

UNIVERSITY FUNDING MECHANISM

A Commentary Note By

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The greatest asset currency in the New Economy will be a well-trained and educated population with tertiary education playing a vital role in the intellectual advancement and fulfillment of individuals and in the development of a creative, socially cohesive community and in the pursuit of life long learning. Universities in particular educate future leaders and develop the high level technical capabilities that underpin economic growth. However, the cost of running (public sector burden) Universities in particular keeps increasing, leading to national policies on education with trade-offs between primary, secondary and tertiary education due to limited resources.

In Malaysia, we are, as I understand very interested in reengineering the way we fund our universities to make universities more cost-effective, transparent and accountable. It is with this view that I am going to approach my discussion.

General Observations

It is quite clear from both presentations that there is no SINGLE best way to university funding. In both cases, we notice historical aspects especially earlier policies have an impact on the funding models. We see that over time, both nations evolving and fine tuning their funding mechanisms for it to be more responsive to changing public expectations and to changing operating environment. With the current trends of globalisation of the tertiary education sector, I believe, it will lead too not only more frequent reviews of the funding mechanisms but also towards much more innovative national education policies and operating frameworks.

However, whether developed or developing, in tertiary education we all face fairly similar problems, constraints and expectations. These being democratisation of higher education - the question of accessibility, affordability, and equitability, greater accountability and transparency, optimal uses of limited resources and very importantly competing for limited public funds. It is interesting to note that even in the US public component of the total source for funding is not less than 50 per cent. There are many nations however; who provide funds as high as 99% e.g. Denmark and Holland. Here in Malaysia public funds account for 90% of the total source. I will have more to say about this later.

Fundamental to the funding mechanism is the nature of relationship between the State and the University. In many countries, developed as well as in many developing countries e.g., India, Universities are not treated as mere extensions of the government ministry but is given autonomy or semi autonomy. Hence, we often see the creation of a buffer organisation such as the University Grants Commission in India, and Higher Education Funding Council in the UK. There are obvious

attractions to such a mission orientated buffer organisation. Such an organisation will not only be able to set guidelines on the use of public funds but also establish financial procedures more suited for operating universities. A mission orientated buffer organisation can also be expected to advice government, determine minimum standards in quality education, be responsible for promoting accountability and good practices. There are many more things we could say about such a mission orientated organisation but time does not permit.

From the papers too, there is substantive evidence for the need of establishing a structural university-funding framework with certain guiding universal principles embedded within. These principles include:

- Accountability – there is no need for further explanation here
- Equitability – equity in the distribution of public funds amongst universities
- Flexibility – funding mechanism must be sufficiently flexible to accommodate changes in public policies
- Responsiveness – responsive to local and global changes in the demand for university services
- Neutrality – should not generate unintended biases for institutions to take particular actions in order to enhance their funding share
- Predictability – because they must address long term goals
- Stability – should generate funding entitlements which do not vary too much from year to year – non volatile, and finally,
- Simplicity – to provide high degree of accountability the principles underpinning the funding mechanism should be comprehensible to the public.

In addition the funding mechanism should be an instrument which will also address issues of affirmative action, allow each university to develop its own distinct research concentrations, be very much performance driven providing incentives and sanctions.

In both presentations, we see many of these guiding principles in play. However, the funding model adopted depends very much on which domain takes precedence nationally.

We notice that both in the US and India as well as in most countries including Malaysia we have abandoned the bureaucratic approach for funding. In both the formulaic approach has been used. This method of funding is predominant worldwide due to the following attraction:

- Equity through use of objective criteria
- Depoliticizes funding decisions
- Transparent
- Facilitates of budget allocation

However, the formulaic funding approach is not without a downside. Main weakness include:

- Formulae can be so complicated only a few understand.
- Inflexibility in parameters can lead to inequalities – because it is based on past practices.
- Often very much input orientated – based on students numbers, level and field of study based on past instructional practices.
- May be slow to respond to newer more cost - effective modes of instruction.
- Tends to concentrate on the quantifiable – does not take into account institutional quality.
- Weighages can be manipulated.

Nevertheless, the formulaic approach appears to be the best option we have at the moment.

