Quality and Equity: The Effect of Private Sector Financing in Higher Education

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Abstract

Higher education is heavily dependent on sufficient funding in order to realize quality and equity. Access to higher education is undoubtedly an avenue to tapping into opportunities present in any economy and it is only morally and ethically right to provide inclusive and equitable access. Funding of higher education institutions has traditionally relied extensively on the public sector for several decades. However, over the recent past and with greater expansion of institutions of higher learning, an emerging trend of private sector funding to these institutions is rapidly increasing. The public sector still remains the dominant financier of higher education with the private sector coming in at a distance. The main challenge of many economies is the structured participation of the private sector in augmenting the role of the public sector in funding higher education. This would ensure equitable and quality learning which would promote sustainable development. This study reviewed the emerging trends of the private sector in funding higher education around the globe and its impact on creating equitable learning opportunities and enhancing quality in higher education. This study employed a descriptive desktop research approach. The study relied on secondary data available on the internet from international agencies and other sources. The private sector funding was reviewed on its effects on inclusivity and equity as per global standards on access to higher education. The study found that though there is a considerable contribution (over 30%) by the private sector in funding higher education, there is no evidence to support that this private funding in higher education contributes to better quality or improves equity in higher education.

Keywords: Funding, Private Sector, Public Sector, Quality, Equity, Higher Education

1.0 Introduction

1.1 Background

Funding in higher education is a catalyst to achieving quality and equity . The tapping of opportunities present in any economy is reliant on access to higher education and it is only morally and ethically right to provide inclusive and equitable access. Historically, funding of higher education institutions has relied extensively on the public sector. However, over the recent past and with greater expansion of institutions of higher learning, an emerging trend of private sector funding to these institutions is rapidly increasing. Evidence shows that the public sector still remains the dominant financier of higher education with the private sector coming in at a distance. The main challenge of many economies of the world is the structured participation of the private sector in supporting the role of the public sector in funding higher education. This would ensure equitable and quality learning which in turn would promote sustainable development. Worldwide, enrolment in higher education has been growing steadily: Between 2000 and 2014, the number of students in higher education institutions

more than doubled, rising from 100 million to 207 million. In the same period, the global higher education gross enrolment ratio increased from 19% to 34%. (UNESCO, 2016)

1.2 Problem Statement

Globally, enrolment in higher education is increasing. Improved progression rates in primary and secondary schools are contributing to increasing demand in higher education: As more students complete cycles of secondary education, they look to higher education to help prepare them for new careers, professions and life opportunities (Hauschildt et al., 2015). Thus, there is need for a commensurate increase in funding to ensure quality and promote equity in access to higher education. Funding in higher education institutions by governments has not increased proportionately with the increased enrolment numbers. The private sector has emerged to fill the gap through various avenues including tuition funding, industry collaboration, and infrastructure donations.

1.3 Purpose of the Study

This study seeks to assess the extent of private sector funding across the world. It will also consider the impact of such funding in contributing to improving both quality and equity in higher education.

1.4 Objectives of the Study

The general objective of the study is to determine the financial contribution of the private sector in funding higher education.

The specific objectives are:

1. To determine how much the private sector is funding higher education among countries of the world.

2. To determine the effect of private sector funding on quality in higher education.

3. To determine the effect of the private sector on equity in higher education.

1.5 Significance of the Study

This study is significant in demonstrating the role of private sector funding in higher education and its impact on quality and equity.

1.6 Delimitation of the Study

This study will focus on information available on the internet.

2.0 LITERATURE REVIEW

2.1 Theoretical Literature Review

2.1.1 Economic Theory

Economic theory according to Nicholas Barr (2007) postulates three key issues; one being that students should contribute to the cost of their education. This is because higher education creates benefits both to the individual and the society. This essentially points to the necessity of private funding in higher education to augment public financing. The second issue is the competition in higher education making equal public funding across the many different universities practically impossible. With the rise of both public and private universities offering diverse academic programs, it is increasingly difficult for taxes to finance higher education. Thirdly, since students should finance part of the education costs, students loans, which is the greater avenue to achieve this, should be well designed. This means that such loans should have low interest rates, should be large enough to cater for tuition and living costs, and repayment amounts should be manageable based on income earned.

