



FOOTING THE BILL

The Hard Choices
for Financing
University
Education



Footing the Bill

The Hard Choices for Financing University Education

Caribbean Policy Research Institute (CAPRI)
Kingston, Jamaica

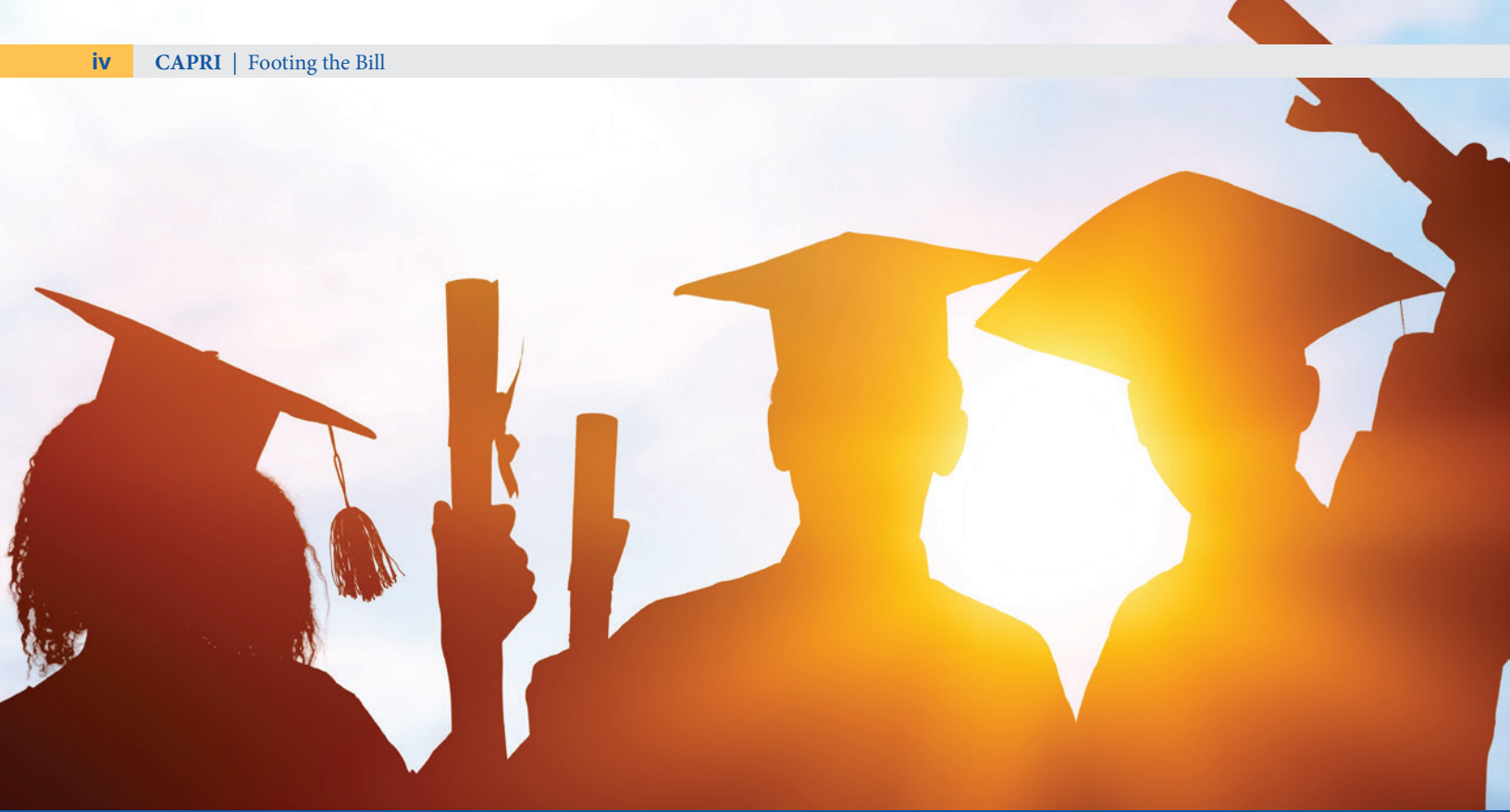
Lead Researcher: Saramaria Virri

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Acronyms

AACSB	Association to Advanced Collegiate Schools of Business	MBBS	Bachelor of Medicine and Bachelor of Surgery (Degree)
BBC	British Broadcasting Commission	MSME	Micro, Small, and Medium-Sized Enterprises
BCC	Barbados Community College	NHT	National Housing Trust
CAPRI	Caribbean Policy Research Institute	NIS	National Insurance Scheme
CUPE	Canadian Union of Public Employees	OECD	Organization for Economic Co-operation and Development
ETTC	Erdison Training Teachers College	PIOJ	Planning Institute of Jamaica
GATE	Government Assistance for Tuition Expense	PWC	PriceWater Coopers
GDP	Gross Domestic Product	RLF	Revolving Loan Fund
GOJ	Government of Jamaica	SLB	Students' Loan Bureau
HECS	Higher Education Contribution Schemes	STEMM	Science, Technology, Engineering, Mathematics, and Medicine)
HEPI	Higher Education Policy Institute	TFT	Targeted Free Tuition
HKU	The University of Hong Kong	TRN	Tax Registration Number
IDB	International Development Bank	UGC	University Grants Committee
ILA	Institute of Labour Economics	UWI	The University of the West Indies
IMF	International Monetary Fund		



Executive Summary



Mona is responsible
for over

60%

of the regional university's

OVERALL DEBT

Quality tertiary education is an essential element of any society that aspires to be productive in the 21st century. It is a major driver of economic, social, and cultural development. Higher education is both an aspiration of many young people and a fundamental requirement for a country to achieve the highly skilled labour force that is needed in the era of the knowledge economy. Thus, higher education can be seen as a private and a public good: it provides opportunities for individual development and social mobility, as well as fosters economic growth and promotes shared prosperity. As tertiary education produces these high economic and social externalities governments have generally had a strong interest in investing relatively large amounts of public money in the sector. Subsidized tertiary education is also important to ensure that students from lower socio-economic quintiles can have access. However, high-quality tertiary education is expensive and it competes for public funds with other important expenses such as primary and secondary education, and health, which are equally (one might argue more)

important for a country's human capital development.

The most important provider of higher education in the Caribbean is The University of West Indies (The UWI), supported by 17 English-speaking Caribbean countries. Although the university has been seeking alternative models to finance its operations, it is facing serious funding shortfalls and UWI Mona is responsible for over 60 percent of the regional university's overall debt. This has led to calls to reconsider tertiary education funding in the Caribbean, and particularly in Jamaica.

For The UWI to serve its purpose of supporting the inclusive development of the Caribbean region, there is a need to reform its financing. Despite decades of debate about this funding and numerous proposals, no consensus has ever been reached on which financing model would be best. In order for the university to be financially sustainable, an increase in funding from one or more of these three sources is necessary: the Caribbean governments increase their current share, alternative third-stream income

is generated, or students pay a larger portion of the cost of their education.

With a focus on Jamaica, this report assesses these funding sources, compares different tertiary education financing models, and based on international best practices as well as considerations of the Caribbean context, makes recommendations for a sustainable financing model for The University of the West Indies, that strengthens the quality of the university, increases participation rates, and improves educational equity.

The Optimal Use of the Government's Contribution

The Jamaican government cannot afford to support The UWI (or the University of Technology, though the operating costs there are far lower than The UWI) to provide a quality education to which all Jamaicans have equitable access. The most the GOJ can do is provide a subsidy to The UWI, which in consideration of the government's limited capacity against the university's needs, would not be substantive. The governments' funding obligations to the university should be

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divided between funding to research through competitive research grants, and tuition, which would be subsidized apart from research. This would allow for each contributing country to ascertain what proportion of the full economic cost they can provide their nationals, based on their own resources and priorities.

Separating government contributions into research and teaching, and channelling more public funding towards research instead of tuition, would contribute to improving the university's reputation, and fortifying its income sources. Tertiary educational institutions with strong brands and reputations are more successful in attracting additional revenue than those that are lesser-known. Therefore, what is perhaps the single most effective way for the contributing governments to help The UWI to diversify its income sources is to support quality research, which is also core to the university's mission, and is key for regional and national development of The UWI's member states. The UWI will have to make up the balance primarily through fees and private donations.

Increase Fees Without Harming Access or Participation

Increasing tuition fees to cover more of the cost of a quality tertiary education can be done without harming participation rates, and while preserving and even improving equitable access, with an appropriate student loan and grant scheme. Evidence from countries that have introduced tuition fees in combination with income-contingent loans schemes shows that the fees did not worsen the socioeconomic gap in enrolments as compared to the period when tertiary education was free of charge.

Moreover, with regard to equitable access, fees are not the main factor hindering students from disadvantaged backgrounds accessing tertiary education. Even in the absence of fees, living and other education-related costs, as well as the income forgone while studying, would remain a barrier to accessing and completing tertiary education. The more germane barrier to low-income students' access to tertiary education, though it is less obviously discernible, is an underfunded and inequitable basic education system that ill equips them with the necessary skills to qualify for

higher education.

Therefore, free tertiary education mainly benefits those who have been able to afford a high quality primary education, and thus are already better off. Yet all taxpayers bear the cost of educating the more privileged, bringing about a situation where low-income taxpayers, who themselves have a slim chance of attaining tertiary education, subsidise it for high-income students. From an equity point of view, it can thus be argued that it is not free education per se that matters, but a situation where no capable person is denied access to tertiary education due to lack of funds.

An income contingent loan scheme would be the most appropriate loan scheme as it would cushion the effect of higher fees in Jamaica. Since the realities in each contributing country are different, and the wealthier Caribbean countries may be able to subsidize their students at a higher level, a funding model that gives flexibility to the contributing governments to set their own arrangements regarding how much they subsidize their students based on their national needs, would be most suitable for The UWI. Such a scheme

would bring the needed additional revenue to The UWI as it could charge higher fees, that could cover the cost of a quality education. This loan scheme is more equitable than what presently obtains and more than free education would be. It would increase access as students would not have an upfront payment obligation, and tertiary education would be free at the time of use.

The most important prerequisite for this, or any student loan scheme in Jamaica, is that loan repayments can be effectively collected from emigrants. Where up to four of every five tertiary graduates live outside of Jamaica, the inability to recoup their loans would make any scheme untenable. It would be necessary to create mechanisms for sharing information with foreign credit bureaus. Another option would be internationalization of the income contingent student loans. That would require bilateral or multilateral agreements between countries that receive Jamaican migrants regarding the repayment of the loans.

Revenue Generation and Fundraising

International experience shows that the most successful revenue generation has been fundraising from alumni, foundations, and corporations, specifically using matching fund schemes. Evidence from other countries suggest that matching fund schemes are effective incentive mechanisms to encourage donations to tertiary education institutions. This is a straightforward premise that has had positive outcomes across the world, but has not, thus far, comprised The UWI's fundraising efforts.

In Sum

Recalibrating the role and specifics of the government's contribution to tertiary education, focusing on one or more matching funds initiatives to raise money from the private sector, and implementing an income contingent loan scheme that will not harm access or participation and will increase equity among those seeking tertiary education, are the most propitious pathways to a quality tertiary education that is available to all who want and qualify for it. Whereas

the first two tenets of this model are readily attainable through policy change and concerted effort, the third is entirely dependent on the government pursuing the necessary steps to be able to recover loan repayments from tertiary graduates who have taken loans, and who have left the country to make their lives overseas.

Recommendations

1. Teaching and research funding should be separated.
2. The Government of Jamaica should establish an income-contingent loan scheme.
3. To increase equitable access, means-tested grants should be offered to low-income students to support with living expenses and other school-related fees.
4. The UWI should focus its fundraising (towards an endowment) on matching fund schemes, whether the government matches donations, or a wealthy philanthropist, or both.



1

Introduction



The most important provider of higher education in the Caribbean is The UWI, supported by

17

**English-speaking
Caribbean countries**

Quality tertiary education is an essential structural element of any society that aspires to be productive in the 21st Century. It is a major driver of economic, social, and cultural development. Higher education is both an aspiration of many young people and a fundamental requirement for a country to achieve the highly skilled labour force that is needed in the era of the knowledge economy. Thus, higher education can be seen as a private and a public good: it provides opportunities for individual development and social mobility, as well as fosters economic growth and promotes shared prosperity.¹ As tertiary education produces these high economic and social externalities governments have generally had a strong interest in investing relatively large

amounts of public money in the sector. Subsidized tertiary education is also important to ensure that students from lower socio-economic quintiles can have access. However, high-quality tertiary education is expensive and it competes for public funds with other important expenses such as primary and secondary education, and health, which are equally (one might argue more) important for a country's human capital development.²

The most important provider of higher education in the Caribbean is The University of West Indies (The UWI), supported by 17 English-speaking Caribbean countries. Since the 1990s The UWI has been funded by a cost-sharing model in which students from contributing countries pay 20 percent of

the economic cost, and the governments in countries where The UWI has a campus pay the remaining 80 percent.³ Barbados, and Trinidad and Tobago to some extent, also pay the tuition fees for their nationals. The economic cost for the governments of contributing countries where The UWI does not have campus is calculated based on a discount of approximately 66 percent.⁴ However, due to limited fiscal capacity and a growth in student numbers in the past decades, the contributing governments have often failed to meet their obligations under the model.⁵

There have been delays in governments settling the bills for their contributions.⁶ These delays are attributable to concerns over a lack of clarity and transparency in

1 "Higher Education," World Bank, accessed June 24, 2021, www.worldbank.org/en/topic/tertiaryeducation.

2 Nicholas Barr, "Higher Education Funding," *Oxford Review of Economic Policy* 20, no. 2 (Summer 2004): 264-283, <https://doi.org/10.1093/oxrep/grh015>; CAPRI, "Educational Reform in Jamaica, Recommendations from Ireland, Finland and Singapore," Kingston, Jamaica: Caribbean Policy Research Institute, 2007, www.capricaribbean.org/sites/default/files/public/documents/working_paper/education_reform.pdf.

3 Campus countries are Jamaica, Trinidad and Tobago, Barbados, and since 2019 Antigua and Barbuda.

4 Undergraduate Financial Information 2021-2022," UWI Cave Hill Campus, Barbados, 2021, www.cavehill.uwi.edu/studentfinancing/resources/fees/2021-22-booklet-undergraduate-en.aspx.

5 Balford Henry, "Charles: Gov't Considering Extra \$4b funding for UWI," *Observer*, October 13, 2019, www.jamaicaobserver.com/news/charles-gov-t-considering-extra-4b-funding-for-uwi_177106?profile=1373.

6 "The Report of The UWI Chancellor's Commission on Governance of the UWI," The University of West Indies, July 2020, www.uwi.edu/chancellorscommission/docs/GovCommission-2020.pdf.

