the funding system, even though the transfer to the Basic Fund is considered a reservation, not a deduction from the income. The grant has also contributed to improving academic conditions in addition to financial performance through the coefficient C in which the more an institution expenses for teaching and research to the total income, the grant to the institution becomes larger (see Appendix E). In the past five years, teaching/research expenses as a proportion of total revenue have increased from 23.6 % to 25.2 %. In contrast, staff costs as a proportion to total revenue, have decreased from 50.2 % to 49.1 %, because of lowering the standardized costs for calculating the grant and management policy on lessening the pay increase.
- The second is the impact of the reservation system through transferring a part of the revenue to the Basic Fund. Remarkably on the average basis, the finance of medium-sized private institutions whose students are between 1,000 and 10,000 changes from a *deficit* to a *surplus* condition in the Statement of Income and Expenditure, if the transfer is considered an internal reservation. A scholar on accountancy mentions in a book as follows:

‘The reservation system has contributed to keep the money as a fund by suppressing operating costs and increasing tuition fees, since the system shows an operating deficit in the Statement through deducting the transfer into the reservation from the operating income.’

113. Lastly, while it is difficult to establish whether this is an outcome of auditing systems during this decade, there have been few cases of financial corruption discovered. For example, since 1992 only one university per year has been denied the grant for current costs due to inappropriate operations. Partly due to their infrequency, financial scandals can generate considerable publicity. The fiscal scandal that a private university did not enter donations from the successful candidates for enrollment in the revenue account recently became a great concern to the public. Several overpayments for the grant are also discovered each year by the Board of Audit. However it is uncertain whether these figures show good corruption control, because inadequate or damaging matters, except for significant issues in the financial statements, are not generally published through internal audit and external financial audit reports.

Instruments for National University Corporation

114. New instruments for financial viability will be surely introduced while the government would remain the founder of national universities, because national universities legally will

have an independent status from the government through incorporation. In this perspective holding a corporation status, the instruments for financial viability might be to some extent common to both the national and the private sector. Each national university will be given a great deal of autonomy in its operation and management under the framework the Minister for Education, Culture, Sports, Science and Technology shall formerly determine. Therefore as indicated in Section “*Policy Instruments*”, the strategic planning and evaluation processes in the management cycle are the key avenues by which the government may guide.

115. According to the plan for incorporation, six major policy instruments will be established.

- First, in the planning stage, the Minister shall determine the medium-term goals for the next six years, respecting the drafted goals from the national university in question. Based on the goals, the national university shall develop the medium-term plan submitted to and approved by the Minister. The medium-term goals and plan must outline measures to enhance the efficiency and financial performance. Every year national universities shall submit their annual plans to the Minister and report about their progress in meeting the medium-term plan.
- Second, in the planning and evaluation stages, a newly established organ, the Evaluation Committee for National University Corporations, shall comment on the medium-term goals and plan of each university. In the evaluation stage, the Evaluation Committee shall examine to what extent the institution accomplishes the medium-term goals at the end of the medium-term plan. In addition it will evaluate the operational performance of universities for each year. Evaluation results will be fed back into calculating the grant for operating costs for the next medium-term period, while the results would be used in improving the operations within the institution. In other words, the funding will be explicitly linked to the performance through evaluation.
- Third, the financial statements of each national university shall be examined by an external auditor. In addition, institutions will continue to be subject to audit by the Board of Audit as at present. Financial statements and reports on annual performance will be published as “accountability reports” to the public.
- Fourth, each national university shall establish an internal auditing system. Two persons shall be appointed as inspector or auditor by the Minister and will be placed in the institution to control and scrutinize operations.
- Fifth, National University Corporations will be allowed to undertake long-term loans to develop their facilities and equipments. However national universities having hospitals will be charged with the debt for borrowing from FILP, since the NSSA would be discontinued and the assets and liabilities would be succeeded to national university corporations. It is expected that they will face some difficulties in borrowing at favorable conditions as present. In order to help the National University Corporations on financial management, the present Center for National University Finance will be reorganized with new missions into Center for National University Finance and Management. National University Corporations shall borrow for investment in university hospitals and so on from this organization. The

university finance will be appraised by the organization to what extent the institution will surely make a repayment for the loan.

- Sixth, national universities will be able to issue their bonds or borrow for their operations from private financial institutions other than the joint organization, although the guarantee will not be given by the government.