2.1.2 Human Capital Theory

Any nation that aspires to develop and improve the well-being of its citizens must take its human capital investment seriously. Economic growth is widely understood to be closely linked to human capital development. However, the mechanism for this effect of human capital on growth is diverse, ranging from earnings, increased productivity, spill-over effects etc. (Oketch et al., 2014). Regardless of whether the benefits of human capital growth accrue to the individual student or the entire economy or both, higher education all over the world is paid for either by the taxpayer or individual students and their families. In some very few instances, prospective employers may offer funding; however, all over the world, higher education has become so expensive that the debate today is primarily about which funding model or combination is economically feasible and sensible, practical and moral, within any given context (Oketch, 2016). The recent riots by university students across Africa over proposed fee increases demonstrate the dilemma over the rising cost of higher education and who should pay for it.

2.2 Forms of Private Financing of Higher Education

Private sector financing of higher education takes various forms in different countries. The most common ones are:

i. Private payment for tuition fees: These are tuition fees coming from the private sector, donors, households, families and friends.
ii. Payment of living expenses by private sources: These are living expenses paid by households or donors.
iii. Industry collaborations: This is where industries collaborate with universities to fund research projects and other university activities undertaken by students.
iv. Infrastructure funding: Well-wishers and donors are rallied to fundraise for infrastructure projects within universities.

Hahn (2007) discusses more recent innovations in the private financing of higher education as follows:

Bonds issue: One way that higher education can tap private capital markets is through the issuance of bonds. A university can issue bonds on a public exchange, and over time investors are repaid the original capital plus some interest rate. This interest rate reflects the risk that the institution will fail to meet its obligations; in other words, that it will default. The likelihood of default, in turn, is determined by the financial health of the institution, rather than by the specific project for which money was borrowed.

Securitization: A financial technique originally developed in the housing market, securitization has been used to facilitate the issuance of student loans and the payment of tuition. Securitization bundles together groups of similar assets that support a regular payment stream—in this case, student loan payments or tuition.

Foreign direct investment: Over the past decade, many universities have invested in a branch campus overseas. These branch campuses attempt to match the curriculum of the parent institution and offer an identical degree. The potential for the growth of foreign direct investments in higher education is uncertain. The General Agreement on Trade in Services, part of the World Trade Organization's attempts to liberalize trade, contains articles that provide for the liberalization of higher education provision. To what extent higher education falls under this exemption has not been resolved (Knight, 2006).

2.3 Quality in Higher Education

Quality of education is defined by UNICEF (2000) as outcomes that encompass knowledge, skills and attitudes, and are linked to national goals for education and positive participation in society. Educational quality can be measured by means of indicators (Scheerens et al., 2011) which include educational input, process, outcome and context indicators. There is yet to be an international consensus on the parameters of quality at higher education. International accrediting agencies such as The Higher Education (THE) and Quacquarelli Symonds (QS) however seem to have convergence on the following three qualities:

1. Citations per faculty: This is the number of times a university's published works are cited by academics.

2. Faculty/student ratio: This measures the number of undergraduates admitted by an institution scaled against the number of academic staff.

3. Internationalism: This is a measure of how diverse the institution is with regard to its ability to attract the best staff and students from across the world.

2.4 Equity in Higher Education

Increased access to higher education has given rise to questions about who has benefited from this expansion, and whether such growth has been equitable. By equity, we follow McCowan's (2007, p. 582) definition that "there must be sufficient places so that all members of society who so desire, and who have a minimum level of preparation, can participate in higher education". McCowan further identifies that achieving equity would mean that all those who meet the first criterion would have a fair chance of accessing institutions of their choice, such that certain groups or individuals are not constrained to lower-quality institutions. The second criterion is nation specific and it is likely that those from disadvantaged backgrounds are less likely to be prepared for access to higher education.