The funding mechanism

Having considered the broader picture, let us now turn our attention to the specifics. What percentage of the funding source does the State contribute is very much depended on national education policies. As mentioned earlier, it is important to note that firstly, public funding is between 50 – 70 percent in most universities in the US. It can be very much higher in other countries as mentioned by the second presenter. In Malaysia, the figure is close to 90%.

We hear that in the future (15-20 years from now) Malaysian universities should not expect more than 70% of operating funds to be public funds. This very much meets the criteria (both presentations alluded to) that universities should not be over depended on only one sources of funding. The composite model shown in the US indicates that funding sources for universities should be a basket of several sources with tuition fees making up 25% of total funds sourced.

A similar funding mechanism will necessitate local universities to generate 30% of their operating cost from tuition fees, other student fees, endowments, merchandising, R&D activities, interest, leasing, renting, etc. At present, in most local universities, funds generated from such sources account for less than 10% of the total funds, with tuition fees making up the bulk (6%) of operating funds.

Does this mean that Malaysian Universities will have to eventually and gradually raise tuition fees even further? it is a sensitive question not only in Malaysia but the world over. However, if there is no compromise for quality tertiary education alternatives must be explored. Local universities will have to plan their approach towards obtaining greater returns from their fixed assets, human capital, financial investments and R&D activities. Universities in Malaysia will have to pay greater attention towards increasing endowments, merchandising and cost-sharing, if we are to achieve a good basket of funding sources.

Funding disbursement

The public funds component of the basket of funding sources, in many different ways as shown by the two presentations. After studying many other modes, at the risk of being provocative may I suggest that the following funding envelopes:

- (1) **Block grant envelope** – It should be formulaic in nature and should constitute 90% of the total public funds for the university. The block grant envelope will ensure that the university goes about its business predictability in teaching, research and community service. This grant should be also contractual in nature with the university seen as a contractor providing a set of specific mutually agreed services. It places university in national context and shall have built in specific performance objectives with clear deliverables and sanctions for nonperformance.

There are obvious attractions for such a funding envelope, mainly:

- (a) university does not have to work in an uncertain environment
 - (b) being formulaic it is objective
 - (c) it is performance based
 - (d) it is transparent and public is aware of deliverables
- (2) **Performance envelope**- this funding envelope should make up not more than 5% of total public funds to the university. It should be based on desirable outcomes and used as an incentive for university in meeting public policies e.g.:

- (a) university initiatives taken to met specific public policies e.g. teaching programmes,
 - (b) increase in student performance
 - (c) alumni satisfaction
 - (d) corrective measures to address administrative weakness
- (3) **Strategic envelope** – this funding (5% of total) is specifically for meeting national strategic needs e.g.:
- (a) matching grants in commercialisation activities to develop mix basket of funds sources
 - (b) staff and student grants for training nationally priority areas
 - (c) innovation in teaching, research and community service

I have tried to discuss the issue of funding both from an overall broad perspective as well as operational matters. A funding model for university operations needs careful studies as the implications are very serious. Naturally, many of the issues raised here need further elaboration and deliberation. During the discussion and through the course of this conference I am sure we will be able to address some of these.

SUMMARY REPORT OF SESSION 2

The paper "University Funding Mechanism - A Developed Country Model" by Prof. Dr. Dunning looked at four possible models of universities in the case studies. This was for the purpose of identifying the benefits and drawbacks to illustrate what could be a possible efficient system of funding higher education. The models are Large Research Universities, Small Teaching Universities, "Private Sector" Model, and Canadian Model.

About 90% of the funding of state universities came from a combination of student tuition and fees and state appropriations and federal grants. Other sources of income are from Indirect Cost Recovery (research and creative activity), Sales and Service (bookstore profits, university logo etc.) and Contracts and Grants (research grants) and Interest, Gifts and Rent.