High-quality tertiary education is expensive and it competes for public funds with other important expenses such as primary and secondary education, and health, which are equally (one might argue more) important for a country's human capital development.

the methodology and data the university uses to calculate the gross economic cost of the programmes. In 2009 the government of Jamaica (GOJ) moved from contributing the said 80 percent to a block grant funding model where it allocates a set amount annually from its budget to the university. This amount has been considerably lower than the calculated 80 percent.⁷ The other UWI campuses have received contributions from their governments of around 50 percent. Although the university has been seeking alternative models to finance its operations, it is facing serious funding shortfalls and UWI Mona is responsible for over 60 percent of the regional university's overall debt. This has led to calls to reconsider tertiary education funding in the Caribbean, and particularly in Jamaica.

Globally, funding for tertiary education comes from public and private sources. Since high-quality tertiary education is expensive, it is rarely funded solely from the public purse, and some form of public-private cost-sharing is usually necessary. In most countries, the largest share of tertiary education funding comes from government subsidies. Private funding for tertiary education can come either from students and their households in a form of tuition fees, or from various forms of so-called third-stream income including employers' contributions, universities' own entrepreneurial activities, and philanthropy. In countries where tertiary education is free of charge all private funding comes from third-stream sources, although their share is small. When tuition fees are charged, households usually bear the largest share of private funding to tertiary education.⁸

Since high-quality tertiary education is expensive, it is rarely funded solely from the public purse, and some form of public-private cost-sharing is usually necessary.

Households' share can come from family resources and students' own earnings while students when fees are paid up-front, or students' future earnings when fees are deferred, that is, loans.⁹

For The UWI to serve its purpose of supporting the inclusive development of the Caribbean region, there is a need to reform its financing. Despite decades of debate about this funding and numerous proposals, no consensus has ever been reached on which financing model would be best. In order for the university to be financially sustainable, an increase in funding from one or more of these three sources is necessary: the Caribbean governments increase their current share, alternative third-stream income is generated, or students pay a larger portion of the cost of their education. With a focus on Jamaica, this report assesses these funding sources, compares different tertiary education financing models, and based on international best practices as well as considerations of the Caribbean context, makes a recommendation for a sustainable financing model for The University of the West Indies, that strengthens the quality of the university and improves educational equity.

Background

The challenge of financing university education in Jamaica is not new. In 1989, the government of Jamaica created a task force chaired by Sir Alister McIntyre to come up with a suggestion for additional resources for financing the development of education. The task force's report recommended the establishment of an independent foundation for education financing, with contributions coming from the government and other sources, both local and external. This would have helped to solve the problem of the politicization of education expenditure, which was identified then as a principal problem affecting the sector. However, the report did not elicit a response from the GOJ, and the issue of finding adequate resources for tertiary education funding remained.¹⁰

In 2009, the Caribbean Policy Research Institute (CAPRI) prepared a background brief on tertiary education funding and identified two major problems with Jamaica's funding policy, with the premise that the rationale behind subsidized tertiary education is both economic and social. However, according to CAPRI, Jamaica's economy was

7 "UWI to Get Triple Utech's Funding," *Gleaner*, March 4, 2021, <https://jamaica-gleaner.com/article/news/20210304/uwi-get-triple-utechs-funding>.

8 On average in OECD countries, households account for 74 per cent of private funding for tertiary institutions. OECD, "How Much Public and Private Investment in Educational Institutions Is There?," in *Education at a Glance 2019: OECD Indicators*, (Paris: OECD Publishing, 2019), <https://doi.org/10.1787/ef3a0a68-en>.

9 Barr, "Higher Education Funding."

10 Alister McIntyre, *The Caribbean and the Wider World: Commentaries on My Life and Career* (Kingston: The University of West Indies Press, 2016), 187-188.

neither benefitting financially from its investments in tertiary education nor was its funding model socially progressive, due to two main reasons. Jamaica, as well as many other Caribbean countries, experiences high levels of brain drain. The World Bank estimated in 2004 that of the total stock of Jamaicans with tertiary education over 80 percent were living in the OECD countries.¹¹ Despite that some of them would have obtained their degrees while living abroad, the Jamaican government's contributions to tertiary education could thus be viewed as direct subsidies to economies in industrial countries. Second, Jamaica's system of subsidizing fees for all students, regardless of their financial background, resulted in a situation where students from high-income families get more assistance than they need, while those students who really need it do not get enough.¹²

To address these issues CAPRI proposed an alternative financing model, noting that cutting public funding was not an option. It was suggested to first separate research funding from teaching. The former would be funded by direct government subsidies while the latter would be covered by tuition fees. By separating research funding from teaching, students would not end up paying what is called the full economic cost of their degree, although the fees would increase substantially as they would no longer be subsidized. This would have been combined with adequate financial support for students



from disadvantaged backgrounds, and full up-front student loans with more generous terms than the existing regime, either through the government's own loan bureau or through guaranteeing loans provided by private banks. To reduce brain drain it was recommended that students who migrate assume the full cost of their loan, whereas those who remain in Jamaica through the full term of the loan would effectively avail themselves of a free education through tax concessions or assumption of payments. The government would get back the subsidy through higher tax revenues in a more dynamic economy.¹³ CAPRI's proposal did not, however, gain any traction and did not result in any reform.

In 2017, The UWI's University Grants Committee (UGC) established a task force to review the university's funding model. As a long-term solution for

financing the university, the task force recommended a cost-sharing model with increased student contributions (the final distribution of the cost would have been determined in negotiations with students, the governments, and the institution). To reduce the burden of increased tuition fees on the student, the task force recommended the use of the Augmented Income Contingency Loan model.¹⁴ However, after the task force presented its recommendations a year later (in 2018), the UGC did not agree with the proposed increase in tuition fees. After feedback and discussion, the UGC concluded that a long-term solution for sustainable funding would entail the establishment of a University Trust Fund which the various contributing governments would be asked to seed.¹⁵ The Trust Fund would allow UWI to receive non-cash donations such as land and other physical assets from governments and other donors.¹⁶

11 Frederic Docquier and Abdeslam Marfouk, "Measuring the International Mobility of Skilled Workers (1990-2000)," Washington, DC: World Bank, 2004, Policy Research Working Paper WPS 3381, <https://openknowledge.worldbank.org/handle/10986/14126>.

12 CAPRI, "Funding Tertiary Education in Jamaica," Kingston, Jamaica: Caribbean Policy Research Institute, 2009, www.capricaribbean.org/documents/funding-tertiary-education-jamaica.

13 CAPRI, "Funding Tertiary Education."

14 The Income Contingent Student Loan is a model used for tertiary funding in several countries. The advantage of this model is that it provides an insurance for poor labour market outcomes by requiring loan repayments only when the graduates earn above certain threshold. The monthly repayments also depend on the graduate's income.

15 "The Report of The UWI Chancellor's Commission on Governance of the UWI," The University of West Indies, July 2020, www.uwi.edu/chancellorscommission/docs/GovCommission-2020.pdf.

16 "The UWI Mulls Trust as Part of Measures to Improve Financial Status," *Gleaner*, November 6, 2018, <https://jamaica-gleaner.com/article/news/20181106/uwi-mulls-trust-fund-part-measures-improve-financial-status>.

In 2020 a group of Caribbean professionals headed by retired President of the Caribbean Court of Justice Sir Dennis Byron produced a report (referred to as the Byron Commission Report or Byron Report) on the governance of the UWI, which also looked at the university's financing. The Commission recommended doubling the tuition fees from the current 20 percent to 40 percent. They also recommended full up-front funding via student loans with manageable repayment terms. Although the Byron Commission agreed in principle with the establishment of a trust fund, they did not believe that fiscally-challenged governments would, at present, be able to seed the fund with cash or other income-generating assets, which would be crucial for the fund to serve its purpose.¹⁷

UWI's Vice-chancellor Professor Sir Hilary Beckles disagreed with the Byron Commission's recommendation. In November 2020, a few months after the report was released, acknowledging the fiscal constraints of the Caribbean governments, he posited that the Caribbean's development partners should help to mobilize resources for a UWI trust fund, and challenged them to provide initial capitalization of US\$600 million towards Caribbean human capital development.¹⁸ To date, the trust fund has not been created.

In March 2021, Beckles proposed a new

suggestion for UWI's future funding model. Concerned that the increase in tuition fees would harm access and enrolment, he suggested that instead of increasing tuition fees, students would pay less.¹⁹ In that model, tuition fees would cover 15 percent, and governments' contributions would cover 50 percent of the operating costs, while 15 percent would be generated from international engagement, and the remaining 20 percent from the private sector.²⁰ When commenting on the proposal to the *Gleaner* (newspaper), the former UWI Mona Principal, Professor Archibald McDonald, agreed with Beckles saying that the 60:40 model suggested by the Byron Commission would harm enrolment as students were already struggling to pay their respective contribution: "It is really ludicrous now to believe that you double that charge and the students will be able to find it." However, the rest of Beckles proposal was in his view "really just talk." McDonald added that The UWI could generate significant income from international students, but it has not taken that avenue seriously.²¹ After nearly two years of consultations, The UWI's University Council announced in March 2022 that while it had no objections to most of the recommendations made by the Byron Commission, it rejected the recommended increase in tuition fees. According to the Council: doubling the fees "would pose an existential threat to the University, Caribbean society, and

economy."²²

In July 2021, Vice-Chancellor Beckles announced that the second half of The UWI's ten-year operational plan (2017–2027), called "Operation Revenue Revolution 75+" was dedicated solely to address the university's financial sustainability (the first half had focused on brand building). The suggested funding model in "Operation Revenue Revolution" differed from that which was announced before: in the adjusted plan 50 percent would come from government contribution, 20 percent from regional students' fees, 10 percent from international students' fees, 10 percent from business activity, 5 percent from private sector investment, and 5 percent from an endowment (and alumni contributions).²³ He also elaborated a Ten Point Financial Plan which set out aims to transform The UWI into an "entrepreneurial university" to increase its third-stream revenues.²⁴

The Jamaica Education Transformation Commission headed by Professor Orlando Patterson also made recommendations for tertiary education financing in a draft report on reforming education in Jamaica that was released in January 2022. They suggested that instead of the current block funding model, the government funding to tertiary education should be allocated in a more transparent manner using a formula where the allocations would be divided in three

17 The UWI, "Report of The UWI Chancellor's Commission,"

18 "US\$600M Fund Needed for Universities to Help Drive Economic Diversification," *Barbados Today*, October 17, 2020, <https://barbados.today.bb/2020/10/17/us600m-fund-needed-for-universities-to-help-drive-economic-diversification/>.

19 Judana Murphy, "Mona Accounts for Chunk of UWI Debt-Commission Pitches Doubling Fees; Beckles want Students to Pay Less," *Gleaner*, March 2, 2021, <https://jamaica-gleaner.com/article/lead-stories/20210302/mona-accounts-chunk-owi-debt-commission-pitches-doubling-fees-beckles>.

20 Murphy, "Mona Accounts for Chunk of UWI Debt."

21 Murphy, "Mona Accounts for Chunk of UWI Debt."

22 "UWI Council Rejects Recommendation to Increase Student Fees," *Gleaner*, March 7, 2022, <https://jamaica-gleaner.com/article/news/20220307/owi-council-rejects-recommendation-increase-student-fees>.

23 Judana Murphy, "UWI Launches Plan to Revolutionise Finances," *Gleaner*, July 16, 2021, <https://jamaica-gleaner.com/article/news/20210716/owi-launches-plan-revolutionise-finances>.

24 "The UWI Launches 'Operation Revenue Revolution75+'," The UWI, St Augustine, Campus News, July 15, 2021, <https://sta.uwi.edu/news/releases/release.asp?id=22282>.

separate grants. The institutions would get first base grant based on the number of students enrolled in the institution, on top of that institutions designated as research universities would get research grants to cover overhead and salaries associated with research, and institutions aligned with the government's priorities would also get a third special alignment grant for teaching and research in areas determined strategically important to the government of Jamaica. Those areas would be determined every three years by the Jamaica Tertiary Education Commission. It was further suggested that the small percentage of funding would be based on some performance criteria.

The commission also recommended an increase in private spending on tertiary education to allow reallocation of public funds to lower education levels, where there are greater needs, through more effective use of the Student Loan Bureau (SLB). In other words, they also recommended an increase in tuition fees. The suggestions for the SLB reform included examining whether some of the loan criteria could be relaxed to facilitate low-income students' access to tertiary education, particularly by loosening guarantee requirements and offering means-tested loans that also cover some of the maintenance costs (accommodation, transport etc.) in addition to tuition fees. The SLB should also improve its enforcement of collections by emphasizing credit reporting, both locally and internationally, and to engage private financial services to handle origination and data management, as well as to consider the possibility of packaging

debt in a manner that could allow private sector involvement in providing finance. It was also recommended to explore the use of income-contingent loan model.

In addition, the commission suggested that government scholarships should be means-tested instead of based on merit, and an establishment of a Child Opportunity Trust which is a voluntary saving scheme where parents up to a prescribed income level are allowed to tax-free savings towards their child's tertiary education.²⁵ The idea of the Child Opportunity Trust Fund idea was mooted in the Jamaican parliament already in 2008. The government would make a small initial contribution to the fund when a child is born, and parents would then be encouraged to save small amounts each month for their child's tertiary education. The child would get access to this fund at the age of eighteen.²⁶ The idea is similar to the Child Trust Fund in the UK, which was launched in 2005 but discontinued in 2011 due to the government's spending cuts after the global financial crisis.²⁷

Further to raising non-governmental sources of finance for capital investment in tertiary education, it was suggested to examine the role and functioning of the National Education Trust (NET), whether additional funds could be identified especially in relation to the execution of capital projects. The NET was established in 2010 by the GOJ to raise funds from international donors, the diaspora, the private sector, and individuals for the improvement of education infrastructure. It can receive goods for clearance purchased abroad on behalf of local and international donors, as well as

receive endowments, bequests, borrow and lend, and participate in the bond market for the purpose of raising funds to support investment in activities that are education priorities. The donations are currently mainly targeted to basic level education for purposes such as construction of new schools, renovation of old ones, and to equip schools with resources that enhance the learning and teaching environment. However, capital investment is also urgently needed at the tertiary level.²⁸ Other models of financing tertiary education have been suggested. For example, education expert Dr. Canute Thompson proposed in a 2020 book the use of the billions of dollars in dormant bank accounts in Caribbean countries for tertiary education financing.²⁹

Despite these several proposals and decades of discussion, no consensus has been reached as to which funding model would be best for The University of West Indies. Can The UWI afford lower fees and find alternative sources to finance its activities? Should the students be charged higher fees, and is that possible without harming access? Or is it the responsibility of the Caribbean governments, despite their challenges, to provide adequate funding for their premier higher education institution and ensure sustainable development of the region? The debate is ongoing and the problem remains. What follows interrogates the various models that might answer these questions, with a view to assessing which is the most feasible.