3.0 RESEARCH METHODOLOGY

This was a desktop descriptive research and did not involve field inquiry. The research relied on information available on websites and publications of international agencies. In future, when more data is available, a more in-depth and analytical study can be carried out. The information used in this document are believed to be authentic and provided by the relevant bodies to engage the public in meaningful discussion.

4.0 DISCUSSION, SUMMARY AND RECOMMENDATIONS

4.1 Trends in Private Financing of Higher Education

The data available on private financing of higher education is very limited with reliance now on the enrolment in private universities and number of private universities as shown in the table below:

Table 1: Private and public universities shares for 26 countries 2000-2009

Private and Public Higher Education Shares for 26 countries (2000-2009)							
	Country	Private / Total Universities Enrolment	Private % of Total Universities Enrolment	Year	Private / Total Universities	Private % of Total Universities	Year
1	Argentina	(254,117/1,539,742)	16.5	2005	(54/99)	54.6	2003
2	Bangladesh	(91,648/207,577)	44.2	2005	(53/74)	71.6	2005
3	Bolivia	(56,764/312,769)	18.2	2003	(40/57)	70.2	2005
4	Brazil	(2,224,824/3,325,125)	66.9	2007	(203/303)	67	2007
5	Bulgaria	(39,107/246,523)	15.9	2008/09	(7/43)	16.3	2008/09
6	Chile	(340,702/509,523)	66.9	2007	(45/61)	73.8	2007
7	Colombia	(506,137/900,435)	56.2	2005	(116/171)	67.8	2007
8	Costa Rica	(86,951/162,925)	53.4	2004	(50/54)	92.6	2004
9	Czech Republic	(40,939/344,180)	11.9	2007	(42/70)	60	2007
10	Dominican Republic	(159,867/319,263)	50.1	2005	(31/33)	93.9	2005
11	Egypt	(39,000/1,766,000)	2.2	2003	(13/28)	46.4	2005
12	El Salvador	(79,299/115,715)	68.5	2006	(25/26)	96.2	2006
13	Germany	(15,760/1,339,274)	1.2	2008/09	(21/109)	19.3	2008/09
14	Hong Kong, China	(95,238/ 160,295)	59.4	2007/08	(2/9)	22.2	2007/08
15	Italy	(110,624/1,780,743)	6.2	2006/07	(17/74)	23	2006/07
16	Japan	(2,071,642/2,828,635)	73.2	2007	(580/756)	76.7	2007
17	Kenya	(91,541/173,032)	52.9	2004/05	(17/23)	74	2004
18	Lithuania	(4,992/141,771)	3.5	2005/06	(7/21)	33.3	2005/06
19	Norway	(883/87,562)	1	2006/07	(1/12)	8.3	2006/07
20	Poland	(20,654/563,062)	3.7	2005/06	(6/24)	25	2005/06
21	Portugal	(67,157/241,054)	27.9	2004/05	(46/65)	70.8	2004/05
22	Romania	(50,576/21/,860)	23.1	2005	(52/107)	49	2005/06
23	South Korea	(1,439,297)/1,836,649)	78.4	2004	(145/171)	84.8	2004
24	Spain	(132,000/1,463,000)	9	2004/05	(24/74)	32.4	2006/07
25	United States	(4,463,537/11,630,198)	38.4	2007	2,022/2,675)	75.6	2007/08
26	Uruguay	14,273/95,396)	15	2007	(11/15)	73.3	2003
	Average		**33.22**			**56.85**	

Source: U.S. Department of Education, National Center for Education Statistics. Digest of Education Statistics: 2010.

