

Financing of Higher Education

Preamble

ESIB – The National Unions of Students in Europe has existed since 1982 to promote the educational, social, economic and cultural interests of students at the European level, and towards all relevant organisations and institutions. ESIB currently has 44 member organisations from 34 countries

1. Introduction

This policy paper represents ESIB's stand on the financial aspect of higher education, related processes and future developments in this field.

Higher education plays a vital role in society and the quality, accessibility and form of higher education is highly dependent on financing. The type of society we strive for should be reflected in the way we finance higher education. The importance of higher education has recently been addressed in the context of building a knowledge society in Europe. In practical terms, financing of higher education is conceived to be of central importance for the future creation and dissemination of knowledge and research. This paper will not make suggestions as to the ideal or preferred model of financing of higher education in Europe. Homogenous policy suggestions are not appropriate in this field. The aim of this paper is to outline main principles that should be taken into account when discussing financing of higher education institutions and students. Due to social, historical, legal, political and economic circumstances, policies on financing of higher education have to respect local characteristics.

Although financing systems in Europe are very diverse, they still contain particular common characteristics that separate them clearly from other systems in the world. The European approach is characterised by its treatment of higher education as one of the fundamental public responsibilities.

The policy paper refers to financing of higher education (i), based on two components:

1. financing of research and teaching through higher education institutions (HEIs),
2. financing students (ii)

Neither of these can be neglected in an effort to create qualitative and accessible higher education.

1.1 The Funding Gap

In recent decades, public funding for HE has not adequately reflected the massive growth in student numbers, resulting in a gap in financial resources. Among the developments that have dramatically influenced the level of required financial support are internationalisation of higher education and research, the urge for quality and new teaching methods, the increasing and different economic interests in HE, and the diversification of places where knowledge is created, disseminated and transferred.

The funding gap is a priority issue of both national and international concern, and has never been as present as it is today. It has proved difficult to find innovative and adequate solutions to the increasing demand for financial resources. Developments in society, together with extensive changes in higher education, call for a renewal of financing policies. However, these policy changes must not take place without accurate and extensive research and analysis of their long-term effect on students, HEIs and society.

Given the reality of the increasing constraints on the availability of funds, ESIB acknowledges the necessity to intensify efforts to find a comprehensive solution to this problem through diversified sources of financing.

2. Public funds

2.1 Higher Education - a Public Responsibility

Higher education is beneficial on various levels, for students, societies, economy and general well-being.

Societies are being transformed in such a way that knowledge is increasing in importance and is considered to be the engine of development. To this end, HEIs take on a central role in developing and sharing knowledge. Higher education can never be considered solely a means for improving economic competitiveness. Higher education has other aims and consequences among them forming the basis for tolerance, democracy, critical thinking and personal fulfilment. These objectives are to be taken into account when allocating funds to higher education. In this respect, funds allocated to the higher education sector should not merely be considered as an expense, but a long-term investment, of benefit to society as a whole.

Students also benefit personally from higher education, in terms of career opportunities and personal development. However these benefits are then reflected on a societal level, in terms of lower unemployment rates, better health, lower crime rates, more societal involvement, higher tax returns and other trickle-down effects. The private benefits of graduates are hugely compensated by the graduates' contribution to society. ESIB therefore condemns the use of arguments based on graduates' private return as lever for the introduction of tuition fees.

In most European countries HEIs and students do not receive the financial priority in the budget. Some European States are reluctant to invest, either assuming that students will pay the fees imposed, or simply ignoring the financial implications of modernisation within higher education. ESIB insists that higher education should be a priority and calls for increased public investment.