25 The Jamaica Education Transformation Commission, "The Reform of Education in Jamaica, 2021," September 2021, <https://nationwideradiojm.com/read-full-reform-of-education-in-jamaica-report-20211/>.

26 Basil Waite, "Child Opportunity Trust Fund," paper presented to the Parliament of Jamaica, 2008, cited in Canute Thompson, *Education and Development*, 61-63.

27 "George Osborne Outlines Detail of £6.2bn Spending Cuts," *BBC News*, May 24, 2010, http://news.bbc.co.uk/2/hi/uk_news/politics/8699522.stm.

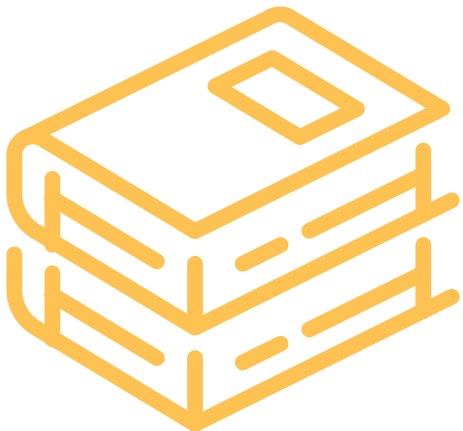
28 Education Transformation Commission, "The Reform of Education in Jamaica."

29 Canute Thompson, *Education and Development: Policy Imperatives for Jamaica and Caribbean* (Kingston: The University of West Indies Press, 2020), 61-63.



2

Funding Option 1: Increased Public Spending



In Jamaica, only

11%

of students from
the lowest quintile

**ACCESS TERTIARY
EDUCATION**

2.1 Does Free Tertiary Education Promote Equitable Access?

As there is a broad consensus that a country's development depends on the quality of its human capital, governments have an incentive to invest public funds in tertiary education. The proposed benefits of a highly educated workforce are clear: it benefits the whole society through higher productivity, innovation, and economic growth. Higher levels of education also correspond with improved health, lower rates of mortality, and lower crime rates, which all benefit the society in and of themselves, as well as through lower public spending and increased human capital. Further, the benefits of

an educated population transfer through generations. Studies have shown that parents' education level correlates with children's health, cognitive abilities, and academic achievements. Children born to educated parents are less likely to grow up in poverty, more likely to be better educated, and less likely to rely on social safety nets as adults.³⁰ Additionally, the purpose of higher education is more than to just produce a quality labour force and accelerate economic growth. It is also to teach values of pursuing knowledge and truth, to enhance cultural understanding and civic capabilities, to strengthen social responsibility, and more broadly to create a stronger democratic society.³¹

Due to these high positive externalities, there is an argument to be made that tertiary education should be funded from

the public purse. Fully funded tertiary education ought to increase equality as lack of funds is not an obstacle for accessing tertiary education. These educated individuals earn higher salaries, and particularly in the context of high and progressive taxation, assuming they remain in the country where they got their education, the graduates pay back over their lifetime substantially more than the cost of their education.³² Free tertiary education can also accelerate growth. There is growing evidence from the U.S., where student loan levels are reaching a record high, that student debt is dragging down the economy.³³ Consumer spending is a primary driver of the economy. When young adults graduate with a high debt burden, the economy loses that foregone consumption. The high debt levels may also defer their ability to start a business,

30 Noah Berger and Peter Fischer, "A Well-Educated Workforce Is Key to State Prosperity," Economic Analysis and Research Network, August 22, 2013, www.epi.org/publication/states-education-productivity-growth-foundations.

31 David E. Campbell, "What is Education's Impact on Civic and Social Engagement," in: *Measuring the Effects of Education on Health and Civic Engagement: Proceedings of the Copenhagen Symposium*, (OECD: Paris, 2006), www.oecd.org/education/innovation-education/measuringtheeffectsofeducationonhealthandcivicengagement.htm.

32 Dirk Van Damme, "Who Pays for Universities: Taxpayers or Students?," OECD Education and Skills Today, May 17, 2016, <https://oecdeditoday.com/who-pays-for-universities-taxpayers-or-students/>; Berger and Fischer, "A Well-Educated Workforce."

33 Sam Frizell, "Student Loans are Ruining Your Life. Now They're Ruining the Economy, Too," *Time*, February 26, 2014, <https://time.com/10577/student-loans-are-ruining-your-life-now-theyre-ruining-the-economy-too>; Fullwiler et al., "The Macroeconomic Effects of Student Debt Cancellation," Levy Economics Institute of Bard College, February 2018, www.levyinstitute.org/pubs/rpr_2_6.pdf.

The purpose of higher education is more than to just produce a quality labour force and accelerate economic growth. It is also to teach values of pursuing knowledge and truth, to enhance cultural understanding and civic capabilities, to strengthen social responsibility, and more broadly to create a stronger democratic society.

to invest, or to purchase a home and get a mortgage. This spills over to the economy when there are fewer jobs available, lower demand for home construction, less investment activity, and so on. From an individual point of view, as well as with regard to demographic concerns, the high debt level and insecurity may affect family planning decisions.³⁴

Notwithstanding these positive externalities only a few countries have been able to successfully offer their citizens a free tertiary education. The primary example of these are the Nordic countries. These countries have low income inequality and the societal investment in education is recouped through high and progressive taxation. Due to a strong welfare state and investment in quality education at all levels and for all students, there is no large knowledge gap between students from high and low-income families that would hinder students from lower socioeconomic backgrounds accessing tertiary education. All Nordic countries also have well-developed student support systems, as subsidies for students' living expenses are considered necessary to guarantee equality of educational opportunity. The Nordic system has been fairly successful in ensuring equality of access. Finnish students whose parents went to university are only 1.4 times more likely to participate in tertiary education than their peers whose parents did not go to university, and in Sweden 2.3 times more likely, while in the UK and the USA

students whose parents went to university are more than six times more likely to participate.³⁵ The Nordic governments have also been able to maintain a decent quality having many universities ranked among the top universities in the world.³⁶ However, the cost to the public purse is high, at over 1.5 percent of GDP, compared to the OECD average of 1 percent.³⁷

In many other countries where tertiary education is free, the outcomes have not been as successful. Making higher education accessible to all citizens comes at costs that few countries can manage, and so the premise of free education is qualified, or the quality is poor, or both. One group of countries that has a tradition of free tertiary education is that comprised of the former communist countries of Eastern and Central Europe and Russia. These countries have free higher education as a constitutional right, but have a dual track system in which a number of students, contingent on their academic performance, are accepted in the free track and the rest are accepted as full fee-paying students. In Russia, for example, despite the free tertiary education constitutional guarantee, more than 50 percent of the revenues generated by universities come from tuition fees.³⁸ In many countries, including in Eastern Europe, children born to high-income families go to the high quality primary and secondary schools with smaller class sizes and good teachers, and consequently get good results, while children from

lower socioeconomic backgrounds often struggle with overcrowded facilities that lack trained and qualified teachers. Thus, the dual-track selection favours students from the better-off families with higher academic achievements who have the family resources to access more selective tracks in secondary education or pay for private tutors, while the full-fee-paying students tend to come from lower-income families.³⁹

A similar situation obtains in some Latin American countries who also offer their students a free tertiary education in public universities but have not been able to allocate adequate resources to keep up with the massification of higher education. The growing number of students has led to an expansion of the private higher education system. In Brazil, for example, free public tertiary education has been overshadowed by a huge and expensive private sector that absorbs most of the demand for higher education, while public universities remain elitist and highly selective.⁴⁰ As in Eastern Europe, Brazilian students who score the highest in the university entrance exams are predominantly upper-income students whose parents were able to send them to private high schools. This has led to a situation where those who can most afford to pay for their higher education go to the best universities and spend nothing on tuition, while students from less affluent families go to expensive for-profit institutions.⁴¹

34 Frizell, "Student Loans are Ruining Your Life"; Fullwiler et. al., "The Macroeconomic Effects of Student Debt Cancellation."

35 Simon Marginson, "The Worldwide Trend to High Participation Higher Education: Dynamics of Social Stratification in Inclusive Systems," *Higher Education* 72 (June 2016): 413-424, <https://doi.org/10.1007/s10734-016-0016-x>.

36 Times Higher Education, *The World University Rankings 2022*, www.timeshighereducation.com/world-university-rankings.

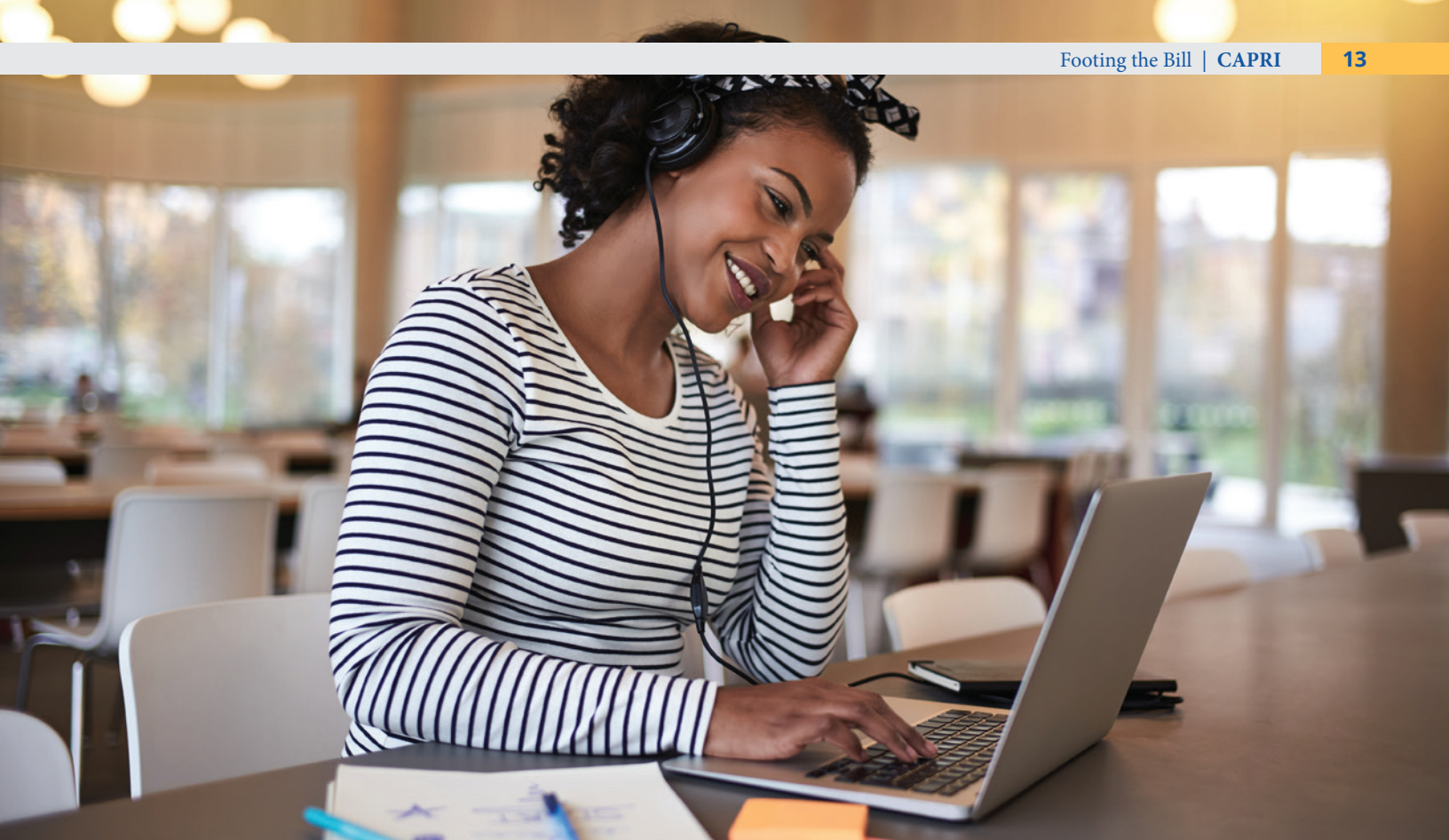
37 OECD, "Education at Glance 2021: OECD Indicators," Paris: OECD publishing, 2021, <https://doi.org/10.1787/b35a14e5-en>.

38 Ariane de Gayardon, "There is No Such Thing as Free Higher Education: A Global Perspective on the (Many) Realities of Free Systems," *Higher Education Policy* 32, no. 1 (March 2019): 485-505, <https://doi.org/10.1057/s41307-018-0095-7>.

39 Anna Smolentseva, "Marketisation of Higher Education and Dual-Track Tuition Fee System in Post-Soviet Countries," *International Journal of Educational Development* 78 (October 2020), <https://doi.org/10.1016/j.ijedudev.2020.102265>.

40 de Gayardon, "There is No Such Thing as Free Higher Education."

41 Jon Marcus, "Brazil: Where Free Universities Largely Serve the Wealthy," *The Atlantic*, April 8, 2015, www.theatlantic.com/education/archive/2015/04/brazil-where-free-universities-largely-serve-the-wealthy/389997/.



Trinidad and Tobago avoided this issue by providing free tertiary education for all, regardless of whether they had been accepted to a public or private institution. The Government Assistance for Tuition Expenses (GATE) programme, established in 2004, provided full funding of tuition costs for undergraduate study and 50 percent of postgraduate study. Through the GATE programme Trinidad and Tobago managed to increase its tertiary education participation rates from 15 percent in 2002 to 65 percent by 2015, and hence provided an opportunity for many young people who otherwise could not have afforded tertiary education.⁴²

However, a closer examination of the GATE programme revealed several shortfalls. A study found that while succeeding in rapidly expanding the pool of graduates, the Trinidadian economy

had not diversified or grown to absorb the additional graduates, and so the labour market had no additional employment opportunities. In a sample of graduates surveyed 90 percent considered that they were overeducated for their job. There was no matching of the programmes being funded to the labour needs of the country, which created an oversupply of graduates in certain areas such as accounting and management, and a shortage of graduates in critical areas such as nurses and medical doctors. Further, the study found that the main beneficiaries of the programme were private tertiary education institutions offering programmes with varying quality, and for whom the increased number of students was largely profitable, as the more students they accepted, the more funding they got from the government. Those who benefitted the least were the students in the lowest socioeconomic

brackets for whom completing secondary education remains a challenge and who may never even aspire going to university, but who would do well to receive support to pursue vocational or other training towards their self-actualization.⁴³ In 2020 the funding for postgraduate studies was discontinued and means-testing for undergraduate studies was implemented.