The average enrolment in private universities was an average of 37% as per Table 1 above for the period 2000-2009. The number of private universities was much higher over this period at 58% and contrasting the enrolment number in private universities which may have indicated low enrolment in private universities. Most importantly, if the enrolment in private universities at an average of 37% is to be seen as an indicator of private financing of higher education, then probably, the level of private financing in higher education may have been higher than the 37% over this period since private financing is also a component of financing even in public universities. This is collaborated by a joint report by UNESCO and World Conference on higher education in 2009 which puts private funding in higher education at 30% (World Bank, 2009).

Table 2: Private and public higher education shares for 38 countries 2000-2009

	Private and Public Higher Education Shares for 38 countries						
			(2000-2009)				
	Country	**Private % of Total Higher Education Enrolment**	**Private % of Total Higher Education Enrolment**	**Year**	**Private /Total Higher Education Institutions**	**Private % of Total Higher Education Institutions**	**Year**
1	Argentina	(489,039/2,048,876)	23.9	2005	(1,327/2480)	53.5	2003
2	Bangladesh	(61,108/423,236)	14.4	2003/04	(54/111)	48.6	2005/06
3	Bolivia		27.8	2004	(1,530/2,015)	75.9	2004
4	Brazil	(3,639,413/4,880,381)	74.6	2007	(2,032/2,281)	89.1	2007
5	Bulgaria	(58,380/332,654)	17.6	2008/09	(16/53)	30.2	2008/09
6	Chile	(584,722/753,543)	77.6	2007	(205/221)	92.8	2005
7	China	(4,013,010/20,210,249)	19.9	2008	(640/2,263)	28.3	2008
8	Colombia	(600,731/1,212,035)	49.6	2005	(197/279)	70.6	2007
9	Costa Rica	(93,730/171,792)	54.6	2004	(57/121)	47.1	2004
10	Cyprus	(13,712/20,587)	66.6	2005/06	(29/36)	80.6	2005/06
11	Czech Republic	(29,201/327,955)	8.9	2004	(95/237)	40.1	2004
12	Dominican Republic	(160,603/323,439)	49.7	2005	(38/43)	88.4	2005
13	Egypt	(447,000/2,325,000)	19.2	2003	(109/174)	62.6	2005
14	El Salvador	(82,812/124,956)	66.3	2006	(35/42)	83.3	2006
15	Germany	(94,285/1,920,102)	4.9	2008/09	(122/356)	34.3	2008/09
16	Israel	(26,860/205,149)	13.1	2005/06	(8/61)	13.1	2005/06
17	Italy	(146,796/2,029,023)	7.2	2006	(17/83)	20.5	2006/07
18	Japan	(2,924,022/3,776,623)	77.4	2007	(4,199/4,689)	89.6	2007
19	Kenya	(21,132/118,239)	17.9	2008	(17/130)	13.1	2004
20	Latvia	(40,713/127,760)	31.9	2007/08	(22/60)	36.7	2007/08
21	Lithuania	(16,438/193,928)	8.5	2005/06	(19/49)	38.8	2005/06
22	Malaysia	(322,891/634,033)	50.9	2004	(559/576)	97	2004
23	Mexico	(745,018/2,232,189)	33.4	2007	(1,175/1,617)	72.7	2007
24	Mongolia		26	2003		64.2	2003
25	Norway	(28,434/211,559)	13.4	2006/07	(32/70)	45.7	2006/07
26	Oman		24.7	2006	(22/25)	88	2006
27	Poland	(660,464/1,937,401)	34.1	2007	(315/445)	70.8	2005/06
28	Portugal	(98,664/380,937)	25.9	2004/05	(110/165)	66.7	2004/5
29	Romania	(265,243/785,506)	33.8	2007	(37/67)	55.2	2003
30	Russia	(1,024,000/ 6,884,000)	14.9	2004	(409/1,071)	38.2	2004
31	South Korea	(2,565,888/3,204,036)	80.1	2006	(280/322)	87	2002
32	Spain		9.6	2001		30	2003
33	Taiwan		71.9	2004		65.8	2004
34	Thailand	(173,007/1,750,777)	9.9	2007	(70/149)	47	2007
35	Turkey		5.8	2005/06	(30/115)	26.1	2005/06
36	United States	(4,757,348/18,248,128)	26.1	2007	(2,667/4,352)	61.3	2007/08
37	Uruguay	(14,426/123,139)	11.7	2007	(14/63)	22.2	2003
38	Venezuela		41.6	2004		56.8	2005
		AVERAGE	**32.77**			**56.10**	