In order for HEIs to adequately fulfil their central role in the creation of a cohesive society of knowledge, ESIB stresses the importance of governments ensuring the pursuance of the following measures:

- Ensuring that HEIs have sufficient and sustainable resources to deliver high quality teaching and research, and to meet broader educational, social, cultural and economic goals;
- Ensuring that all fields of study have sufficient resources to develop, regardless how commercially attractive they may be;
- Providing the required resources in order to support reforms that would open the institutions to mobile students, including services and facilities necessary to enable mobile student to study successfully;
- Providing the necessary financial and legislative framework to foster cooperation between HEIs, particularly focusing on accessibility to benefits which emerge from cooperation (e.g. access to joint degrees, affordable internal and international mobility, etc.)
- Ensuring sufficient funds in order to foster lifelong learning, and for the state to pursue following measures:
- Legislate to prohibit tuition fees, but at the same time guaranteeing free access to higher education.

It is of vital importance that public funding guarantees stability and sustainability in the development of higher education, on the basis of these guidelines.

Though aware of the private benefits of higher education, ESIB reaffirms the notion of higher education as a public good, and stresses that States are responsible for the provision of free higher education.

2.2 Diversifying the Allocation of Public Funds

As a solution to the funding gap, the diversification of allocation of funds to HEIs should also be considered insofar as this does not limit the academic freedom or neglect the needs of different fields of study. Traditionally, higher education has been funded according to input factors such as number of students, staff and departments, based on detailed budgets on annual basis. However, various models for reforming the allocation of resources to HEIs are being considered with a view to better use of public funds. Output-based funding, supply driven contracting, “student vouchers” and other models should all be analysed properly. These should only be seriously considered if they do not reduce the quality of the education or affect students’ possibilities for the access to and completion of their studies, while also taking into account students’ social and financial background. New methods should cater for the expansion of lifelong learning and the number of nontraditional students. In both cases access to higher education and successful completion of studies have to be guaranteed.

Funding allocated according to output factors (such as the number of graduates or ECTS points granted) is used as a steering tool to promote effectiveness, in an attempt to ensure the adequate use of funds. ESIB strongly suggests that such output factors should not only be based on quantity, but also take into account other integral aspects of academic and student life. This ensures that funding reflects the different quality criteria to some extent, and also promotes high quality studies in every way. Output based criteria should not dominate the allocation of public funds.

The setting of standards of excellence for HEIs is an obvious characteristic when striving for competitiveness as stated in economic development strategies such as the Lisbon Strategy of the European Union. The attempts to encourage excellence in teaching and research should not shade diverse qualities of different higher education institutions. The setting of standards of excellence can lead to ranking, which is unjust and cannot form the basis for allocation of funds. This would not serve the purpose of encouraging the improvement of a wider number of HEIs and has a tendency to lead to elitism and further division in society. While measures to improve quality should be welcomed, ESIB calls for extreme caution in carrying out policies that aim at establishing standards of excellence.

2.3 Demand-driven funding - vouchers

As public services are increasingly provided by multiple providers, proposals to introduce voucher systems appear in an increasing number of countries, encouraged, among other, by the European Commission. Voucher-based funding of higher education works in such a way that students can use such vouchers at any accredited institution, and these vouchers are equivalent to a certain time period or number of ECTS credits (e.g. the length of a Bachelor + Master + 1-2 years).

This form of demand-driven funding of higher education is portrayed as being the ultimate student-centred model of financing, taking into account students’ wishes in the national and international dimensioning of higher education. ESIB is strongly of the opinion that

voucher systems fail to take into account the nature of the higher education sector and the manner in which it differs from a consumer market. Students' choice of HEI and field of study is not only dependent on a free and informed choice, but is also heavily dependent on where students live and on other obligations that they may have to fulfil.

The difference between higher education and a consumer market becomes very clear in cases where students under the voucher system are unsatisfied with their education. They have no possibility of being given the money back, in the same way the consumers complain and then get refunded. Although vouchers might change the way higher education institutions deal with students and education, it is more likely that the institutions will try to attract students by unrealistic visions in costly and prestigious advertisements, rather than by improving quality. ESIB is convinced that internal and external quality assurance is the most appropriate way to improve the institutions and programmes. Shopping for education or similar market approaches are not the appropriate way to guarantee the quality of education.