Jamaica too, has attempted free education. In 1973, in an effort to promote equity, the Michael Manley-led government announced non-tuition fee tertiary education for all (among other reforms towards the massification of education). The government also provided grants for all students to cover their living expenses while studying. When the policy was implemented tertiary education enrolment rates rose rapidly. The cumulative growth of enrolment during the period of free education (1973

42 "Minister Karim: Increase in Tertiary Education Enrollment," *News.gov.tt*, September 15, 2014, www.news.gov.tt/content/minister-karim-increase-tertiary-education-enrollment#.YYPx7NZBxQI.

43 Denzil Anthony Streete, "The Price Paid: Free Higher Education in Trinidad and Tobago Re-Examined." Submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy under the Executive Committee of the Graduate School of Arts and Sciences, Columbia University, 2016, <https://academiccommons.columbia.edu/doi/10.7916/D86W9B3R>.

to 1985) was 429 percent, a doubling compared to the previous decennium in which students paid fees, although the number of students was still small compared to the 2020s.⁴⁴ During this period, the budget for tertiary education increased more, proportionately, than the primary and secondary education budgets, despite the proposition that those had greater needs (than tertiary). As one indicator of the pressing needs at the primary level, 50 percent of primary school leavers were functionally illiterate. Children from the lower socioeconomic quintiles tend to attend primary schools while those from the upper quintiles attend private preparatory schools. Both sets of children take the same standardized exam which determines high school placement; the higher the score, the better the school a child is placed in. The underfunded primary level education did not equip lower socio-economic quintile children with the necessary skills to succeed in secondary education and qualify for tertiary, suggesting that lack of funds was not the main barrier for the primary school students. Hence, in Jamaica too, free tertiary education has benefitted mostly students from the richest quintiles.⁴⁵

That period of free education put UWI in a parlous financial state. The economic contraction of the 1970s rendered the government unable to fulfil its financial commitments, and by 1979 the UWI was broke. The financial issues constrained physical and capital infrastructure development, and there were also concerns over the quality of the institution and the education it was delivering. The perceived lack of quality



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**FREE TERTIARY
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prevented enrolments from increasing further as students were dropping out or hesitant to enrol. That period also created an expectation, whose legacy endures nearly 50 years later, that Jamaicans are entitled to a free university education. That sense of entitlement permeates much of the discourse around university financing, and has been the basis for anti-tuition student protests over the years.

By the mid-1980s it became clear that completely free tertiary education was unaffordable, and the government attempted to resolve this by charging a cess on higher education, which for UWI students meant fees ranging from J\$1,400 to J\$2,000 depending on discipline, and abolishing boarding grants. Although the cess was intended to provide the government with additional funding for higher education, the UWI's financial problems continued to be exacerbated as the government was still unable to provide adequate funding as it could not keep pace with the worsening economic situation of the country and, despite the

cess, continually increasing enrolment. Then in 1993, the government adopted the current cost-sharing model, where students paid tuition fees, which eventually put The UWI in a better financial position. The introduction of tuition fees did not negatively affect enrolment rates; they kept increasing as had already been seen during the cess period.⁴⁶

Though university enrolment in Jamaica increased despite fees being introduced, this does not mean that lack of funds is not a barrier to students accessing tertiary education; it can be even for students from middle or upper-income families. When Ecuador eliminated tuition fees for its public universities in 2008, participation rates increased significantly which consequently shifted people into higher-skilled jobs. However, analysis of the data shows that growth in student numbers came disproportionately from higher-income groups.⁴⁷ Though there is evidence that tuition fees are not the main barrier hindering youths from lower socioeconomic backgrounds to enrol in tertiary education (the neglected basic education, income forgone while in school, as well as other school related fees are), lack of funds can prevent youth even from middle- and upper-income groups from participating in tertiary education. Similarly, when Barbados introduced tuition fees for its nationals in 2014, the enrolment rates at The UWI's Cave Hill Campus declined, despite the fact that low-income families were offered means-tested assistance. Enrolment dropped 20 percent the following year, and by 2017 enrolments had dropped nearly 40 percent as compared to 2013 when

44 In the 1970s even secondary school enrolment rates were only 15 percent. "Education in Jamaica," Education System Profiles, World Education News and Reviews, accessed January 6, 2022, <https://wenr.wes.org/2019/09/education-in-jamaica>.

45 Kofi K. Nkrumah-Young, Jeroen Huisman and Philip Powell, "Impact of Funding Policies on Higher Education in Jamaica," *Comparative Education* 44, no. 2 Special Issue: Education in Small States: Global Imperatives, Regional Initiatives and Local Dilemmas, (May 2008): 215-227, <https://doi.org/10.1080/03050060802041209>.

46 Nkrumah-Young, Huisman and Powell, "Impact of Funding Policies."

47 Teresa Molina and Ivan Rivadeneyra, "The Schooling and Labor Market Effects of Eliminating University Tuition in Ecuador," *Journal of Public Economics* 196 (April 2021): 104383.

fees were not charged.⁴⁸ In response, in 2018 the newly-elected Mia Mottley-led government announced that it would resume the payment of tuition fees for its citizens who are accepted to study at The UWI.⁴⁹ Since then, enrolment rates have been increasing.⁵⁰ The introduction of tuition fees did not help to shrink the government's debt to UWI, though it was eventually cleared in 2021, partly as a result of an asset-for-cash swap.⁵¹ It remains to be seen whether Barbados will continue to be able to afford free tertiary education in a post-Covid economic climate.

As these examples demonstrate, in the context of an underfunded and inequitable basic education system, the evidence suggests that free tertiary education mainly benefits those who are already better off. The cost, however, is borne by all taxpayers, bringing about a situation where low-income taxpayers, who themselves never had a chance to attain tertiary education, and whose prospects for tertiary education are narrow, subsidize it for higher-income students. Further, since governments are forced to restrict funds allocated to tertiary education due to fiscal constraints, in free tertiary education systems that means either caps on the

number of students accepted free of charge, or a reduction in per-student allocation to the institution. Hence, in the context of limited public funds free tertiary education fails to boost either quality or access. Further, if equality is a goal, free education will not necessarily achieve that; rather, it is a situation where no capable person is denied access to tertiary education due to lack of funds that matters.

2.2 Free Tuition Would Not Improve Access and Would Reduce Equity

Jamaica's National Development Plan Vision 2030 lists inadequate access to tertiary education among the challenges to achieving developed country status by 2030. This is partly due to insufficient spaces at the tertiary level, and the lack of matriculation requirements, but the major barrier for many students accessing and completing a tertiary education is financial constraints.⁵² Considering that the participation rates in the two UWI campus countries that offer, at least to some extent, fully-subsidised tertiary education to their citizens are a

lot higher (65 percent) than in Jamaica (27 percent),⁵³ providing free access could help to increase participation rates in Jamaica.⁵⁴ That notwithstanding, and despite the proposition that increased access is crucial for Jamaica's development, fully subsidized tertiary education would not be appropriate for Jamaica.

Free tertiary education can only boost equitable access in the context of well-funded, high quality basic education. In Jamaica, currently only 11 percent of students from the lowest quintile access tertiary education, while the corresponding rate is 36 percent among the richest quintile. Although some of this disparity is due to the challenges of low-income students to finance their tertiary level education, the future prospects of less affluent children are already diminished from the primary level. The inequity is further seen at secondary level attendance where 90 percent of students from the richest quintile attend secondary education, but only 69 percent from the poorest.⁵⁵ Those from the lower quintiles who do attend often do not get the same level education as their better-off counterparts. At the secondary level, the students are selected to high schools based on their scores

48 "Impact of Changes to G.A.T.E on The UWI: Considerations for Enrolment and Funding Prospects," The University Office of Planning, The University of West Indies, October 2016, www.uwi.edu/uop/surveys-and-reports; Five Year Enrollment Trends – 2015/16 to 2019/20 Cave Hill Campus, The University Office of Planning, The University of West Indies, www.uwi.edu/uop/five-year-enrolment-trends-cave-hill-campus.

49 Santia J.O. Bradshaw, "The Resumption of Payment of Tuition Fees by the Government of Barbados for Undergraduate Students of Barbados at the University of the West Indies (UWI), Barbados Community College (BCC) and Erdiston Teachers Training College (ETTC)," Ministerial Statement to The Honorable the House of Assembly, June 24, 2018, www.barbadosparliament.com/uploads/sittings/attachments/161008f6660d8c7000ced4400188d869.pdf.

50 "Five Year Enrollment Trends – 2015/16 to 2019/20 Cave Hill Campus," The University Office of Planning, The University of West Indies, n.d., www.uwi.edu/uop/five-year-enrolment-trends-cave-hill-campus.

51 Randy Bennet, "UWI Halves Gov's Debts in Assets Swap," *Barbados Today*, March 2, 2021, <https://barbadostoday.bb/2021/03/02/uwi-halves-govts-debts-in-asset-swap/>.

52 PIOJ, "Vision 2030 Jamaica, National Development Plan," Kingston: Planning Institute of Jamaica, 2009, <https://sustainabledevelopment.un.org/content/documents/1501jamaica.pdf>; FHI 360, "Study of Barriers to Access and Completion of Tertiary Technical Education in Jamaica," Advance Programme, 2019, www.advanceprogramme.org/wp-content/uploads/2019/04/SBAC-Jamaica-FINAL-for-Distribution.pdf.

53 Gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown.

54 The World Bank, "School Enrolment, Tertiary (% gross)," accessed December 6, 2021, <https://data.worldbank.org/indicator/SE.TER.ENRR>; Government of Trinidad and Tobago, "The Future of Tertiary Education and Skills Training 2015-2025," National Policy Framework, August 2015, https://planipolis.iiep.unesco.org/sites/default/files/ressources/trinidad_and_tobago_testnationalpolicyframework2015-2025.pdf.

55 Jovan Johnson (@jovanthony), "Currently, in our tertiary institutions, among lowest quintile, only 11% of students attend tertiary institutions. Even though the percentage increases as we move up the quintiles, the highest is 36% in the top quintile of students who attend tertiary institutions-FW," Twitter post, April 29, 2021, <https://twitter.com/jovanthony/status/1387551954218463232/photo/1>.



in the primary level exit examinations, and in these exams, children in private primary schools consistently outperform students in the public schools. This feeds into performance inequalities at the secondary level, as students in reputable traditional high schools tend to have better teachers and infrastructure, and they continue to outperform their counterparts in less prestigious schools.⁵⁶

Even if the students from lower quintile families do make it to the tertiary level, without adequate financial support while studying they may not be able to succeed and graduate. Although there are various forms of monetary and non-monetary assistance available for low-income students provided by the government, private sector, and international aid, among others, these usually only cover a small fraction of the cost of tertiary education. In addition to finding money

for tuition, students must find funds to cover their living necessities such as transport, food, housing, and educational material. A survey among Jamaican tertiary level students indicated that the cost of living while a student is between J\$1.4. and \$1.9 million annually.⁵⁷ Currently, many of those low-income students struggle to find money for food after covering their other expenses.⁵⁸ The largest cost of tertiary education, however, is the income foregone while studying. This is estimated to be more than the tuition and living cost combined.⁵⁹ Many poor families need that income. Therefore, apart from tuition fees, a large number of Jamaican students would still find tertiary education unaffordable.

To increase equitable access to tertiary education more financial support specifically for low-income students would be necessary. Free tuition for

everybody would leave little room in the government's budget for additional support for low-income students, taken that this is the case even at the current level of subsidization. In other words, in order to improve equitable access, and participation rates in general, more financial support (for students) than what is already allocated is necessary, and still Jamaica struggles to find funds, even at the current level.

2.3 Problems with Financing Tertiary Education: Neglect by the Government of Jamaica?

The current share of the budget allocated to education clearly indicates that the Government of Jamaica has placed

56 CAPRI "Prims of Possibility: A Report Card on Education in Jamaica," Kingston, Jamaica: Caribbean Policy Research Institute, 2013, www.capricaribbean.org/documents/2012-report-card-education-jamaica.

57 CAPRI, "Estimating the Cost of Tertiary Education in Jamaica," Kingston, Jamaica: Caribbean Policy Research Institute, 2017, www.capricaribbean.org/documents/cost-tertiary-education.

58 Kimberly Hibbert, "Students Starving!. Money Woes Severely Affecting University Undergrads' Food Programme," *Observer*, October 27, 2019, www.jamaicaobserver.com/front-page/students-starving-money-woes-severely-affecting-university-undergrads-food-programme_178154.

59 CAPRI, "Estimating the Cost of Tertiary Education."

education among its top national priorities. In 2021, GOJ allocated approximately 6 percent of its GDP to education (J\$114 billion). This is a small increase from the little over 5 percent it had been paying out since 2015.⁶⁰ Education now gets the largest share of Jamaica's budget outside debt repayment, representing 21 percent of non-debt expenditure, and a little under 14 percent of its total budget.⁶¹ This is a fair amount and higher than the OECD average.⁶² Of the total education expenditure 18 percent was allocated to tertiary education in 2021.⁶³ This is a little lower than the world average (22 percent), and quite a bit lower than what many developed nations allocate to tertiary education.⁶⁴ Such comparisons, however, should not be taken as suggestions that Jamaica increase the share of its budget allocated to tertiary. Where basic education is already underfunded, and given the points made earlier regarding the relationship between low quality primary education and access to tertiary, such a shift would worsen inequality.

Further, where the pandemic-induced school closures have worsened the pre-existing inequalities in the Jamaican education system,⁶⁵ such a shift would further exacerbate inequality, particularly where more resources are needed for efforts to mitigate missed learning and learning losses.

However, when looking at the actual amount of money spent on education, in total, and per student, it is a small fraction of what many developed nations spend. For example, two countries often cited as having the best education systems in world, Finland and Singapore (both around double the size of Jamaica), have education budgets over ten times larger.⁶⁶ In the Caribbean, education spending in Barbados and Trinidad & Tobago is more than double of that of Jamaica, taking account of the population size.⁶⁷ When looking at the dollar amount allocated per student, Jamaica spends US\$1,600 per tertiary level student,⁶⁸ when the OECD average is US\$17,100.⁶⁹ These numbers are not entirely comparable as the level

of expenditure is affected by many factors in addition to the size of the country, including the size of the country's school age population, enrolment rates, level of teachers' salaries, and the organisation and delivery of instruction.⁷⁰ It does however hint at where the real problem lies: despite its best intentions, the Jamaican government's education budget is inadequate to provide free quality tertiary education.

To channel more funds to tertiary education, the Jamaican government would have to either reallocate the funds from basic education to tertiary level, which has already been shown to be a poor option, or further increase its education budget. In a situation where education already receives a lion's share of the budget, an increase in the education budget could negatively affect the funding of other important sectors, such as health, which is also under-resourced.⁷¹ When only a small percentage of the cohort reaches tertiary level, it is also questionable whether

60 The World Bank, "Government Expenditure on Education, Total (% of GDP), Jamaica", accessed December 6, 2021, <https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS?locations=JM>.