116. Finally, incorporation will apply the framework for the Independent Administrative Institutions (IAIs) to the National Universities. The Evaluation Committee for IAIs in the Ministry of Public Management, Home Affairs, Posts and Telecommunications (to be exact, the Commission on Policy Evaluation and Evaluation of the Independent Administrative Institutions) will be able to advise and make recommendations on national universities to the competent Minister.

117. In sum, policy instruments and control mechanisms for maintaining financial viability in the public sector will be strengthened in exchange for giving each national university more autonomy in operations. However the effectiveness of these instruments will depend in part on the extent to which the government invests public money in improving and maintaining the facilities to national university corporations. This is because public institutions will not be allowed to make generate reserves from the revenue or recognize depreciation on the fixed assets. As such, the government will continue to make decisions on major investments, even while national university corporations are given full discretion in operational matters.

118. Another important factor for financial viability is the stability of finance in each university. The policy changes that the MEXT intends to promote competition among universities through a funding based on performance and project appraisal, might have an adverse impact on finance. The stronger the link between funding and performance is, the greater the potential for large fluctuations in the revenue. This instability in the short run might undermine the long-range focus of some university activities.

ASSESSING THE CURRENT APPROACH

119. It is planned that the transformation of the national universities to new National University Corporations (NUC) will be implemented in the spring of 2004. New legislation and due revisions of related laws are currently being discussed on the floor of the legislature. Current debates involve details, which may be critical in determining the nature of the National University Corporations.

Control and Governance

120. The concept of the National University Corporation is based on the assumption that it will be more independent from government. The organizational border between the government and university shall become more distinct. But the nature of this division and the degree of independence remains somewhat ambiguous. From this perspective, there are two significant issues:

- The first is the nature of what is called the Medium-Term Goals and Plan. The MEXT proposes that the University drafts the Medium-Term Goals and Plan, and then undergoes negotiation with the MEXT on the final form of the plan. One could interpret this procedure as a process to reach a contract between the University and the MEXT. However, the proposal from the MEXT calls for the *designation* of the Goals, and *approval* of the Plan, by the minister. It is unlikely that individual universities will have the ability to achieve their wishes in the face of a determined Minister or MEXT. It is clear that setting the Goals and Plan is different from building a contract between two equal parties.
- The second significant issue is the power given to the President of the institution. On the one hand, the President will be given absolute authority over both academic and administrative aspects of the university. He/she would preside over the executive board and seek advice from the Academic Council and Administrative Council. The President, however, is able to over-rule these councils. As such, the President has no individual or organization within the university to oversee his/her actions. One can then argue that the President will be given exceptionally strong power.

121. On the other hand, the President will be appointed by the Minister based on the recommendation from the internal selection committee. The Minister can dismiss the President only when President Selection Committee proposed it to the Ministry. For the government, the major means of control will be the processes of developing the Medium-Term plan and in the evaluation of its implementation.

Finance

122. As stated before, the finances of all the national universities and colleges are jointly managed within the framework of the National Schools Special Account (NSSA). NSSA is one of the special accounts of the national budget, which is separated from the general account, but still a part of the national budget.

123. In the National University Corporation model, the finance of each university will be managed independently. Accounting tables will be prepared showing current revenues and expenditures, and assets and liabilities. The government provides funds according to the targeted achievements prescribed by the medium-term plan. This arrangement dictates that National University Corporations will be separated from the national government.

124. National universities are concerned that this change may eventually lead to the erosion of the commitment of the government to support the national universities. Moreover, it was already stated that the reform calls for a scheme of budget allocation based on the evaluation of achievement of stated goals. The underlying idea derived from that of Independent Administrative Institution. However, the application of this model will involve substantial difficulties, because most of the goals to be achieved by university are difficult to specify in quantitative terms. This will be one of the critical points regarding the relation between the government and the National University Corporations.

125. Closely related is the issue of financial over-sight. To what extent will the property of the universities be their own? The sale of institutional property by the institution will be possible after approval of the Minister, but how much discretionary power each university will have over the issue is still unclear. What degree of risks are the universities allowed to run? It will be unlikely that any of the National University Corporations will be allowed into bankruptcy in so far as they remain National University Corporation. As such there will have to be substantial limits to the discretionary power given to the institutions. However, the ways by which these limits will be specified, and what limits will exist, still remains unclear.