ESIB sees demand-driven funding as a threat to the notion of higher education as a public good. Voucher systems often imply alignment in status for public and private institutions, since vouchers can usually be used at all institutions, with students then being charged extra costs demanded above the value of the vouchers given to them.

If a voucher is equivalent to a certain period of time, i.e. a voucher linked to a semester, they have especially discriminating effects on part-time students. Generally, vouchers limit the period of time a student can study without paying tuition.

2.4 Better Use of Existing (Public) Funds

It is also important for HEIs to engage in the necessary efforts to ensure funding for their future and the undisturbed fulfilment of their predefined mission and goals. Democratic structures are the foundation of HEI and must not be seen as contradictory to effectiveness. There should be no separation of the academic, operational and strategic governing of HEIs.

Autonomous institutions should be accountable for their actions. However, the everincreasing level of autonomy is often followed by decreasing transparency and financial governmental responsibility for higher education. ESIB strongly opposes the withdrawal or reduction of public funding on the reason of granting greater autonomy to HEIs.

The necessary first step in trying to close the funding gap is an analysis of the expenditure of current resources, followed by an attempt to improve the manner of such expenditure, and thus ensure the better use of existing funds. Structures and mechanisms of internal allocation of resources should be constantly checked and revised where necessary.

It should be ensured that the democratically elected members of the governing bodies of HEIs be trained in managerial skills, such as understanding budgets, which should then lead to a more intensive involvement of the teaching staff, students and other members in strategic planning.

Better use of real estate owned by HEIs, research and teaching facilities, classrooms and staff should be among the measures leading to greater effectiveness in the expenditure of financial resources.

Quality assurance should prevent irrational spending of resources on outdated, overloaded and rigid curricula and scarcely motivated teaching staff. Higher quality measures to assure the access and completion of studies are preconditions to decrease drop out rates.

Transparency in allocating and spending money within the institution must be the imperative to prevent all sorts of abuse and corruption.

In many HEIs, further efforts should be undertaken to meet the opportunities of international cooperation in teaching and research, also in order to benefit from the complementarities both academic and financially.

3. Tuition Fees (iii)

3.1 Background

In trying to bridge the funding gap, governments tend to turn to students in order to quickly increase the amount of funds in higher education. In this way, the introduction or rising of tuition fees becomes an easy solution to a complex problem, when the money available within the higher education sector remains insufficient in order for there to be an adequate level of quality.

ESIB strongly feels that the argument of disciplining students by burdening them financially is superficial and not worth any serious consideration. The reasons for students' delays in completing their studies are various. They are often due to the necessity of having to work alongside their studies, and other reasons closely connected to their social situation. Tuition fees negatively affect poorer students, while those from a financially well-off background will still be able to afford irresponsible behaviour. Fees have also showed discriminatory effects in the context of people who suffer discrimination, for example women and ethnic minorities.

3.2 Various ways of charging students

Proposals suggesting various forms of ‘student-friendly’ tuition fees are ever-more increasing. In this respect, post-graduation repayment schemes are the most popular suggestion. ESIB views such policies as unacceptable, deceiving and harmful for wider access and successful completion of higher education. One of the most delicate and uncertain period of people’s life is the point at which they look for their place in the labour market, and pursue career and family plans. Even in cases where repayment schemes are only triggered when one’s salary rises above a certain threshold, the threat of a pending debt is a determining factor with many potential students when considering whether or not to enrol in a HEI. This is a fact which has also been evident in systems where loans have been introduced as an accompanying measure to the tuition fees.

3.3 Fees for international students

The mobility of students and staff has improved the last decade, enriching the diversity of higher education, both for local and visiting students. Governmental attitudes towards international students have been such that international students are seen as an extra source of income. In this respect, such students have been charged as much as possible in order to make up for States’ unwillingness to invest in the education of young people.