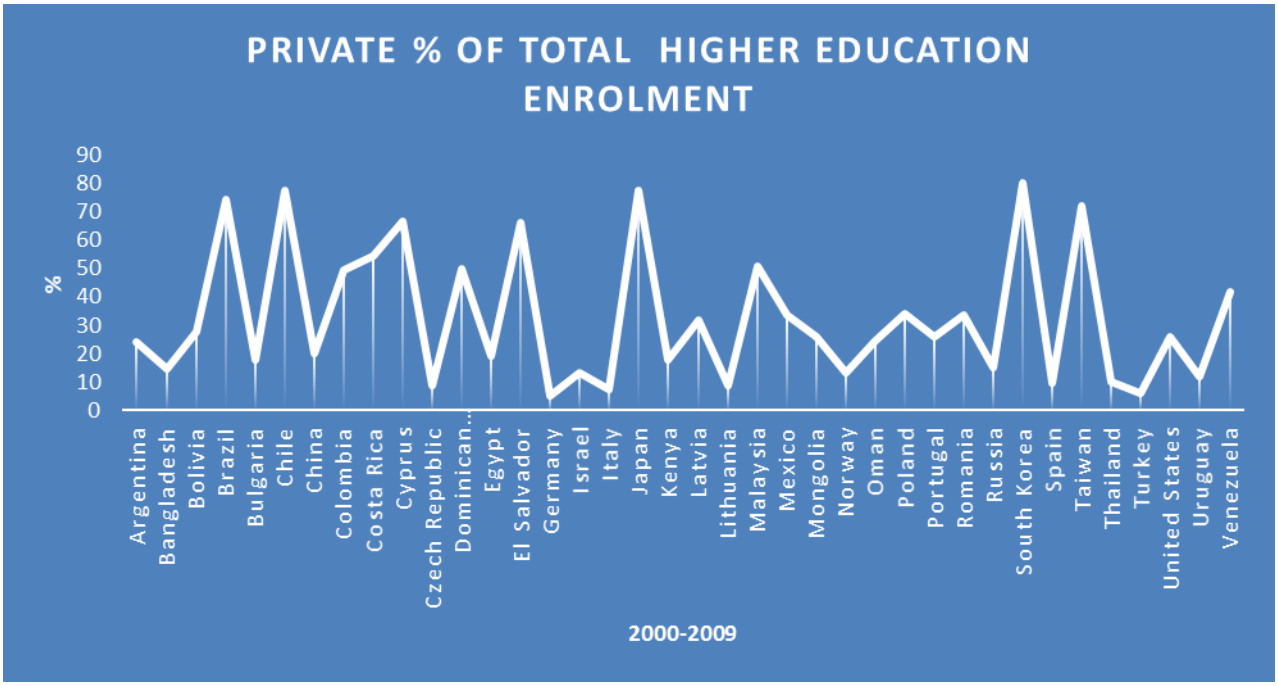
Source: U.S. Department of Education, National Center for Education Statistics. Digest of Education Statistics: 2010.

When we include all higher education institutions with data available for private enrolment and number of private higher education institutions as in Table 2 above, the average enrolment in private higher education institutions goes down to 32% while the average number of private higher education institutions almost remains the same at 56% over the period 2000-2009. The indication here is that across the tertiary institutions, private funding declines as compared to public funding assuming full funding at public institutions of higher learning.