The U.S. Composite model would indicate funding of more than 50% from State Support and Tuition and Fees. The Contracts and Grants and Sales and Service categories would provide 30% of the funding. The strength of this model is that there would be distribution of sources, research excellence, high quality faculty and low cost to the State. The weaknesses with the emphasis on research, questionable teaching quality and perhaps less responsive to state needs. The Indiana State University was considered to be the Teaching Based Model. The State Appropriation would be 72% while the Student Tuition and Fees would be 25%. The Strengths would be high quality teaching, low cost to federal government, focused on state's needs. The weakness would be lack of research; faculty not always state of the art, dependent on state and high cost to state/student. The University of Michigan was taken as the "Private Sector Model". The University Hospital would provide for 49% of the funding while Tuition, Federal Grants and State Appropriation would provide 36%. The strength of this model is the low cost to the state and federal government, high research visibility and state of the art faculty. The weakness was the high dependence on one funding source, questionable teaching quality, and faculty entrepreneurship vs. loyalty to institution. The University of British Columbia was the Canadian Model. The Grant and Tuition was 68% and the research funding was 27% while the endowment interest was 5%. The strength was the high research profile, good student teacher ratio and low cost to the Federal government. The weakness was the little emphasis on teaching, high dependence on one source, inflation vs. increase in provincial grant and high cost to the students.

In conclusion the paper suggested that Malaysia with its strong tradition of cooperation between the private, public and educational sectors and planning, could plan for a system that fits its needs, perhaps borrowing from the examples provided.

The paper "University Funding Mechanism in India - A Developing Country Model" by Mr. Hussain examined the current status and the system of funding higher education in India. Challenges of reduced public funding implications for higher education was also discussed.

The importance of human resource development considering the move to a knowledge-based society was emphasized. In this respect, resources limit developing countries. In the sharing of resources the current debate is on the investment level for education- in primary and higher education. The rational was that investment in primary education would benefit society. While the

investment in higher education would largely benefit the individual. Thus while there has been large developments in the higher education institutional growth, the number of youths in institution of higher education are a mere 6% compared to 51% in OECD countries. There has always been debate about accessibility, affordability, equitability, accountability and transparency in institutions of higher education.

History has influenced the funding for higher education, which has been primarily been from the central or state governments. A University Grants Commission (UGC) was established to facilitate funding for Universities. The UGC is also responsible for coordination, determination and maintenance of standards of the Universities and advises Central and State governments. It receives grants from Central government and provides Universities with both operating and developmental grants to universities. State universities receive maintenance grants from State Governments while developmental grants are equally shared between the government of India and State Governments. The fees charged for tuition have always been very low and proposals to increase fees as revenue become a political issue.

Private colleges are free to decide their own fee structure and together with endowments is the primary source of funding. There has been a proliferation of private colleges in India in the last few years. They have been in the fields of management, engineering, medical and currently an enormous growth in computer education.

Current efforts to review the funding of higher education institutions include:

- The present ad hoc system of where additional grant based on expenditure in previous year would be replaced by a scientific basis of per student cost.
- The universities would generate 25% of recurring expenditure over a period of 10 years. The universities would be allowed to retain the resources raised by them.
- Public funding for higher education should continue.
- There would be revision of tuition fee.
- Universities are also encouraged to raise donations from alumni and industry.

The discussions to look for alternative ways of financing higher education continue in India. From the obvious method of increasing tuition fees to the idea of setting up a bank for educational institutions are under consideration.

Professor Robinson agreed that resources were declining and funding was decreasing while tuition fees were increasing for universities. He argued that both primary and tertiary education was to be regarded as important to society. In that context public funding would be an important tool for advancing a knowledge-based economy.

The issues put forward by the speakers with regards to university funding are pertinent. Universities should not be over-dependent on one source of funding. There is also the desire for government to control universities to ensure effectiveness.

The correct perspective of universities is that universities should be considered as international entities. There would exist global universities with local relevance. After all, knowledge has no borders. With the globalization of higher education, new players have emerged. The government's role is seen as an enabler. There could be the creation of entrepreneurial universities. Universities would take action to foster merit and networking. There could be joint ventures in research and

other areas. The demand for such facilities cannot be met by the state alone and we have the emergence of the private sector.

Prof. Dr. Ansary Ahmed made the following general observations:

- No single best way to tertiary funding as presented by both speakers.
- Historical aspects have influenced the funding mechanisms in both nations
- Funding mechanisms are based on the nature of relationship between the government and the university and in most cases they are given partial or full autonomy.
- Creation of buffer institutions such as the university grants commission to administer and regulate the management of tertiary education.
- Tertiary education whether in developed or developing countries will have to address issues such as democratization of Higher education, accessibility, affordability and equitability, greater accountability, optimal use of limited resources and most critically; competing for limited public funds.
- Funding policies depend on national education policies. Public funding is between 50-70% in most U.S. universities while the rest is derived from a variety of sources with tuition fees being another primary source.
- In Malaysia, public funding constitutes close to 90% of tertiary education. However, universities have been told that in the future, government allocation may not exceed more than 70% of their operating expenditure.