ESIB is convinced that the imposition of high fees on international students (or from non-EU countries in the case of EU Member States) is unethical, discriminatory, unacceptable and short-sighted. Fees for international students are a hinder to internationalisation and integration, especially creating an obstacle for the free-movers. Such measures oppose the idea of mobility and contradict the spirit of the Bologna Process.

3.4 Tuition fee free education

The National Unions of Students in Europe believe that tuition fees represent an obstacle to equal access to higher education and jeopardise the successful completion of the studies. A tuition fee free education includes the 1st, 2nd and 3rd cycles, as well as free part-time studies and higher education courses provided to life-long learners.

Our call for higher education to be free and accessible is echoed in the UN Covenant on Economic, Social and Cultural Rights (iv) and the United Nations Declaration on Human Rights (v).

ESIB reaffirms its opposition to tuition fees, in whatever form they may be. Making students pay for their education in order to fill the national funding gap in higher education is unacceptable and undermines the right to education for all.

4. Alternative Financing (vi)

4.1 The Role of Local, Regional and European Authorities in Financing Higher Education

New sources of financing of higher education might be obtained by involving local, regional and European authorities. HEIs play an essential role in social and economic development of regions. Using structural funds of the European Union therefore raises the performance of HEIs in local and regional development. Instruments and programmes to fund higher education exist, both for the financing of HEIs, as well as for student aid, in particular for mobility of students.

The potential establishment of a European Mobility Fund will serve to compensate institutions for higher expenses incurred due to unbalance in mobility.

4.2 Alternative Sources of Financing of Higher Education

Various possibilities for attracting funds from private sector should be explored with caution. In the majority of European HE systems alternative sources of funding public universities have not been seriously considered. Therefore any step in this direction should be well supported by analyses of possible consequences and changes it might provoke.

Although alternative funding could be used to reduce the funding gap, education is a public and therefore state responsibility. ESIB condemns any further withdrawal of the state in this very crucial matter.

4.3 Main Principles to be observed in Relation to Alternative Funding

ESIB stresses the importance of observing the following principles in relation to alternative funding:

- Basic research and research purely for the sake of knowledge are of public interest and should not be jeopardised;
- The mission and objectives of HEIs should not be influenced by the short term interests of the corporate world;
- The development of all fields of study should be safeguarded. Particular attention should be devoted to less commercially attractive fields of study and financially demanding research areas.
- The distribution of alternative finances should be carried out in a transparent manner by democratic bodies, either on institutional or governmental level, or by a publicly mandated independent body, involving main stakeholders of higher education, with none of them prevailing;

- Measures of financing as a tool to support economic strategies should not prevent a students from choose their study path and final qualifications;
- Teaching should not be overshadowed by research activities. An adequate amount of money should always be available for improving the quality of programmes and developing new approaches to teaching and learning;
- The use of external money calls for greater transparency in budgets and in the general decision-making process of higher education institutions.
- Alternative sources of financing must not be used as pretext to reduce public funding, and never exceed the proportion of public funding.

5. Financing Students (vii)

5.1 Student support and access

ESIB stresses that without proper student support, a large number of people would be excluded from higher education due to economic reasons. When discussing student support it is important to keep in mind that higher education costs are not only those of tuition, but also include study and living costs such as housing, transport and study materials. Public money for students support should focus on helping less well-off students rather than students with the best grades.

To ensure the quality of learning and education, students need to be able to devote themselves to studies. Student support should also be there to ensure the stable learning process, without distractions caused by the necessity of earning money to afford to study.

Student support is given through grants, loans and free or discounted services. For students, the difference between receiving financial aid in the form of loans, as opposed to grants, is enormous. This draws a dividing line between the actual funding of students and generating a creditor-debtor situation. The latter is financial assistance, but not financial support, the condition of repayment making it a 'fake' measure of support. ESIB opposes any mode of financing students that gives rise to the burden of debt following graduation.