There are 6 countries out of the 38 countries (15%) reviewed with enrolment at less than 10% in private higher education institutions. The participation of private funding over this period seems to be significant with 85% of the countries reviewed recording enrolment of at least 10% in private higher education institutions (Table 2.1).

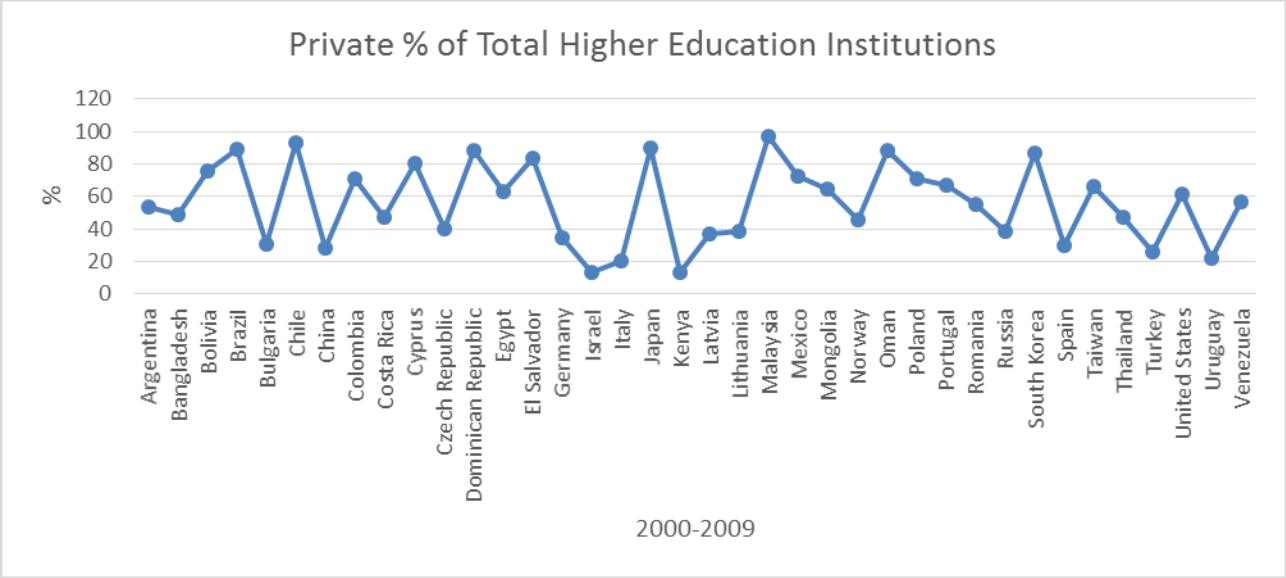
The private funding is more evident in the percentage of private higher education institutions as per Table 2.2 below with only 2 countries (Israel and Kenya) recording less than 20% private institutions of higher learning. The investment by private investors in institutions of higher learning is in itself a major component of private funding in higher education. At 56%, this is a clear show of involvement of private actors in funding of higher education.

Table 2.1: Graphic presentation of private enrolment as a percentage of total higher education enrolment



Source: Author 2018

Table 2.2: Graphic presentation of the number of private higher education institutions as a percentage of total higher education institutions