Potential Impacts

126. The discussion above indicates that the NUC scheme still involves a substantial number of details that have to be specified before it is implemented. Meanwhile, there are still discussions over the nature of the changes that the new scheme will bring about. It is likely that some of the raised questions will have to be discussed even after the transformation took place legally.

127. It is evident, however, that the political climate will not allow the national universities to remain the same. The society is becoming increasingly demanding on the national universities. The national universities are expected to achieve high levels of research and education, and with high efficiency. The national universities have to respond to these expectations if they wish to remain as a vital institution in Japanese society. From this perspective, it is definite that the reform is a significant step towards renovation of the national universities

128. At this point it is difficult to assess how the implementation of the National University Corporations will change the national universities. Such impacts are critically dependent on the details of the scheme that still remain to be settled. It also depends on how each university will adopt the general scheme and create their own rules and practices in governance and finance.

129. Despite the remaining ambiguities in the details of the scheme, the prospect of the change has already influenced the climate of the national universities to a considerably

degree. Administrative staff members, through preparation for the administrative changes, have been exposed to a very different mode of administration than they have experienced. Faculty members, who have been always complaining about the managerial inflexibility of the national universities, but have never been specific about the desired model, are pressed to be realistic in discussing over future directions. In the long run, these changes will help strengthen the ability of the national universities towards dynamic innovations.

APPENDIX

A. Number of Institutions and Enrollment by Type of Establishment

Table A-1. Number of Institutions, 2002 – 1*

	Total	National	Local Public	Private
Higher Education Institutions	1 289	169	130	990
	100%	13.1%	10.1%	76.8%
Universities	686	99	75	512
	100%	14.4%	10.9%	74.6%
Junior Colleges	541	16	50	475
	100%	3%	9.2%	87.8%
Colleges of Technology	62	54	5	3
	100%	87.1%	8.1%	4.8%

Table A-2. Size of Enrollment, 2002 – 2*

	Total	National	Local Public	Private
Students – All courses	2 786 032	621 487	116 705	2 047 840
	100%	22.3%	4.2%	73.5%
Students – Undergraduate course	2 499 147	462 492	100 691	1 935 964
	100%	18.5%	4%	77.5%
Students – Graduate course	223 512	137 956	11 681	73 875
	100%	61.7%	5.2%	33.1%

Table A-3. Number of Faculty Members, 2002 – 3*

	Total	National	Local Public	Private
Academic Staff (Full Time)	155 050	60 930	10 860	83 260
	100%	39.3%	7%	53.7%
Academic Staff (Part Time)	149 388	40 060	9 407	99 921
	100%	26.8%	6.3%	66.9%
Non-Academic Staff (Full Time)	174 838	56 011	11 978	106 849
	100%	32%	6.9%	61.1%
Non-Academic Staff (Part Time)	3 893	26	49	3 818
	100%	0.7%	1.3%	98.1%

Source : MEXT, School Basic Survey 2002

Note 1 – Excludes the University of Air and one private university which only has a correspondence course.

Note 2 – Excludes students of correspondence courses;

Note 3 – Excludes staff of correspondence courses

B. National Schools Special Account (Budget)

Table B-1. Revenue, FY 2002

Source	Amount (Thousand Yen)	Sh
Transfer from the General Account	1 545 280 651	55.5%
Borrowing	66 200 000	2.4%
Revenue of Attached Hospitals	586 202 645	21.1%
Tuition and Other Fees	347 875 646	12.5%
Sale of School Properties	25 602 520	0.9%
Sale of Special School Properties	12 877 606	0.5%
Research Contracts	108 270 250	3.9%
Miscellaneous Revenue *2	66 400 794	2.4%
Surplus from the Previous FY	24 169 232	0.9%
Transfer from Special facility fund	0	0.0%
Total	2 782 879 344	100%

Table B-2. Expenditure, FY 2002

Items	Amount (Thousand Yen)	Sh
National Schools	1 569 966 171	56.4%
Administ	#####	40.7%
Research and Education	354 698 455	12.7%
Special Equipments	65 913 854	2.4%
Welfare Students	3 715 848	0.1%
Equipment and facilities	11 860 129	0.4%
Attached Hospitals	622 620 631	22.4%
Administ	260 964 550	9.4%
Research and Education	26 008 461	0.9%
Medical Practices	328 857 300	11.8%
Equipment and Facilities	6 790 320	0.2%
Attached Research Institutes	190 087 893	6.8%
Administ	66 310 663	2.4%
Research	23 836 917	0.9%
Equipment and Facilities	2 046 034	0.1%
Special Projects	97 894 279	3.5%
Research Contracts	103 648 042	3.7%
Facilities	175 971 753	6.3%
Special Facilities	4 623 555	0.2%
Construction of Vessels	809 252	0.0%
Transfer of Special facility fund	4 355 737	0.2%
Transfer of National Bond Account	107 476 310	3.9%
Other Expenditure	2 820 000	0.1%
Contingency Allowance	500 000	0.0%
Total	2 782 879 344	#####