5.2 Home and Host Country Responsibility

With the increasing mobility of students, the question arises as to who should pay for this education. ESIB believes that the responsibility for mobile students should be split between the home and the host countries, with the home country providing portable student support (preferably in the form of grants) and the host country facilitating

transition into the studying environment and access to the related services. The host country would thus address issues such as housing, health care, and student discounts, ensuring that the same treatment is given to local and international students. The host country should ensure that legal mechanisms are in place to financially assist students who have no or insufficient grants from their home country.

ESIB strongly supports the idea of a European Mobility Fund. This is not only desirable, but even necessary in order to align differences in support systems, especially when students move from one country to another with a generally higher living cost.

6. Conclusions

Financing of higher education is definitely in the centre of concern for the academic community and policy-makers on governmental and international level. The core problem of the discussions is the funding gap. Based on expertise, research and participation of all stakeholders, including students, the design of a policy and approach to address this problem in a proper way should be reached.

There is a broad range of alternative sources of financing that should be analysed and considered with caution. All possible effects have to be kept in mind when diversifying the financing sources. When discussing alternative financing of higher education it should be remembered that there is no value free money, that every financing source implies interests and effects on the task and meaning of education. By no means and for no reason academic freedom and basic research should be jeopardised when searching for new sources. Special attention should be given to the distribution of money between academic disciplines, not neglecting the ones that are of less commercial value.

The discussion on tuition fees within the financing debate has so far led to no consensus between stakeholders. In practice, such an approach for solving the lack of money has demonstrated many drawbacks and harmful long-term consequences. ESIB therefore reaffirms that charging students must not be the way to solve the problem of the funding gap. ESIB furthermore stresses that trivial and superficial presumptions, as we can see them in the discussion on tuition fees, should not form the basis of a serious, long-term policy on financing of higher education.

The institutions carry the responsibility to take action to ensure the better use of the existing funds. However, in order to keep up sustainability and to guarantee the fulfilment of the multiple roles of HE in society, public funds must stay the prevalent source of financing of HEIs. Governments should take into account the long list of reasons for increasing the amount of money for higher education and perceive it as an investment, rather than expenditure.

Financing of higher education is the strongest element in determining the access and possibility for successful completion of the studies. The National Unions of Students in Europe point out the need for changes in the HE-system in order to close the funding gap. However, “funding gap”-arguments are no hiding ground for pushing reforms resulting in a decrease of democracy within, and access to HE. Furthermore, ESIB reaffirms that the public nature of HE is of vital importance for the present and future of the society.

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i Financing is defined as raising or providing funds from whatever source into a certain activity (in this case higher education institutions) or to furnish with necessary funds (student support). Funding is money given by a government or organisation for an activity, mainly seen as investing in the public funds.

Financing covers the broader picture, but they are also used synonymously. As this paper seeks to go beyond merely the public money to explore other sources of income for the higher education institution, we have chosen to use both terms in this paper.

ii Financing students – transfers financed by public sector in the form of grants, scholarships, subsidies, housing and other student services.

iii Tuition fee - A tuition fee is an economic contribution a student has to pay to a higher education institution, a country's higher education sector or the state, before, during or after their studies, in order to register, attend or to complete higher education.

iv Article 13(2)(c) of the International Covenant on Economic, Social and Cultural Rights of 1966 [Adopted and proclaimed by UN General Assembly resolution 217 A (III) of 10 December 1948] provides – “Higher education shall be made equally accessible to all, on the basis of capacity, by every appropriate means, and in particular by the progressive introduction of free education.”

v The United Nations declaration on Human Rights, article 26 (1); “Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit.”

vi Alternative financing – for the purpose of this paper the term is used to address the sources of financing which are not public and do not come from the students.

vii Financing Students is more thoroughly addressed in other ESIB policy papers, mainly the ones adopted in Cyprus -99; Student Welfare into the New Millennium and Turku -02; New approaches to student well-being.