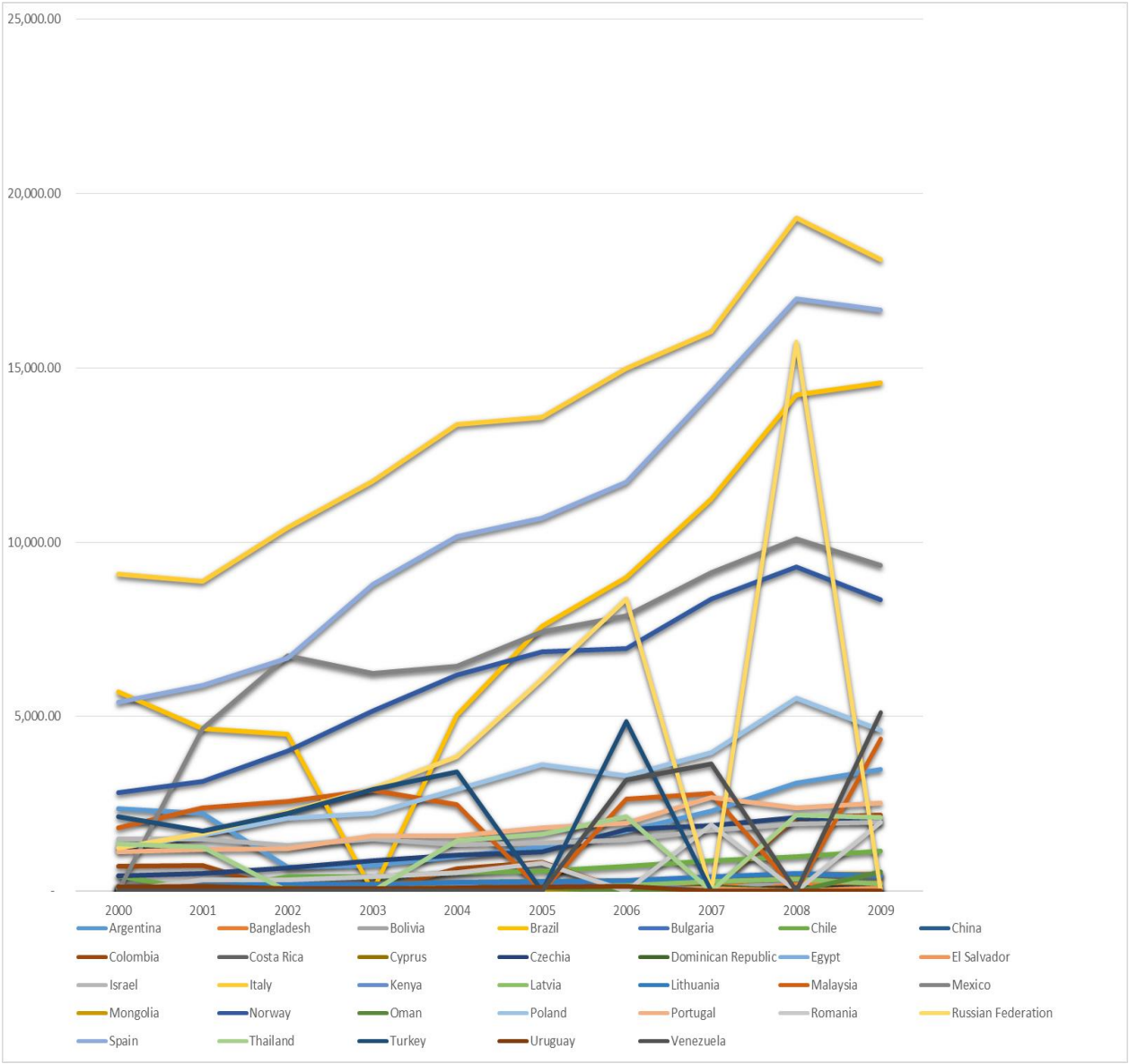


Source: Author 2018

When we compare government funding over the period 2000-2009 in countries where the spending is less than $20,000 million per year as provided by UNESCO Institute for Statistics (UIS) in Table 3 below, it is only in 6 countries where the government spending in tertiary education considerably increases and it almost remains constant or even declines in the rest. This trend may have indicated the introduction of private funding during the period with increased enrolment in tertiary education or constrained public funding in higher education institutions which may have affected quality. Out of the 38 countries, only three countries, namely, the United States of America, Japan and Germany had government expenditures over $20,000 million per year in tertiary education which also recorded tremendous growth in student enrolment in higher education over the period. The period 2010-2015 more or less reports the same pattern in government funding. The government expenditure on tertiary education as a percentage of GDP for the period 2000-2015 shows a marginal increase in a majority (90%) of the countries with a few countries showing marginal decline.