61 Chris Patterson, "\$114 Billion Invested in Education; Sector Gets Largest Share of Budget," Jamaica Information Service, March 10, 2021, <https://jis.gov.jm/114-billion-invested-in-education-sector-gets-largest-share-of-budget/>.

62 OECD average on total expenditure on education as a percentage of total government expenditure is 11 percent. OECD, "Education at Glance 2021: OECD Indicators," Paris: OECD publishing, 2021, <https://doi.org/10.1787/b35a14e5-en>.

63 Government of Jamaica, "Estimates of Expenditure 2021-2022," Ministry of Finance and the Public Service, February 2021, <https://mof.gov.jm/downloads/budgets/eoe/Estimates-of-Expenditure-2021-22-021821.pdf>.

64 E.g., Singapore spends 35%, Germany, U.K., Finland and Estonia 26%, and the U.S. spends 28% of its education expenditure on tertiary education. World Bank, "Government Expenditure on Tertiary Education (% of government expenditure on education)," accessed December 6, 2021, <https://data.worldbank.org/indicator/SE.XPD.TERT.ZS>.

65 CAPR, "Time Out: The Impact of Covid-19 on Education," Kingston, Jamaica: Caribbean Policy Research Institute, September 2021, www.capricaribbean.org/documents/time-out-impact-covid-education.

66 In 2022 Finland budgeted 7.4 billion euros for the Ministry of Education and Culture. Ministry of Finance, Expenditure Estimates, accessed December 6, 2021, <https://tutkibudjettia.fi/talousarvio/menot/29>; Singapore Ministry of Education's budget in for 2021 is projected to be 13.62 billion Singapore dollars (8.5 billion euros). Ministry of Education, "Expenditure Estimates," n.d., www.mof.gov.sg/docs/librariesprovider3/budget2021/download/pdf/27-moe-2021.pdf. Jamaica's budget is in euros 638 million.

67 Barbados' education budget for 2021-2022 is J\$24 billion. Government of Barbados, "Estimates 2021-2022," n.d., www.barbadosparliament.com/uploads/estimates/1c41436c37fda95dcc357c092361e0cc.pdf. Trinidad and Tobago spends on education J\$ 168 billion in 2022. Cherrylene Lewis, "Budget 2022: Education Gets Top Allocation At \$6.886 Billion," *TTT News*, October 4, 2021, www.ttt.live/budget-2022-education-gets-top-allocation-at-6-886-billion/.

68 In 2015, Jamaica's per tertiary student expenditure as share of GDP per capita (US\$ 4908) was 36.6%. World Bank, Government Expenditure per Student, Tertiary (% of GDP per Capita), Jamaica. <https://data.worldbank.org/indicator/SE.XPD.TERT.PC.ZS?locations=JM>; World Bank GDP per Capita (current US\$) <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=JM>.

69 OECD, "Education at Glance 2021."

70 OECD, "Education at Glance 2021."

71 IMF, "Jamaica: Staff Concluding Statement of the 2021 Article IV Mission," November 17, 2021, www.imf.org/en/News/Articles/2021/11/17/mcs-jamaica-staff-concluding-statement-of-the-2021-article-iv-mission; Ernest Madu and Paul Edwards, "Health Care Cost and Patient Outcomes," *Observer*, October 24, 2021 www.jamaicaobserver.com/your-health-your-wealth/health-care-cost-and-patient-outcomes_234304.

allocating additional revenues to tertiary education would be the most socially just decision, without even considering the high proportion of tertiary graduates who migrate. The only remaining option for the government to allocate more resources to tertiary without affecting other sectors would be to increase the size of its overall budget. Options for this (aside from economic growth) are the usual: either increase government borrowing or increase tax revenues.

Government spending on education can be considered an investment in the future, and thus borrowing to finance education is not an unreasonable proposition. World Bank data clearly shows that governmental investments in education pay off. When looking at government expenditure on education as percentage of GDP between 1990 and 1999 and the annual growth rate in the subsequent decade between 2000 and 2010, the researchers found that an increase in education expenditure by 1 percentage point of GDP (e.g., from 5 to 6 percent) increases GDP growth by 0.9 percentage points (e.g., from 4.5 to 5.4 percent).⁷² When the sustainability of public debt is measured in relation to GDP, and an investment in education accelerates growth, borrowing to invest in education may seem like an economically wise option. As long as a country's annual growth exceeds the interest payments, the debt-to-GDP ratio will decline over time.⁷³

However, Jamaica's decades-long struggle with high debt and low growth has affected investors' trust in the country's ability to repay. Jamaican government bonds are sold currently at a 7.9 percent interest rate in the international capital markets, while many high-income countries get loans with zero or even negative interest rates.⁷⁴ For Jamaica this means that it would need a larger primary surplus to cover the interest payments. Without a surplus and with the current debt-to-GDP ratio of 107 percent, it would need an annual growth rate of over 8 percent for the debt-to-GDP ratio to decline. In Jamaica's 2020/2021 budget by far the greatest share was allocated to public debt servicing, and the interest payments only are larger than the entire education budget, estimated at J\$126 billion, while debt amortization is estimated to be J\$146 billion.⁷⁵ It is argued that when measuring the sustainability of public debt, more important than debt-to-GDP, should be the ratio of real debt service to GDP, which for Jamaica is high. Therefore, it is important that post-pandemic the Jamaican government stays on track with its objective embedded in Jamaica's Fiscal Responsibility Framework to attain a debt-to-GDP target of 60 percent by 2027–28.⁷⁶ Prior to the pandemic Jamaica had managed to push public debt under 100 percent for the first time since 2001.⁷⁷

Another option to increase the government's budget would be to raise taxes. Ostensibly the most

straightforward way to increase the education budget would be to raise the education tax which Jamaica has charged since 1983, and which is currently at a rate of 3.5 percent from employers and 2.25 percent from employees, after deduction of National Insurance Scheme (NIS) contributions and contributions to approved superannuation schemes.⁷⁸ This tax is charged at the same rate for all taxpayers, though only a small fraction of the population will have the possibility of gaining a tertiary education. Hence, increasing this tax would be equivalent of asking low-income taxpayers to further subsidize tertiary education for their better-off counterparts.

Many countries fund tertiary education through progressive taxation. When access to tertiary education is near universal and knowledge gaps at the secondary level are small, this can be seen as a fair solution. Low-income families, whose children may be less likely to make it to tertiary level, pay taxes at lower rate, and hence do not contribute much to tertiary education. Higher-earning persons who have not benefited from tertiary education directly, usually anyhow benefit from the knowledge society created by highly-educated individuals, and hence it can be argued that it is fair for them to contribute more. Jamaica, however, does not have progressive taxation, and thus raising funds through income tax would most hurt the middle-income families

72 Fabrizio Carmignani, "Does Government Spending on Education Promote Economic Growth?" *The Conversation*, June 2, 2016, <https://theconversation.com/does-government-spending-on-education-promote-economic-growth-60229>.

73 Olivier Blanchard, "Public Debt: Fiscal and Welfare Cost in the Time of Low Interest Rates" Peterson Institute of International Economics, February 2019, www.piie.com/system/files/documents/pb19-2.pdf.

74 Börse Frankfurt, "Jamaica, Government of ...7,875% 15/45," accessed November 19, 2021, www.boerse-frankfurt.de/bond/us470160cb63-jamaica-government-of-7-875-15-45.

75 GOJ, "Estimates of Expenditure 2021-2022."

76 Fiscal rules given the force of law in 2010 pushed back few years 2025-2026 due to COVID-19. Nigel Clarke, "COVID-19 and Suspension of Jamaica's Fiscal Rules" *Gleaner*, June 7, 2021, <https://jamaica-gleaner.com/article/commentary/20200607/nigel-clarke-covid-19-and-suspension-jamaicas-fiscal-rules>.

77 International Monetary Fund, "Jamaica and IMF: The Power of Partnership and Ownership," IMF Lending Case Study: Jamaica, May 2019, www.imf.org/en/Countries/JAM/jamaica-lending-case-study.

78 PricewaterhouseCoopers, "Jamaica: Individual – Other taxes," PWC Worldwide Tax Summaries, last reviewed June 3, 2021, <https://taxsummaries.pwc.com/jamaica/individual/other-taxes>.

who already carry a relatively heavy tax-burden. Further, progressive taxation is unsuitable for an economy such as Jamaica's where a large proportion of the workforce operates outside of the formal sector. It is estimated that up to half of the potential personal income tax revenue in Jamaica is not collected because of tax evasion.⁷⁹ The progressive tax burden would then fall on a limited group of wage earners, mainly on public sector middle-income earners.⁸⁰ Tackling tax evasion would enable strengthening progressivity in the Jamaican tax system, and would certainly help to raise government's revenues, but is not a quick fix for financing tertiary education.

Another alternative would be to charge the tax only for those who have benefited from tertiary education. One possible model to do this would be a graduate tax. Unlike general taxation, a graduate tax would enable the society to recover the value of the resources devoted to tertiary education from those who have directly

benefited from it. This type of tax has been proposed in the U.K. but has not been implemented anywhere. A graduate tax would make tertiary education free at point of entry but the graduates would pay back for their education throughout their working life by a higher tax burden. The tax could be either progressive or equal to all. Progressive would be the fairest way of financing tertiary education as those who benefit the most would also pay the most.⁸¹ The main issue with a graduate tax is that it creates an incentive to emigrate as graduates who move to other countries would most likely escape the tax, and thus receive a free tertiary education.⁸² In the Caribbean where brain drain is a major problem this would thus not be an ideal solution.

Graduates are not the only ones benefiting directly from tertiary education. Employers benefit from the pool of a skilled-labour force. It has been argued that instead of taxing graduates the levy should be imposed on employers. The

levy would be paid alongside employers' contributions for each graduate they employ based on the salary that graduate receives. The graduates themselves may not be any better off with this if it affects the salary they earn, as suggested in the UK. The levy would be taken from the salary but unlike a graduate tax or loan contribution it would be paid by the employer and the revenues would be paid to the higher education institute where the graduate studied.⁸³ The main drawback with taxing employers is that it would create an incentive to employ non-graduates, particularly for entry-level positions.

It is imperative to secure sustainable financing for The UWI from additional funds outside of Jamaica's current budget, but the options of increasing borrowing or charging taxpayers are non-starters. The remaining option is for increased financing to come from private sources.

79 CAPRI, "In Search of the Most Efficient Tax for Jamaica," Kingston, Jamaica: Caribbean Policy Research Institute, November 2018, www.capricaribbean.org/documents/search-most-efficient-tax-jamaica.

80 CAPRI, "Most Efficient Tax."

81 Peter Hain, "Scrap Tuition Fees. Graduate Tax Is a Win-Win for Students—and Everyone," *The Guardian*, January 31, 2018, www.theguardian.com/commentisfree/2018/jan/31/scrap-tuition-fees-graduate-tax-university-students.

82 "Tuition Fees and Graduate Tax: What's the difference?" *BBC News*, December 8, 2010, www.bbc.com/news/uk-politics-11946585.

83 Johnny Rich, "Fairer Funding: the Case for a Graduate Levy," Higher Education Policy Institute, HEPI Policy Note 10, November 2018, www.hepi.ac.uk/wp-content/uploads/2018/11/Policy-Note-10-Paper-November-2018-Fairer-funding-the-case-for-a-graduate-levy-2.pdf.



3

Funding Option 2: Tuition Fees and Improved Equity



In 2021, there was

\$1.75 trillion

**IN UNPAID
STUDENT DEBT**

Due to the challenges with providing free quality tertiary education, most countries charge their students some level of tuition fees to attend public universities. Students themselves get large private personal and economic benefits from tertiary education, and it is argued that they should also bear some of the cost. Although tuition fees can bring considerable resources to tertiary education institutions and improve quality, they can be a barrier to access. However, international experience shows that when tuition fees are combined with adequate financial aid for low-income students—either in forms of grants, loans, or lower fees—they do not necessarily affect equitable access. As demonstrated earlier, when entrance to tertiary education is highly selective and based solely on academic merit, students from lower socioeconomic quintiles do not have equal access, despite there being no financial barrier. In situations

where charging tuition fees enables the governments to increase available seats in the institutions, the participation rates may increase also in lower socioeconomic quintiles, if provided with financial aid.

The design of tuition fee systems varies widely. The fees range from largely nominal to high. They can be charged from all students, or they can be charged only from selected groups of students. In the first case, the fees are often combined with various forms and levels of financial aid to low-income students, and/or with loans that allow students to repay after graduation. An example of the latter is the earlier mentioned dual-track model whereby only the most academically qualified students, usually from wealthier families, are accepted in the free track, and the others as full-fee paying students.

A more equitable approach to the dual-track system is a model called Targeted Free Tuition (TFT) which is used in Chile, Italy, South Africa, the Canadian

Province of Ontario, and the U.S. state of New York. Under this scheme only low-income students are exempted from paying fees and for others the fees are set according to the student's family's wealth.⁸⁴ Trinidad and Tobago's recent decision to start means-testing for undergraduate students receiving GATE funding can be seen as an example of a Targeted Free Tuition scheme.

3.1 Student Loans Schemes

Income-contingent loans schemes have been shown to increase overall participation in tertiary education, and to bring about a narrowing of the socio-economic gap in enrolments.⁸⁵ The advantage of the income-contingent student loan model is that it defers payment of all fees until after graduation, and provides insurance for poor labour market outcomes by requiring loan repayments only when the graduate

⁸⁴ World Bank, "Improving Higher Education Performance in Kenya: A Policy Report," (Washington DC: World Bank, 2019) <https://openknowledge.worldbank.org/handle/10986/32361>.

⁸⁵ Richard J. Murphy, Judith Scott-Clayton and Gillian Wyness, "Lessons from the End of Free College in England," Economic Studies at Brookings, Evidence Speaks Report 13, no. 2, April 27, 2017, www.brookings.edu/research/lessons-from-the-end-of-free-college-in-england/; Claire Crawford, "Socio-economic Gaps in HE Participation: How Have They Changed Over Time?," Institute for Fiscal Studies, IFS Briefing Note BN133, 2012, <https://ifs.org.uk/bns/bn133.pdf>.

