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Governance and Funding of Higher Education – International Trends and Best Practices

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Abstract

The aim of our research was to overview and analyse the best practices of higher education funding (mostly in the EU, with a highlight to Central and Eastern Europe) and to make proposals for Hungary in designing its own system of funding focusing on quality, sustainability and the possible inclusion of private (entrepreneurial) contribution. During the research we unfolded the international trends and the Hungarian practice of governance and funding of higher education with concrete examples from Germany (Martin Luther University in Halle-Wittenberg), Great Britain (University of Manchester), France (Lille Institute of Political Studies), and from Central and Eastern Europe with special focus on Poland (Jagiellonian University in Krakow) and Slovenia (University of Ljubljana). This paper provides a brief summary of the general trends in financing higher education, and we highlight a few funding solutions that could be used by the CEE countries as well.

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1. Introduction

Funding higher education has been a hot topic for a couple of decades. The reason for this is the mass fiction of higher education, which is a process still unfinished. Increasing heterogeneity of students' needs resulted in the a growing number and a wider variety of educational programmes and a more differentiated higher education sector with many new institutions (colleges, polytechnics, for-profit institutions etc.). As the complexity of the sector is growing the role of government changes: the task is to guide a complex ecosystem made up of many different agents with many different interests instead of the direct control of homogeneous institutions. The autonomy of institutions (Estermann – Nokkala, 2009; Jongbloed et al., 2010; Estermann et al., 2011) and the means of their control also changes: the emphasis shifts from direct regulations (government) to indirect incentive mechanisms and different monitoring and reporting practices (governance) (Jongbloed et al., 2010). Funding can be considered as one of the most important incentive mechanisms.

In funding, two major general trends can be observed. First, sources of funding have become more diversified (Estermann – Pruvot, 2011). Tuition fees and third stream incomes become more and more important,

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although there is a great difference among countries (as it can be seen in the decreasing proportion of state funds, see OECD, 2011). Second, the way how state funds are allocated among institutions has also changed. On the one hand, to increase the sensitivity of institutions to the needs of customers, part of the funds are allocated to students or enterprises in the form of state subsidised loans or favourable taxation regulations. On the other hand, there are some changes in the allocation mechanisms of direct institutional support as well. The following general trends can be observed (OECD, 2008; Jongbloed et al., 2010; Halász, 2011): a separate funding of teaching and research is used; formula funding has become more widespread; outputs play a more important role in formulas; state funds are allocated as block grants, that is, institutions have significant freedom in how they spend these resources; and finally, the significance of performance contracts grows.

This is, however, a general picture stemming from the literature. The mixture of funding elements varies from country to country. In the next section therefore we turn our attention to some specific features of Central and Eastern Europe, and then describe some current funding mechanisms and innovative practices that could be used in this region as well.

2. Financing higher education in Central and Eastern Europe

The general trends highlighted in the previous section are basically valid in the Central and Eastern European (CEE) region as well, although the development of the funding system and the adaptation of new trends are somewhat delayed compared to the more developed countries. There are some common features of the CEE countries that may result in this. These features may also explain why there is a lack of funding in higher education and why there is a need to reform the financing mechanisms.

The mass fiction of higher education has been faster in this region, which suddenly increased the costs of the system. The governments dealing with the post-transition challenges were not able to meet this need for an increased funding. The society's attitudes regarding the role of state (highly influenced by the socialist past of the countries) have constrained the involvement of the students and their families into bearing the costs. Because the provision of free higher education is expected by a large share of citizens, most countries have moved towards a dual higher education system (a part of the students don't pay any tuition fees, while the others pay the majority or the whole of the costs of their education) instead of a general tuition fee system (basically all students pay, but only a part of the costs), when shifting financial burdens to the students became inevitable. The ability to raise money from the business sector is also constrained. This is partly because of the financial situation of the sector and partly because the private R&D activity is really weak in these countries compared to Western Europe. There is a room for development in the incentive mechanisms as well.

The statistics show that higher education spending is lower in the CEE countries than in Western Europe, not just in absolute terms, but compared to the GDP as well. This means that the per-student expenditures in the CEE countries are on average the 40 to 50 percent of those in Western Europe (counted on purchasing power parity). This leads to serious differences in quality and competitiveness. Table 1 provides some further data. The most important thing is not that expenditures in the six CEE countries are below the OECD average, but the fact that the difference between the halves of Europe comes not from the teaching expenditures, but from the money spent on research.

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