Several proposals forwarded were:

- A university funding framework that encompasses accountability; equitability (fund distribution); flexibility (to accommodate changes); responsiveness (university services); neutrality (fair play); predictability (long term goals); stability (non-volatile); simplicity (transparent and easily understood); performance driven; research orientated and should address affirmative action.
- Formula. While the formulaic approach used by many countries to finance tertiary institutions may have advantages such as equitable distribution via use of objective criteria; depolitize funding decisions; is transparent; facilitates budget allocation; it also has demerits such as use of complicated formulas; rigid therefore inflexible criteria; is input oriented without considering qualitative dimensions. However, in the current situation, it is the best option available.
- Sources. If the quantum of funding by the government were to reduce, then Malaysian universities have to explore other options to supplement their income such as raising fees, competing for research funds, obtaining greater returns from their fixed assets and human capital; investment activities; endowments etc.

Government's allocation should be based on:

- Block Grant envelope that should constitute 90% of total funds tied to mutually agreed services to be rendered such as teaching; research etc.
- Performance envelope which should make up 5 % of the funds tied to qualitative measures of output such as student performance standards etc

- Strategic envelope constituting 5% for meeting national strategic needs such as innovation in training, research and community service.

The following issues were raised:

- The public sector gets all the funding from the government while the private sector does not get any funding. Would a hybrid organization emerge in the future where the private sector also gets funding. This may be cost effective way to provide for higher education. Would be possible that private universities with good record gets a form of block funding. In the U.S. universities like Stanford, Cornell and Duke obtain federal grants. Another possibility would be to tie the money to students and see where the students choose to go.
- In Malaysia, students get grants and loans. The follow up for postgraduate studies may be difficult. Different modes of how private universities get funding in the U.S. and India has been discussed.
- Three questions related to funding were proposed for discussion. How do we fund teaching vs. research, how should public money be spent and how much should be spent for higher education and how do we distribute public money?
- Experience has shown that teaching and research are usually funded separately. With regards to how public money should be spent for higher education there has to be a formula to be competitive. It could be tied to the tax structure and we have to consider the activity as one of capacity building where the whole country would benefit.
- Currently there exist major differences between the two sectors of private and public providers of higher education. Even the related aspects of teaching and research are affected. New providers of higher education concentrate more on teaching than advancing knowledge through research.
- There is also the high cost of higher education cost to be considered. Distance education could in some way reduce this cost. Details of methodology etc. have to be worked out.
- The government through its loan schemes for students wanting to pursue higher education has allowed students the option of choosing where they would want to spend the money.
- From the Malaysian experience we have to plan carefully with regards to public and private sector involvement in higher education. The divide between the private and government run hospitals should act as a reminder. The salary differences between the two sectors mean poaching of staff and all the related problems. To provide for greater autonomy of the universities corporatization was proposed. This would reduce dependence on government as primary source of funding. We may also look at other sources of funding and get people to invest in funding.
- The concept of electronic education aiding in distance education was also discussed. Electronic learning could benefit rural population and those that do have access to higher education. Though the medium is interactive learning we should consider the compatibility of such techniques to learner style. The computer is an enabler and not a solution. The transmission model was only considered to be 30% effective.
- A broader view of higher education is to consider the social, economic and political dimensions. Could we provide enrolment opportunities at affordable fees for all concerned? We also have to take into consideration the strategy to develop Malaysia as a regional centre of higher education and learning. There has to be adequate policies and plans and the different models that have been discussed have to be adapted to best suit our needs.

SESSION 3

PLANNING ISSUES IN HIGHER EDUCATION

Chairman: YB. Dato' Dr. T. Marimuthu
Member, National Committee of Higher Education, Malaysia

Paper: Planning Issues in Higher Education
YBhg. Tan Sri Datuk Dr. Johari Mat
Secretary General, Ministry of Education, Malaysia

Discussants: Professor Shih Choon Fong
Vice-Chancellor, University of Singapore, Singapore

Associate Professor Supachai Yavapraphas
Secretary General, ASEAN University Network, Thailand

Mr. Tan Yew Sing
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