Income-contingent loans schemes have been shown to increase overall participation in tertiary education, and to bring about a narrowing of the socio-economic gap in enrolments.

earns above a certain threshold. Hence, graduates who get the highest private benefit from their investment in education also contribute the most, while those for whom the investment did not bring considerable returns do not contribute above their means.⁸⁶

The first country to implement an income-contingent student loan model was Australia; the scheme has been considered successful and has been a model for other countries.⁸⁷ The government introduced tuition fees in 1989 through the Higher Education Contribution Schemes (HECS) according to which the government pays students' degrees upfront and full, but only part of this payment is a subsidy, while the remainder is an income-contingent loan, called "student contribution." Under HECS, students will gradually repay the government after they earn a sufficiently high income. The repayment is collected by the employer and remitted to the Australian Tax Office in a similar fashion as income taxes.⁸⁸ It has delivered additional revenue to the Australian government, and facilitated the much-needed expansion of public sector university places which increased participation, particularly among the groups in the middle of the wealth distribution spectrum. The introduction

of the scheme did not have any adverse effects on the participation of the disadvantaged.⁸⁹ A similar observation has been made in the UK, where an income-contingent loan scheme was introduced in 2006 with an increase in tuition fees up to maximum of £3000, which, six years later (in 2012), was increased to £9000 (in line with inflation).⁹⁰ These reforms have helped to improve the quality of tertiary institutions in the UK and have increased enrolments. Also the socioeconomic gap in participation, which had widened dramatically in the 1980s and 1990s, has slightly declined.⁹¹

When income-contingent loans are available, an increase in fees does not seem, on average, to reduce participation. Since higher education is made free at the point of use, the income-contingent loan scheme reduces students' sensitivity to degree prices. The Australian government has tried to encourage enrolments in subjects deemed as national priorities by lowering the maximum student contribution for these subjects and setting it higher for others. These efforts have not largely affected enrolments, indicating that the scheme works as designed—the price of the degree does not affect students' choices.⁹² Similarly, when the UK government tried to enhance competition between universities by

The first country to implement an income-contingent student loan model was Australia; the scheme has been considered successful and has been a model for other countries.

86 The rationale for the income-contingent loan is explained in more detail in for example: Nicholas Barr, "Higher Education Funding," *Oxford Review of Economic Policy* 20, no. 2 (June 2004): 264-283, <https://doi.org/10.1093/oxrep/grh015>.

87

88 Bruce Chapman, "Income Contingent Loans in Higher Education Financing," *The IZA World of Labor* no. 227 (February 2016), <https://doi.org/10.15185/izawol.227>.

89 Bruce Chapman and Chris Ryan, "The Access Implications of Income Contingent Charges for Higher Education: lessons from Australia," *Economics of Education Review* 24, no. 5 (October 2005): 419-512 <https://doi.org/10.1016/j.econedurev.2004.08.009>.

90 England introduced tuition fees for the first time in 1998. The fee was first means-tested and paid upfront by students up to £1000. In 2006, the means-testing was removed and tuition fee was increased to £3000, however, the fee was no longer paid upfront and the government introduced an income-contingent loan scheme.

91 Murphy, Scott-Clay, and Wyness, "Lessons From the End of Free College in England."

92 Fabio I. Martinenghi, "Increasing the Price of a University Degree Does Not Significantly Affect Enrolment if Income Contingent Loans are Available: Evidence from HECS in Australia," *ArXiv*, February 2021, <https://arxiv.org/pdf/2102.03956.pdf>; Alex Usher, "Two New Data Points on the Effects of Tuition Fees," *Higher Education Strategy Associates*, April 29, 2021, <https://higherstrategy.com/two-new-data-points-on-the-effects-of-tuition-fees/>.





tripling the tuition cap, assuming that universities' ability to set their own fees would create a tertiary education market where students' choices would advance improvements in the quality, price, and relevance of universities' provision, nearly all universities raised their tuition to the maximum.⁹³ UK students are now graduating with £50,000 debt, most of which they will never pay back; in fact, only 22 percent of students are expected to pay back their loan in full.⁹⁴

Unaffordable student loans is not an issue per se. The exact purpose of the scheme is that only those who earn high salaries pay in full and the rest is covered by taxpayers. Hence, the rise in fees only makes the scheme more progressive as it mainly affects the high-earning graduates who repay their loan in full.⁹⁵ However, a recent UK study on graduates' views on the loan system showed that although the graduates feel that the income-contingent loans facilitate their access to higher education, and the automatic repayments taken from pay-packets are manageable and do not trigger any financial distress, the knowledge that they are unlikely ever be able to repay the entire loan feels like a burden. Particularly for the graduates who entered higher education after the 2012 reforms the debt was a source of anxiety and stress.⁹⁶ Other studies have

also shown that students from lower socio-economic brackets tend to be more debt averse.⁹⁷ Due to the psychological and emotional effects of having a large loan, and its possible adverse effects on poorer students' decision to enter tertiary education, it can be argued that it would be better to just give the universities direct subsidies, and keep the fees reasonable, since the rest is paid by the government anyway.

When the higher education sector operates freely, with no caps in fees, any financial aid to students can allow institutions to raise fees. For example, in the U.S. the cost of tertiary education has skyrocketed in the past two decades. Between 1989 and 2016 the average price of college has doubled (after inflation) and the increase has been nearly eight times faster than the annual growth of wages during the same period.⁹⁸ In 2021, there was \$1.75 trillion in unpaid student debt.⁹⁹ The increase was partly a result of the federal loans schemes that made tertiary education a financially viable option for those who previously lacked the funds. The increase in demand for tertiary education, in turn, meant that universities were able to charge more without negatively affecting enrolment, and with the government-subsidized loans readily available, students were

93 Brendan O'Malley, "How the Decision to Triple Tuition Fees Change History," *The University World News*, April 7, 2018, www.universityworldnews.com/post.php?story=20180407044722981.

94 Paul Bolton, "Student Finance in England: Impact of Reducing the Fee Cap," UK Parliament, September 23, 2021, <https://commonslibrary.parliament.uk/student-finance-in-england-impact-of-reducing-the-fee-cap/>.

95 Martin Lewis, "Students Loans: The Truth About Uni Fees, Loans and Grants," Money Saving Expert, updated December 8, 2021, www.moneysavingexpert.com/students/student-loans-tuition-fees-changes.

96 Claire Callender, and Ariane de Gayardon, "Hidden Voices - Graduates' Perspectives on the Student Loan System in England"; Hepi Report 145, Higher Education Policy Institute, November 2021, www.hepi.ac.uk/2021/11/25/hidden-voices-graduates-perspectives-on-the-student-loan-system-in-england.

97 Claire Callender and Geoff Mason, "Does Student Loan Debt Deter Higher Education Participation? New Evidence from England," LLAKES Research Paper 58, The Centre for Learning and Life Chances in Knowledge Economies and Societies, 2017, www.llakes.ac.uk/wp-content/uploads/2021/03/RP-58.-Callender-and-Mason.pdf.

98 Camillo Maldonado, "Price of College Increasing Almost 8 Times Faster Than Wages," *Forbes*, July 24, 2018, www.forbes.com/sites/camilomaldonado/2018/07/24/price-of-college-increasing-almost-8-times-faster-than-wages/?sh=222601aa66c1.

99 Federal Reserve Economic Data, "Student Loans Owned and Securitized," updated in November 5, 2021, <https://fred.stlouisfed.org/series/SLOAS>.

willing to pay more.¹⁰⁰ Since most universities are not-for-profit and compete for educational excellence, prestige, and influence, the increased revenues are spent to pursue these goals, which consequently improves their rankings. When some universities raise tuition fees and improve in the rankings, the other universities have to also increase spending to compete. This creates a constant upward pressure on tuition fees, and the loans cushion the effect.¹⁰¹ Although the higher fees have improved the quality of U.S. universities, and with the loans available they do not necessary harm access, it is uncertain who bears the real cost. When graduates end up in low-paying jobs they are not able to cover the debt payments and without an income-contingent payment plan they will either default, affecting their credit rating, or decrease spending, dragging down the economy. Both scenarios end up shrinking the public purse.

3.2 Tuition Fees and Financing Arrangements

Currently, tuition fees at The UWI vary between faculties and campuses. Most students from contributing countries in the government-subsidized programmes pay 20 percent of the calculated economic cost.¹⁰² At the Mona Campus annual fees for the government-sponsored students range, depending on the faculty and

The Pay as You Study loan is for students in part-time employment, or dependent students whose family is willing to take the student loan.

programme, range from approximately US\$1,900 to US\$4,300. The most expensive programme is the Bachelor of the Medicine and Surgery (MBBS) in the Faculty of Medicine, where GOJ has traditionally sponsored 55 places. Other students in this programme pay the full annual fee of US\$28,000. The Faculties of Law and of Engineering are self-financing programmes, meaning they are not subsidized by the government at all, and they charge tuition fees of US\$10,000.¹⁰³ Students from non-contributing Association of Caribbean States countries pay the full cost, which is usually a little less than the fixed fee of US\$15,000 that international students pay. The fees at UWI St Augustine campus are in the same price range for the subsidized programmes,¹⁰⁴ while the Cave Hill campus charges higher tuition fees, on average an annual cost for subsidized programmes of US\$3,000.¹⁰⁵ Tuition fees are lowest at the UWI's newest Five Islands campus on Antigua and Barbuda,

where all programmes cost US\$1,800.¹⁰⁶

To help students finance their education, different Caribbean countries have different arrangements. Students are usually offered loans and some have access to scholarships of varying levels. In Jamaica, loans for tertiary education are offered through the Student Loan Bureau (SLB) and private banks. The SLB offers three types of loans: Targeted, Pay as You Study, and Post-Grad loan.

Targeted is a means-tested loan for low-income families and it is by far the most popular. In 2018, 99 percent of loans issued were targeted.¹⁰⁷ It has a moratorium period for the school years. The interest rate is 9.5 percent; it is unsecured and requires a guarantor. In addition, the students who get the loan and are from the three lowest income quintiles are also eligible for a Grant-In-Aid, which is a specific non-repayable means-tested sum offered to low-income students to assist them

¹⁰⁰ Daniel Kowaski, "How Government-Guaranteed Student Loans Killed the American Dream for Millions," FEEStories, February 26, 2019, <https://fee.org/articles/how-government-guaranteed-student-loans-killed-the-american-dream-for-millions/>.

¹⁰¹ Andrew Gillen, "Introducing Bennet Hypothesis 2.0," Center for College Affordability and Productivity, Policy Paper, February 2012, <https://files.eric.ed.gov/fulltext/ED536151.pdf>.

¹⁰² The campus countries pay the full economic cost on behalf of their students while non-campus contributing countries pays 33.3 percent of the economic cost (a discount of approximately 66 percent).

¹⁰³ The fees in the Faculties of Law, and Engineering are charged in U. dollars. The full price would be US\$10,400.

¹⁰⁴ The UWI St Augustine, "Undergraduate Financial Information 2020-2021," 2021, <https://sta.uwi.edu/resources/documents/UndergraduateFeeBklt.pdf>.

¹⁰⁵ The UWI Cave Hill Campus, "Undergraduate Financial Information 2020-2021," 2021 www.cavehill.uwi.edu/financial/resources/fees/2021-22-booklet-undergraduate-en.aspx.

¹⁰⁶ The UWI Five Islands, accessed November 16, 2021, <https://fiveislands.uwi.edu/apply/>.

¹⁰⁷ Auditor General's Department, Jamaica, "Auditor General's Department Performance Audit Report: Students' Loan Bureau (SLB) - Loans Management," July 2018, https://japarliament.gov.jm/attachments/article/1934/SLB_PA_Loans_Management_2018.pdf.



with funding school-related expenses.¹⁰⁸ Although the Targeted Loan is meant to help low-income students to finance their tertiary education, due to the guarantor requirement, many low-income students may not be able to access these loans. The delinquency rates in these loans are high due to the inability of beneficiaries to find gainful employment upon graduation, which makes the repayment terms unmanageable for them.¹⁰⁹ High rates of debtor migration also contribute to delinquency.¹¹⁰

The Pay as You Study loan is for students in part-time employment, or dependent students whose family is willing to take the student loan. The interest rate is lower than in the Targeted Loan (6 percent), and repayment is by salary deduction.

The repayment period is seven years. This type of loan also requires at least one guarantor living in Jamaica, formally employed, and the place of employment must facilitate salary deduction. The maximum loan for an academic year is J\$1 million; a student can get a maximum of five loans. This does not cover the full cost of more expensive programmes. The third type of loan is a Post-Grad loan which is for employed Jamaican students who can repay via salary deduction. Maximum loan is J\$1.2 million and it is for tuition only. It also has a 9.5 percent interest rate and the repayment period is five years.

3.3 Raising Fees Without Harming Access

Although the fees in The UWI are more affordable than in most universities, for example in North America, hundreds of students annually deregister due to failure to pay their fees.¹¹¹ Without adequate additional financial aid for students the increase in fees, such as the suggested 40 percent of the economic cost, would most likely affect enrolment. It would most hurt Jamaican students for whom the government does not subsidize tuition fees. Barbadian students would be least affected. However, if the increase in fees was combined with adequate financial aid, the effect of higher fees could be cushioned.

¹⁰⁸ Student Loan Bureau, accessed December 2, 2021, www.slbja.com; Student Loan Bureau, “Annual Report 2015-2016,” n.d., www.slbja.com/annualreports/SLB-Annual-Report-2015-2016.pdf.

¹⁰⁹ In 2016 25 percent of the total sum of student loans was assessed as delinquent, and 45 percent of the loans in repayment (SLB Annual Report 2015-2016). In the U.S., according to one source, 11 percent of the total loans outstanding is delinquent. In 2016 the *Wall Street Journal* reported that (in the U.S.) over 40 percent of borrowers are not making payments. Also in the U.S. by 2023 40 percent of borrowers are expected to default on their student loans.

¹¹⁰ SLB, “Annual Report 2015-2016.”

¹¹¹ Romario Scott, “UWI Gets Tough – Hundreds of Students Deregistered Over Unpaid Tuition Fees,” *Gleaner*, October 27, 2018, <https://jamaica-gleaner.com/article/lead-stories/20181029/uwi-gets-tough-hundreds-students-deregistered-over-unpaid-tuition-fees>.

The UWI could benefit from higher fees, assuming that enrolments did not considerably decrease

How then could the UWI increase tuition fees without harming access? There are three options: higher fees for everybody, combined with means-tested grants and scholarships for low-income students; dual-track with targeted free or lower tuition; or higher fees combined with an income-contingent loan scheme. Each of these has pros and cons in the Jamaican context.

In the first option, higher fees with means-tested grants and scholarships for low-income students, students from high- and middle-income families would pay higher than current fees and students from lower-income families somewhat less. If the financial aid to low-income families is provided by government, The UWI could benefit from higher fees, assuming that enrolments did not considerably decrease. For the aid to be sufficient to cushion the negative effect on enrolments it would have to be considerably more than what is currently offered. This could be more expensive for the taxpayer than the current regime but they would not be subsidizing tertiary

education for upper-income families, making it more progressive. It would also not increase equitable access unless financial aid was increased from the current level beyond just cushioning the effect of higher fees.

In the second option, dual-track with targeted free or lower tuition, government funding would remain at the current level and The UWI would charge different fees based on family income. Since the purpose for the UWI would be to increase private funding, the success of these schemes depends on the income thresholds set for lower fees, and the level of higher income students enrolling. To be able to offer lower tuition for some students while increasing revenue, the fees for high-income students should be set quite high. If the fees are set too high, there is a risk that the UWI would lose some of the high-income students to overseas universities, and if they are not set high enough, they may not increase revenue after all.