Source : Data provision by MEXT

C. Settlement of Private Universities

Table C-1. Revenue, FY 2001

Source	Amount (million Yen)	Sh
Tuition and Other Fees	3 014 853	58.9%
Donations	134 835	2.6%
Subsidies from Governments	559 822	10.9%
Endowment Income	82 301	1.6%
Sale of School Properties	32 366	0.6%
Operating income	1 179 684	23.0%
Miscellaneous Revenue	115 219	2.3%
Total	5 119 082	100%

Table C-2. Revenue, FY 2001

Items	Amount (million Yen)	Sh
Staff Costs	2 555 422	55.4%
Education & Research expenditures	1 594 017	34.5%
General expenditures	335 220	7.3%
Interest payable	30 666	0.7%
Sale of School Properties	86 455	1.9%
Provision for Uncollected Tuition and Other Fees	12 768	0.3%
Total	4 614 549	100%

Source : The Promotion and Mutual Aid Corporation for Private Schools of Japan, Private Schools Finance 2002

D. Subsidy to Private Institutions

Table D. Adjustment of General Funding (Grand for Current Costs) for Private Institution

Weighting Index for Adjustment (%)	Criteria Item		
	A Actual Enrollment/ Legal Capacity (%)	B Student/Teaching Staff (person)	C Teaching, Research & Facility Expenditure/ Tuition & Fees (%)
130	102-103 or 97-95	-17	-59
120	104-106 or 94-92	18-20	58-55
110	107-110 or 91-85	21-23	54-51
100	111-114 or 84-80	24-26	50-47
90	115-119 or 79-75	27-30	46-43
80	120-124 or 74-70	31-34	42-40
70	125-129 or 69-60	35-38	39-34
60	130-134 or 59-50	39-42	33-31
50	135-140 or -	43-46	30-28
40	141-146 or -	47-50	27-25
30	147- or -	51-	24-
20			

E. Tuition and Registration Fees

Table E Tuition & Registration Fee

Year	National		Public 1*		Private 2*	
	Tuition	Registration Fee	Tuition	Registration Fee	Tuition	Registration Fee
1975	36 000	50 000	27 847	25 068	182 677	95 584
1976	96 000	↓	66 582	74 220	221 844	121 888
1977	↓	60 000	78 141	80 152	248 066	135 205
1978	144 000	↓	110 691	90 909	286 568	157 019
1979	↓	80 000	134 618	104 091	325 198	175 999
1980	180 000	↓	157 412	119 000	355 156	190 113
1981	↓	100 000	174 706	139 118	380 253	201 611
1982	216 000	↓	198 529	150 000	406 261	212 650
1983	↓	120 000	210 000	167 265	433 200	219 428
1984	252 000	↓	236 470	178 882	451 722	225 820
1985	↓	↓	250 941	179 471	475 325	235 769
1986	↓	150 000	252 000	219 667	497 826	241 275
1987	300 000	↓	290 400	230 514	517 395	245 263
1988	↓	180 000	298 667	261 639	539 591	251 124
1989	339 600	185 400	331 686	268 486	570 584	256 600
1990	↓	206 000	337 105	287 341	615 486	266 603
1991	375 600	↓	366 032	295 798	641 608	271 151
1992	↓	230 000	374 160	324 775	668 460	271 948
1993	411 600	↓	405 840	329 467	688 046	275 824
1994	↓	260 000	410 757	357 787	708 847	280 892
1995	447 600	↓	440 471	363 745	728 365	282 574
1996	↓	270 000	446 146	371 288	744 733	287 581
1997	469 200	↓	463 629	373 893	757 158	288 471
1998	↓	275 000	469 200	375 743	770 024	290 799
1999	478 800	↓	477 015	381 271	783 298	290 815
2000	↓	277 000	478 800	383 607	789 659	290 691
2001	496 800	↓	491 170	387 200	799 973	286 528
2002	↓	282 000				

Source: Data provision by MEXT

NOTE 1. – Average of local public universities

NOTE 2. – Average of private universities.

