

Funding Tertiary Education

Pointers for policy development

DEVELOP FUNDING FOR TERTIARY EDUCATION TO CONTRIBUTE TO SOCIETY AND THE ECONOMY

- The overarching principle for the development of any funding strategy is that public funds steer the tertiary education system in a way that facilitates its contribution to society and the economy. This requires the definition of the goals and objectives of the system through which this contribution is realised.
- Make the funding approach consistent with the goals of the tertiary education system *e.g.* expansion, quality, cost effectiveness, equity, institutional or system capacity – which differ across countries at a given point in time.
- Ensure approach is transparent, flexible, predictable, fair (to institutions, students and taxpayers), ensures public accountability, permits freedom to innovate, is sensitive to institutional autonomy, is demand-driven, recognises the missions of institutions, and is open to private institutions (in some circumstances).
- Articulate a long-term strategy including investment plans and schemes to raise additional resources. Identify programmes and policies that should receive priority for new public funds.

USE COST-SHARING BETWEEN THE STATE AND STUDENTS

- Provide public subsidies for tertiary education studies in public or private institutions, but without bearing a top-heavy share of the costs, since there are significant private benefits to tertiary education.
- Charge tuition fees to students, especially if limited public funding rations the number of students, jeopardises levels of spending per student, or restricts financial support for disadvantaged groups. Savings from cost-sharing can be used for broadening access to tertiary education through strengthened student support systems.
- In countries with little tradition of tuition fees, launch a public debate to help clarify whether:
 - heavy reliance on public money is sustainable
 - private benefits are so low as to justify low fees, especially of the more affluent students
 - higher fees for more affluent students could consolidate the student support system
- Consider tuition fee stabilisation policies to ensure cost containment and moderation.
- Allow institutions to differentiate tuition fees across courses to make systems more responsive to student and employer preferences and generate efficiency gains.

PUBLICLY SUBSIDISE TERTIARY PROGRAMMES IN RELATION TO BENEFITS TO SOCIETY

- Establish broad principles to differentiate levels of public subsidies across programmes including:
 - Providing high levels of public subsidies to priority fields of high relevance (*e.g.* when graduate numbers fall short of demand) and less subsidies to popular programmes with high private returns to graduates.
 - New programmes should be assessed for relevance – *e.g.* whether they respond to labour market needs, foster innovation or serve communities' aspirations – before approval.
 - Ensuring relevance to society requires a robust system of quality assurance since low-quality programmes are, for example, unlikely to be relevant to the labour market.
- Publicly subsidise properly accredited tertiary courses offered by private institutions. There is no economic argument to discriminate between public and private institutions as long as quality is assured.
- Make institutional funding for instruction formula-driven, using both input and output indicators and including strategically targeted components:
 - Base institutional block grants on transparent formulas with a balanced array of input and output indicators.
 - Consider allocating institutional funding by *performance agreements or contracts* negotiated between the State and individual institutions.

- Include targeted development programmes to help align the mission of institutions with the overall strategy for tertiary education. But a multitude of targeted funds risks reducing transparency and increasing transaction costs.
 - Allocating funds to institutions should follow a tailored approach recognising the diversity of roles and missions of institutions.
 - Give institutions autonomy in the use of their block grants.
 - Provide stability in institutional funding to promote long-term development.
 - Allow institutions to diversify sources of funding.
 - Fund capital infrastructure with a number of different streams.
- Improve cost-effectiveness by steps to reduce inefficiencies throughout tertiary education systems through:
- linking funding more closely to graduation rates
 - creating incentives to reduce non-completion rates and the length of study time
 - reducing public subsidies of students who remain too long in the system
 - eliminating duplicated programmes
 - rationalising low-enrolment programmes with possible redeployment of academics across programmes
 - downsizing faculty to respond to falling student enrolments
 - increasing use of shared facilities
 - expanding student mobility between institutions

DEVELOP A COMPREHENSIVE STUDENT SUPPORT SYSTEM

- Back the overall funding approach with a comprehensive student support system to reduce liquidity constraints faced by students.
- A mixed system of loans and grants assists students in covering tuition fees and living costs, alleviates excessive hours spent on part-time work, and/or disproportionate reliance on family support.
- A loans system with income-contingent repayments addresses risk and uncertainty faced by individuals by providing insurance against inability to repay and improves progressiveness by providing a lower public subsidy for graduates that obtain higher private returns.
- In many countries, student support systems need to be expanded, diversified and to place extra emphasis on the financial need of students.
- Aim for a universal income-contingent loan system complemented with means-tested grants.
- Base grants on an assessment of financial need of the student to promote access of those with greater need and who underestimate the net benefits of tertiary education as a result of a socio-economic disadvantage.
- Ensure that student aid entitlements cover living costs.
- Provide access to the student support system to students in the public and private sectors alike.
- Consider creating an agency within or outside the Ministry in charge of tertiary education, to be responsible for the administration and delivery of student loans and grants.

FURTHER READING

These general pointers for policy development are drawn from the Thematic Review of Tertiary Education, which covered tertiary education policies in 24 countries. The findings of this review are presented in *Tertiary Education for the Knowledge Society*, published in September 2008. Background reports prepared by 21 countries, *Reviews of Tertiary Education* in 14 countries and other documents of the review are also available on the OECD website www.oecd.org/edu/tertiary/review.