Neither one of these two options would

probably affect the participation of low-income students for whom the fees remained the same or slightly less, but would hurt most of the middle-class students who would have to pay higher than current fees. Both options would also hurt those high-income students whose families are not willing to pay increased tuition for their children. The effect could be cushioned with loans either by offering loans to all students, or means-tested loans to students from middle-income families who do not qualify for other financial aid.

The third option, higher fees with income-contingent loans, turns the equity perspective the other way around: how much students pay for their education does not depend where students start but where they end up. Students from high-income families who end up in low-paying jobs pay less for their education than students from low-income families who end up rich.¹¹² The idea with income-contingent loans is similar to social security: while pensions redistribute from persons' working years to their

¹¹² Barr, "Higher Education Funding."



Debbie Ann Powell / Shutterstock.com

older selves, student loans redistribute from middle years to earlier years.¹¹³ This option would bring additional revenues to The UWI as it could charge higher fees and the fees would be paid upfront on behalf of the students. It could also increase access since tuition fees are deferred and tertiary education would be free at the point of use. Even without any additional support for living, students would be financially better off as they do not have to pay the fees until they enter working life. (To ensure equitable access, grants for low-income students to cover living expenses would be necessary.) Students would also not be caught in a debt trap as the income-contingent scheme provides insurance against inability to pay. If collected through general taxation these types of loans are cheap to administer, and a well-designed loan scheme would be cheaper for taxpayers than the current system. The downside is that this type of scheme requires more sophisticated planning as well as effective tax administration and

collection mechanisms. It also brings revenues to the government only after students start repaying their loans.

3.4 Case for an Income-contingent Loan Scheme

Since the realities in each contributing country are different, there is no one-size-fits-all solution. The wealthier Caribbean countries may be able to subsidize their students at a higher level. It is, however, clear that more private funding is necessary to keep The UWI financially sustainable. The option that would give the most flexibility to the governments while ensuring sufficient funding would be to separate research and teaching, as recommended by CAPRI in 2009, and the governments would continue providing funding to research through competitive research grants.¹¹⁴ Tuition would be charged separately and The UWI would list the

full price of each programme. However, the students from contributing countries should not pay the full economic cost, but instead some reasonable fee set in agreement with the governments, and the rest would be cross-subsidized by donor-income, international students, and other third-stream activities, which will be discussed in the next section. Each contributing government could then set their own arrangements regarding how much they subsidize their students. For example, if deemed feasible, the Barbados government could continue to subsidize 100 percent of its citizens' education.

For Jamaica, an Income-contingent Loan Scheme following the Australian model would be suitable. Upon enrolment Jamaican students would choose between paying tuition upfront or deferring payments through the income-contingent loan scheme, and the tuition would be paid directly to The UWI on behalf of the student. As the students have no upfront payment obligation, tertiary education

113 Nicholas Barr et al., "Getting Student Financing Right in the US: Lessons from Australia and England," Centre for Global Higher Education, Working Paper no. 16, 2017, www.researchcghe.org/publications/working-paper/getting-student-financing-right-in-the-us-lessons-from-australia-and-england/.

114 CAPRI, "Funding Tertiary Education."

would be free at the point of use. The debt would be recorded and linked to a student's Tax Registration Number (TRN). When the student graduates, or for other reason ceases studying, they would start making contributions, contingent on their income. The contribution would be collected by employers, based on the borrower's current income, in the same way as income tax and social contributions. This makes administrative costs small as the system builds on existing administrative income-contingent apparatus.¹¹⁵

This would require reform in SLB's services, a dim prospect given the current poor quality service provided by the SLB.¹¹⁶ A modern, quality service would be fully online and would allow for students to make their loan application online, be provided with all the information they need to make their loan decision, give them access to their loan balance, and facilitate making excess payments. While the SLB is in need of upgrading, another option would be to issue loans through private lenders who would interface with students while SLB (GOJ) provides the financing,¹¹⁷ as obtains with other GOJ entities that channel credit and specialized loans, for example to small enterprises, through commercial financial entities.

The success or failure of such a

contribution scheme would depend on several factors. These include the size of interest rate subsidies, the effectiveness of tax administration and its ability to track graduates' incomes, the effectiveness of collection mechanisms, and finally, on the general macroeconomic environment and students' ability to find gainful employment. Many of these can be addressed by increasing capacity, reforms, and planning.

First, the loans should not be interest-free although the interest should be subsidized. International experience shows that large interest subsidies make student loan funds unsustainable.¹¹⁸ However, charging a market rate (of interest) may affect equitable access as students from low-income families have no option but to finance their studies with loans, and thus end up paying more for their education than high-income students who can choose to pay upfront. Therefore, the scheme would be more progressive if the interest rate varied based on income so that high-income students cross-subsidized the interest rates for low-income students. That, however, would make the scheme more difficult to administer.

There is likely an obstacle as pertains to Jamaica's large informal sector.¹¹⁹ Though the majority of informal workers are in low-skilled employment and most

graduates should be expected to work in formal sector,¹²⁰ if graduates end up working in the informal sector, the tax administration cannot keep track of their incomes. That notwithstanding, to avoid non-payments and to keep track of borrowers, the borrowers should be required to make a minimum annual payment. This could be the annual interest, or annual interest plus a small fixed amount. This arrangement would also create an incentive to those informal sector workers who manage to make a decent living to pay back voluntarily, as the annual interest they have to anyway pay would be counted as a percentage of the remaining loan balance, and with voluntary contributions, it would be smaller in years to come.

Debtors' migration also makes loan collection less successful. To avoid non-payments due to migration, the loan could transfer into a regular loan with fixed payments counted as a percentage of the remaining loan, instead of actual income when the debtor migrates. This type of arrangement is used in New Zealand where migrated graduates have a legal obligation to repay a minimum amount of their loan each year they are away, based on the remaining amount of debt.¹²¹ In the UK, a borrower who has secured employment abroad and provides the name of the employer and

115 For example, the administrative costs in the Australian and UK systems are about 3 and 4 percent of the annual revenue collected. Barr et al., "Getting Student Financing Right in the US."

116 Mr. Nicholas Scott, Chairman, Student Loan Bureau, Zoom interview, February 9, 2022.

117 SLB Chairman.

118 For example, Wan Saiful Wan Jan, "Malaysia's Student Loan Company: Tackling the PTPTN Time Bomb," ISEAS Yusof Ishak Institute, Trends in South East Asia, Issue 5, April 2020, www.iseas.edu.sg/wp-content/uploads/2020/02/TRS5_20.pdf.

119 Informal sector in Jamaica is estimated to be 40 percent of its GDP. Amos Peters, "Estimating the Size of the Informal Economy in Caribbean States," International Development Bank, IDB Technical Note 1248, 2017, <https://publications.iadb.org/publications/english/document/Estimating-the-Size-of-the-Informal-Economy-in-Caribbean-States.pdf>.

120 CAPRI, "Come Mek Wi Hol' Yuh Han': The Components of an Effective Social Safety Net for Jamaica," Kingston, Jamaica: Caribbean Policy Research Institute, March 2021, www.capricaribbean.org/documents/come-mek-wi-hol-yuh-han-components-effective-social-safety-net-jamaica-revised; Chantal Wedderburn, Eric P. Chiang, and Rupert Rhodd, "The Informal Economy in Jamaica: Is It Feasible to Tax This Sector?" *Journal of International Business and Cultural Studies* (2011), www.aabri.com/manuscripts/11886.pdf.

121 Inland Revenue, New Zealand, "What Happens to My Student Loan When I Go Overseas," last updated June 18, 2021, www.ird.govt.nz/student-loans/what-happens-to-my-student-loan-when-i-go-overseas.

evidence of the salary can also work out an income contingent payment plan with the Student Loans Company.¹²² Such an arrangement could be an additional option for the fixed payments.

The issue of emigration is germane to any proposal of a student loan, however that loan is structured. Regardless of the payment method, a prerequisite for any student loan scheme in Jamaica should be that loan repayments can be effectively collected from emigrants. This could require collaboration with foreign credit bureaus so that defaulting a student loan in Jamaica is reflected on the credit history of the borrower in another country. Currently there is no mechanism to share information with foreign credit bureaus. Another option to consider is whether the SLB could contract a private debt collector in the U.S. when a borrower defaults the loan. If the U.S.-based collection agency that SLB hires holds a reporting contract, then defaulting on a Jamaican-based loan could show up in the U.S. credit record.¹²³

Internationalization of the income contingent student loans has also been suggested. That would require bilateral or multilateral agreements between countries with such schemes regarding the repayment of the loans. Under such an agreement, for example, if a Jamaican graduate with an income-contingent loan migrated to U.K., then the repayments of that loan would be collected through the UK tax system, just as UK-based loan repayments are. Once collected the country would then transfer the equivalent amount back to the country where the loan was incurred. Such bilateral agreements can

Internationalization of the income contingent student loans has also been suggested. That would require bilateral or multilateral agreements between countries with such schemes regarding the repayment of the loans.

be seen as extensions of international taxation treaties or reciprocal pension entitlements.¹²⁴ If Jamaica had such agreements with the UK and U.S., both which at least to some extents have an income contingent repayment option in their own student loans, then the emigrant's debt could be collected.

The graduate's future income also affects how much of the loan will be recollected. This is influenced by many factors beyond graduates' education, in particular by the macroeconomic environment. Rising unemployment or falling incomes will affect debt repayment. However, the university should also bear some responsibility in ensuring that graduates enter the job market with skills and requirements needed to get a gainful employment. To encourage the university to consider labour market needs in the programmes it offers, and to strengthen collaboration with the private sector, an arrangement could be set where the university gets a small portion of the fee only after the student enters the labour force. For example, 95 percent of the cost of the tuition could be paid

upon enrolment and the remaining 5 percent after the student starts making contributions. The government should also set caps on students accepted for each programme based on the labour market and national needs.

The portion of the loan that will be repaid also depends on the size of the debt relative to the graduate's future income as well as when the remaining debt will be written off. With well-designed income-contingent loans, higher debt only affects high-income graduates who are expected to pay their loan in full. The amount of debt has no effect on monthly payments, which depends on only the person's income, and a person with a larger loan will only repay longer. Any unpaid loan after the loan is written off is covered by taxpayers. Therefore, if the debt is large in relation to the average graduate's income, the non-payment rate will also be high. To avoid putting a heavy burden on taxpayers when the debts are written off, the fees should be set at a level that seems feasible for an average graduate to repay during their working life. To ensure that the maximum amount of the

122 Low Incomes Tax Reform Group, UK, "What Happens with My Student Loan If I Go Abroad?," April 15, 2021, www.litr.org.uk/tax-guides/students/student-loans/what-happens-my-student-loan-if-i-go-abroad.

123 Ciele Edwards, "Can Foreign Collections Affect Your Credit Report?," Sapling, accessed January 21, 2022, www.sapling.com/10038328/can-foreign-collections-affect-credit-report.

124 Philip Clarke, and Bruce Chapman, "Internationalisation of ICLs to Deal with Human Capital Trade Imbalances," in Bruce Chapman, Timothy Higgins, and Joseph E. Stiglitz, (eds) *Income Contingent Student Loans. Theory, Practice and Prospects*, International Economic Association Series (London: Palgrave Macmillan, 2014) 136–141.

loans will be collected, we recommend that the written-off time is at retirement. That would allow the maximum amount of contribution to be collected without affecting a person's pension.

In most countries with income-contingent student loan schemes, students start making payments only after their income exceeds a certain threshold. In Jamaica, the simplest way would be to set the threshold to the same as that of income tax. However, according to The UWI's graduate tracer surveys, the median graduate salary two years after graduation is a little under J\$1.5 million, which is the income tax threshold,¹²⁵ meaning that a large number of graduates would not be making contributions two years after graduation. Therefore, the contributions should be treated similarly to the National Insurance Scheme, and as soon as the borrower gets a job, the contributions start. Contributing a small percentage of income should not be too much of a burden for low-income graduates who are exempt from paying income tax.

The last issue is how to finance the scheme. Currently the Student Loan Bureau provides loans through its Revolving Loan Fund (RLF). RLF is funded by three main sources: government allocations, including proceeds from the education tax, money recovered from loan beneficiaries, and grants and loans offered by multilateral support programmes. Due to a high rate of students defaulting on

their loan payments, the SLB relies heavily on government subsidies. However, according to the SLB, even if delinquency was reduced to zero, the Revolving Fund would not be self-sustaining, and an annual injection of funds would still be required.¹²⁶ This is most likely due to high administrative costs of the current loans.

Although the income-contingent loan scheme would be cheaper to administer and delinquency rates would be reduced due to more manageable payment terms and a straightforward collection mechanism, the starting capital would need to be much larger than in the current fund to facilitate larger loans for a greater number of students. It would also take longer for the loans taken out today to be repaid in full. In many developed countries with similar schemes, the government lends to students directly, with a small interest rate. This might not be an issue for them as they can get loans from the capital market with low interest rates. However, for Jamaica this could be an issue for the same reasons as increasing the education budget. If the additional funds were taken from the government's budget, the scheme would not bring any private funds until the loans mature, and more funds are needed urgently. If the government borrows from the capital market, it will add to the public debt, at high interest rates. Hence, for the scheme to solve the issue of financing tertiary education, it would be crucial to ensure that it brings in private funds.

The option of a government-guaranteed loan from a private bank, which could bring in some additional private funds, has had suboptimal outcomes in the U.S. There it was found that direct lending, where the government lends directly from the federal budget, is substantially cheaper to the government than a guaranteed loan programme through private financial institutions. In fact, the cost to the government of a guaranteed programme was nearly twice as high for a student loan, while the student essentially got the same product.¹²⁷ The Congressional Budget Office estimated in 2010 that eliminating the guaranteed loan programme and replacing it with direct loans would produce savings in mandatory costs of US\$68 billion between 2010 and 2020.¹²⁸ Due to these findings the guaranteed loan programme was discontinued in the U.S. in 2010 and replaced with direct loans.¹²⁹ In addition to being more expensive, with the guarantee from the government to pay the loan if the borrower defaults, banks may have little incentive to pursue recollections vigorously, leading to ineffective recollection and high defaults. Further, in order to get the banks involved the government would have to offer generous guarantees, and there would be no genuine risk-transfer, which under IMF rules implies that the resulting loans would be counted as public spending.¹³⁰

The proposal that the Student Loan Bureau increase its lending from financial

¹²⁵ According to The UWI's 2018 graduate tracer survey, of those who responded (18 percent), two years after graduation 77 percent were employed (95 percent fulltime), and the median monthly income was J\$108,333 ranging from J\$23,000 for (part-time) to J\$470,000. The UWI, "2018 Tracer Survey of First Degree Graduates, Class of 2016," n.d., www.mona.uwi.edu/principal/sites/default/files/principal/managementreports/studiesandsurveys/News%20Brief%202018%20Tracer%20Survey%20of%20First%20Degree%20Graduates,%20Class%202016.pdf.