F. Participation in Higher Education

Table F-1 18 Year Old and Students Admitted to Higher Education 1961-2003

Year	Size of 18 Year		Students Admitted to		
	Population	4-Year College	Junior College	Technical College	Special Training College
1961	1 917 896	179 622	47 278		
1962	1 992 297	201 125	55 613		
1963	1 786 850	215 884	61 417		
1964	1 413 748	217 763	61 070		
1965	1 961 621	249 917	80 563	2 781	
1966	2 504 684	292 958	108 052	5 107	
1967	2 440 244	312 747	121 263	6 559	
1968	2 369 820	325 632	127 365	7 465	
1969	2 141 606	329 374	128 124	7 681	
1970	1 953 836	333 037	126 659	8 391	
1971	1 852 126	357 821	136 392	9 363	
1972	1 742 326	376 147	141 631	9 937	
1973	1 671 307	389 560	154 771	10 318	
1974	1 625 468	407 528	164 077	10 301	
1975	1 564 954	423 942	174 930	10 015	
1976	1 523 400	420 616	174 683	9 908	36 523
1977	1 627 056	428 412	183 224	10 006	97 213
1978	1 583 998	425 718	181 181	9 540	113 898
1979	1 567 170	407 635	176 979	9 581	117 634
1980	1 583 146	412 437	178 215	9 539	123 641
1981	1 610 411	413 236	179 071	9 637	136 085
1982	1 638 649	414 536	179 601	9 715	138 994
1983	1 726 014	420 458	183 871	9 729	156 971
1984	1 680 525	416 002	181 223	9 764	156 002
1985	1 559 314	411 993	173 503	9 814	143 496
1986	1 853 509	436 896	206 083	9 985	181 968
1987	1 885 560	465 503	215 088	9 968	196 134
1988	1 884 578	472 965	218 036	10 207	207 261
1989	1 935 574	476 876	225 364	10 432	228 149
1990	2 007 035	492 340	235 195	10 439	250 119
1991	2 046 334	521 899	249 552	10 824	268 695
1992	2 050 902	541 604	254 676	10 986	276 719
1993	1 982 755	554 973	254 953	11 127	273 491
1994	1 861 304	560 815	244 895	11 191	258 166
1995	1 774 535	568 576	232 741	11 313	249 000
1996	1 733 172	579 148	220 875	11 269	249 942
1997	1 680 798	586 688	207 546	11 277	242 175
1998	1 623 043	590 743	191 430	11 306	225 639
1999	1 546 296	589 559	168 973	11 330	220 501
2000	1 512 283	599 655	141 491	11 225	222 634
2001	1 512 654	603 953	130 246	11 315	225 660
2002	1 502 684	609 337	121 441	11 253	230 971
2003	1 464 897	604 786	119 028	11 335	240 804

Source : MEXT, School Basic Survey, Various Years

Table F-2 Participation rate

Year	Participation rate to 4-Year College	Part Rate to Junior College
1960	8.2	2.1
1961	9.3	2.5
1962	10.0	2.8
1963	12.0	3.5
1964	15.5	4.4
1965	12.8	4.1
1966	11.8	4.3
1967	12.9	5.0
1968	13.8	5.4
1969	15.4	6.0
1970	17.1	6.5
1971	19.4	7.4
1972	21.6	8.2
1973	23.4	9.3
1974	25.1	10.1
1975	27.2	11.2
1976	27.3	11.3
1977	26.4	11.3
1978	26.9	11.5
1979	26.1	11.3
1980	26.1	11.3
1981	25.7	11.1
1982	25.3	11.0
1983	24.4	10.7
1984	24.8	10.8
1985	26.5	11.1
1986	23.6	11.1
1987	24.7	11.4
1988	25.1	11.6
1989	24.7	11.7
1990	24.6	11.7
1991	25.5	12.2
1992	26.4	12.4
1993	28.0	12.9
1994	30.1	13.2
1995	32.1	13.1
1996	33.4	12.7
1997	34.9	12.4
1998	36.4	11.8
1999	38.2	10.9
2000	39.7	9.4
2001	39.9	8.6
2002	40.5	8.1
2003	41.3	8.1

Source : Calculated from the Table F-1.