The trend in private funding in higher education is observed in the period 2000-2009 where data is available. During this period, the level of private funding in higher education is slightly over 30%. For the period 2010-2015, no data is available for the level of private funding in higher education. It is worth noting that as per data by UIS, the period 2000-2009 recorded the highest growth in enrolment rates in higher education (between 32% and 106%) and in the period 2010-2015, enrolment in higher education slowed down across Africa, Asia, South America and Oceania. Higher education enrolment actually dropped in Europe (-12%) and North America (-2%) in the period 2010-2015. These enrolment rates support the rapid growth in private funding in higher education in the period 2000-2009. The private sector may have tapped into the business opportunity presented by rising enrolment numbers in higher education in the period 2000-2009. With dropping enrolment rates in higher education in the last few years, the incentive for the private sector to contribute to funding higher education may also have dwindled.

Table 3: Government funding of tertiary education shown in US$ millions 2000-2009



Source: Author 2018

4.2 Impact of private funding on higher education quality

Quality is assessed against universities' ranking as the only available tool currently used to measure quality in higher education. Based on the universities' ranking around the world, only universities in 13 out of the 38 countries reviewed made it to the first 200 THE-QS world ranking of universities in 2009. Though this study has not identified the number of private universities in this ranking, there is little or no evidence to support private funding contributing to better quality in higher education. This may be due to two main reasons; one is that the private funding in higher education is still a small portion compared to government funding, and two, data on the measurement of quality in tertiary institutions apart from universities is yet to be available, and maybe, most importantly, is the lack of internationally agreed tools or criteria for quality measurement in tertiary institutions.

4.3 Impact of private funding on equity in higher education

According to statistics from UIS, enrolment in Africa and Asia almost doubled in the period 2000-2009 with the rest reporting around 40% increase in enrolment in tertiary education. Further, the data shows that, across countries in Asia and Africa, the levels of attendance of higher education remain generally low, with fewer than 5% of young people gaining access in many countries. The poorest in these countries are least likely to gain access, with almost none of the poorest in some countries reaching higher education. Wealth gaps are reinforced by gender gaps, resulting in the poorest young women most likely to be excluded from higher education. Gender based inequalities appear to be wider when overall enrolment in higher education is higher, highlighting two important issues. Firstly, in countries where only the richest have access to higher education, males and females have equal chances of reaching this level. Secondly, as participation expands, it is the young rich men who currently stand to benefit the most.

4.4 Summary

Though there is an effort of private funding in higher education, the level of such funding is yet to reach a significant level, especially a level which can contribute to better quality and improve on equity. There is a lack of current data especially on the level of private funding in higher education. The data available shows increased enrolment rates in higher education with double increase in Asia and Africa which is not matched with commensurate increase in government funding and there is no data to support that private funding is increasing at the reported rates of enrolment. This is likely to pose challenges with regard to quality within the three areas identified before: Faculty/student ratio, citations per faculty, and internationalism. The increased enrolment numbers in higher education across the world may not necessarily translate into increased equity. Increased enrolment may have opened up more opportunities for access but may not have provided equitable access to disadvantaged people groups and across genders.

4.5 Recommendations

The following are recommendations of this study:

1. Private actors need to find innovative ways of funding tertiary education so as to augment the governments' efforts globally.

2. The private sector needs to engage universities to create sustainable funding models in higher education which mutually satisfy the private sector's required rate of return and achieve higher education funding based on each nation's specific needs.

3. The private sector needs to intentionally channel philanthropic support to ensure quality and equality in higher education.

4. Governments can provide tax subsidies to private actors to attract more private funding in higher education especially where such funding is aligned to achievement of Sustainable Development Goals (SDGs)

5. Further research can be undertaken to analytically study the relationship between private funding and its impact on both quality and equality.

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