¹²⁶ Auditor General's Department Performance Audit Report, "Students' Loan Bureau (SLB) - Loans Management," July 2018, https://japarliament.gov.jm/attachments/article/1934/SLB_PA_Loans_Management_2018.pdf.

¹²⁷ Deborah Lucas and Damien Moore, "Guaranteed vs. Direct Lending: The Case of Student Loans," Congressional Budget Office, Working Paper 2007-09, 2007, <https://ideas.repec.org/p/cbo/wpaper/18759.html>.

¹²⁸ Director Douglas W. Elmendorf's letter to Senator Judd Greg, Congressional Budget Office, March 15, 2010, cbo.gov/sites/default/files/cbofiles/ftpdocs/113xx/doc11343/03-15-student_loan_letter.pdf.

¹²⁹ "Student Loan History," New America, accessed December, 15, 2021, www.newamerica.org/education-policy/topics/higher-education-funding-and-financial-aid/federal-student-aid/federal-student-loans/federal-student-loan-history/.

¹³⁰ According to IMF government guaranteed student loans would fall under standardized guarantee schemes which are included in the balance sheet. IMF,

markets, a second option which would require government's guarantee, would also be subject to the issue with the IMF rules. Government guarantees for financial institutions for specific types of loans such as student loans would fall under standardized guarantee schemes which are included in the balance sheet.¹³¹ Therefore, while the SLB's debt would not be counted as part of the government's debt, and would be in line with the government's attempt to reduce public debt to 60 percent of GDP, it would affect the deficit. That notwithstanding, this arrangement could be less burdensome for the government's budget compared to the current situation where the government subsidises tuition directly. However, in order to make the scheme more sustainable for both students and government, the SLB should be able to access low-interest loans.

Another option (the third) would be to sell student debt to private financial institutions. The potential disadvantage is that without a track record of repayment, the debts could only be sold at a heavy discount. For example, in the UK, student loans were categorized as an asset until 2018, and the government was able to sell that asset to raise money. To finance the expansion of student numbers and to reduce the national debt the UK government decided to sell some of its student loan book. The sale was carried

out through the securitisation market, where loans were packaged together and sold as bonds. The first sale in 2017 sold students' loans for £1.7 billion. Those loans had a face value of £3.5 billion but were marked down to £2.6 billion to reflect the fact that they were unlikely to be repaid in full. The second sale in 2018 achieved roughly similar valuations, loans with face value of £3.7 billion were sold at £1.9 billion. Clearly, the sale made little sense economically, but the UK government preferred "cash today over a larger sum of cash tomorrow."¹³² Given that even the UK government had to sell the student loans at a heavy discount, selling Jamaica's student loans to private investors would most likely not achieve value for money.

A fourth option (previously suggested in 2012) would be a scheme modelled after the National Housing Trust (NHT). Jamaican citizens would be required to contribute a portion of their salary to the fund and the contribution would be repayable with interest after seven years, making it a loan instead of a tax. Employers who benefit from the educated labour force would be asked to make non-refundable contributions to the scheme. The seven-year period that contributors have to wait for their refund would provide cover over the moratorium period when students are not yet making contributions.¹³³ With taxpayers already

making contributions to NHT, however, their effective tax rate would be higher until they start to reclaim refunds. One option to reconcile this would be to reduce contributions to NHT as was suggested by CAPRI in 2016.¹³⁴ Another weakness of this suggestion is that by asking all taxpayers to contribute, the low-income families would loan their money to upper-income families so that they can send their children to do tertiary education. This problem could be avoided if the threshold for contributions was set high enough so that low-income families did not have to contribute.

One more option could be to use dormant bank account funds.¹³⁵ It is estimated that nearly J\$50 billion in unclaimed funds are in those accounts. The Government of Jamaica has made efforts to reduce the time span within which these funds can be accessed, and has planned to use these funds to provide loans to Micro, Small, and Medium-Sized Enterprises (MSME) with reasonable interest rates.¹³⁶ While access to finance is crucial for the MSME sector to grow and positively contribute to the Jamaican economy, so is access to tertiary education. This is a feasible proposal, that the government ought to consider, whether some of these funds could be used to seed a loan fund to provide loans for students.

¹³¹ "Governance Finance Manual Statistics 2014," Washington DC: International Monetary Fund, 2014, www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf; Nicholas Barr and Iain Crawford, "Student Loans: A Hungarian Proposal, Part 1. Design," Paper for Republic of Hungary: Higher Education Reform Project: Consulting Services for Student Loan Programme, May 2000, <https://www.lse.ac.uk/business/consulting/assets/documents/student-loans-a-hungarian-proposal-part-1.pdf>. <https://ideas.repec.org/p/cbo/wpaper/18759.html>.

¹³² IMF, "Governance Finance Manual Statistics 2014."

¹³³ Sue Hobbie and Paul Bolton, "Update on Sale of Student Loans," House of Commons Library, Briefing Paper 8348, September 16, 2020, <https://researchbriefings.files.parliament.uk/documents/CBP-8348/CBP-8348.pdf>.

¹³⁴ Kofi Nkrumah-Yung, "Solving the SLB Dilemma," *Gleaner*, October 14, 2012, <https://jamaica-gleaner.com/gleaner/20121014/focus/focus1.html>.

¹³⁵ CAPRI, "An Assessment of the National Housing Trust," Kingston, Jamaica: Caribbean Policy Research Institute, July 2016, www.capricaribbean.org/documents/assessment-nht-revised-july-2016.

¹³⁶ Canute Thompson made this proposal in his 2020 book, *Education and Development*, op. cit.

¹³⁷ "Gov't Moves to Reduce 15-year Cap on Accessing Funds in Dormant Bank Accounts," *Gleaner*, March 1, 2019, <https://jamaica-gleaner.com/article/news/20190301/govt-moves-reduce-15-year-cap-accessing-funds-dormant-bank-accounts>.



4

Funding Option 3: Other Income-generating Activities



In 2019, the top 20 academic institutions in the US received 28% of the

\$47 billion
DONATED TO COLLEGES

Revenue generation is a key activity across the 21st century academic world. Institutions are building partnerships with business, commercialising intellectual property, leasing infrastructure, developing spin-off companies, and selling academic services.¹³⁷ Reduced public subsidies combined with an increase in participation rates have forced higher education institutions worldwide to seek alternative funding sources to ensure quality of education and to stay globally competitive, and to mitigate the extent to which tuition fee increases harm access.

Generating new income sources is also a strategy The UWI's leadership has adopted. To diversify revenue sources The UWI aims to build an

“entrepreneurial university” which on one hand is still a non-profit institution dedicated to teaching and research, and on the other a for-profit entity.¹³⁸ There have been stated attempts to strengthen the university's alignment with industry, and to take its research into a commercial space. The UWI has also iterated plans to transform its Open Campus, now offering online programmes mainly to regional students, into a for-profit “global campus” serving fee-paying students worldwide. In addition, there are plans to intensify the university's role in regional markets by offering micro-credentials and commercial academic services. The UWI also seeks to increase alumni giving, as well as private sector investments and endowments.¹³⁹

There are concerns, however, that the quest for alternative income streams can lead to unintended consequences. Institutions may be so eager to expand their revenue sources that it diverts them from their core mission, which is to educate and advance knowledge.¹⁴⁰ When academics have to actively seek additional revenue, they may have less time and energy for teaching and research, particularly when public funds are limited and no extra resources are available.¹⁴¹ This can lead to a paradox: “in order for teaching, research, and community engagement to survive, more income needs to be generated; yet in order to generate more income, the university needs to shift its focus—at least partially—from teaching, research, and community engagement towards income

137 Cris Shore and Susan Wright, “Neoliberalisation and the ‘Death of the Public University’”, *ANUAC* 5, no. 1 (June 2016): 46-50, <https://doi.org/10.7340/anuac2239-625X-2451>.

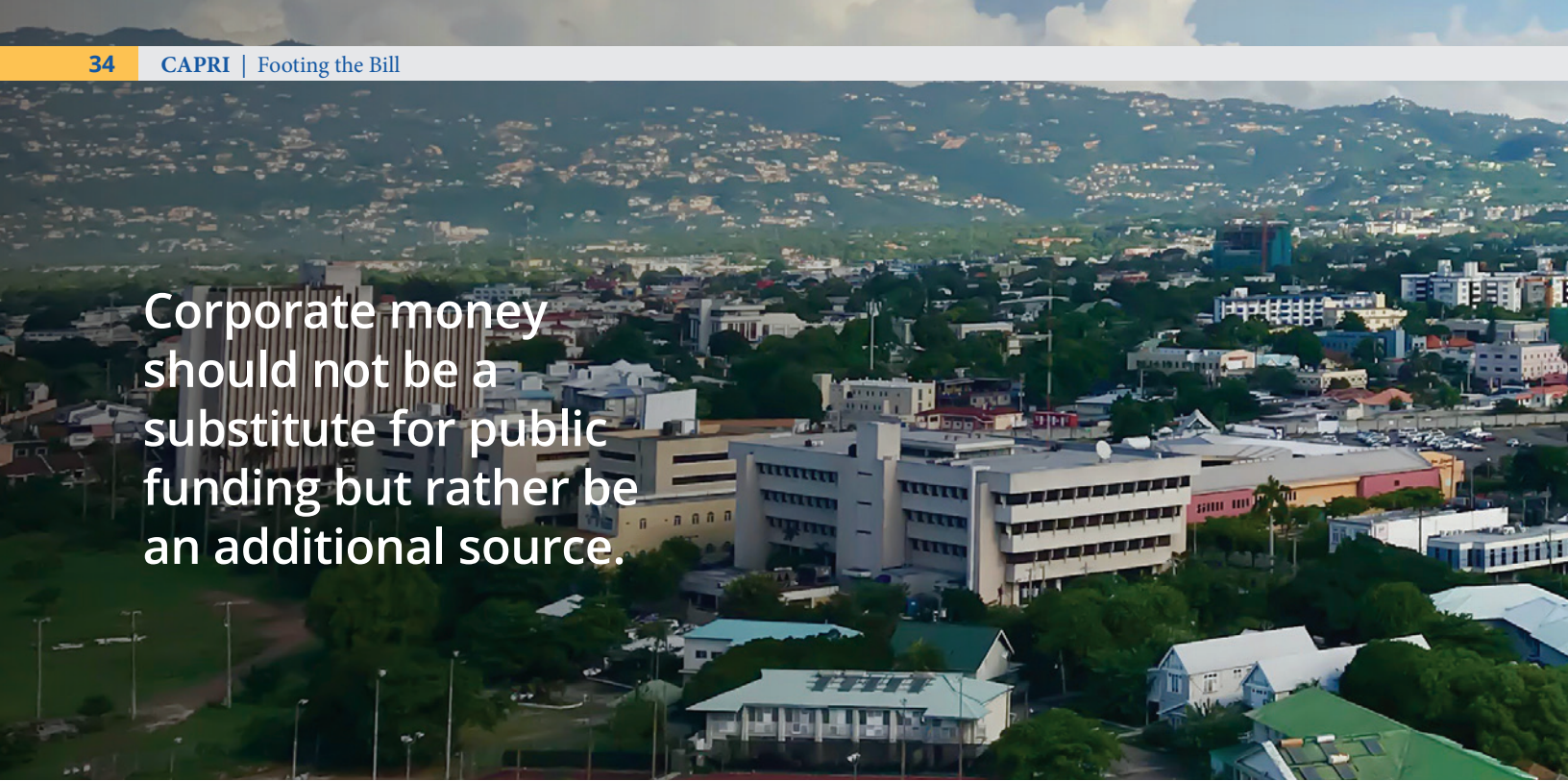
138 The UWI, “Building an Entrepreneurial University UWI,” Special Report, n.d., <https://online.flippingbook.com/view/484744/26/>.

139 “The UWI Launches ‘Operation Revenue Revolution75+’” The UWI St Augustine, Campus News, July 15, 2021, <https://sta.uwi.edu/news/releases/release.asp?id=22282>.

140 Burton A. Weisbrod, Jeffrey P. Ballou, and Evelyn D. Asch, *Mission and Money: Understanding the University* (New York: Cambridge University Press, 2008); Susan A. Namalefe, “A Necessary Evil—Revenue Diversification for Higher Education,” *Journal of Comparative and International Higher Education* 6 (Spring 2014): 5-7, www.ojed.org/index.php/jcihe/article/view/849.

141 Gareth Williams, “Finance and Entrepreneurial Activity in Higher Education in a Knowledge Society,” in Michael Shattock (ed.) *Entrepreneurialism in Universities and the Knowledge Economy. Diversification and Organizational Change in European Higher Education*, (New York: Society for Research into Higher Education & Open University Press, 2009).

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Corporate money should not be a substitute for public funding but rather be an additional source.

generation.”¹⁴²

Further, there have been worries that when institutions are relying heavily on private funding, they may jeopardize their autonomy, credibility, and capacity to create knowledge.¹⁴³ Most big donors, for instance, often direct their funds toward a specific cause: creation of a new programme, a research fund, a facility, or a scholarship for a specific programme. When a large share of funding is earmarked in line with the donor’s wishes, the donors may end up directing institutional priorities.¹⁴⁴ There have also been concerns regarding the possible long-run negative effects of corporate-

sponsored research on scientific performance. Commercial interests may, for example, induce university researchers to select research projects on the basis of their perceived value in the private sector instead of on the basis of scientific progress.¹⁴⁵ Industry funding may also compromise the traditional incentives in scientific research—the dissemination of knowledge and rapid disclosure of research outcomes—as researchers can be prohibited from publishing or openly speaking about their corporate-funded research. This is in contrast with the university’s ostensive role of generating new knowledge.¹⁴⁶ Corporate-funded

research may also put universities in a clear or perceived conflict of interest. In more severe cases, there is evidence that some corporates have tried to influence research results which has caused distrust among the public to corporate-sponsored scientific research.¹⁴⁷ There is some evidence that bears these concerns out. One study found that a higher share of industry funding in professors’ research budget was associated with lower publication outcomes in terms of both quantity and quality in subsequent years. However, industry funding did not affect the number of patent applications, and increased the quality of patents as

142 Rebecca Swartz et al., “Between a Rock and Hard Place: Dilemmas Regarding the Purpose of Public Universities in South Africa,” *Higher Education* 77, no. 4 (April 2019): 567–583, <https://doi.org/10.1007/s10734-018-0291-9>.

143 Julia Antonia Eastman, “The Revenue Generation and Its Consequences for Academic Capital, Values and Autonomy: Insights from Canada,” *Higher Education Management and Policy* 19, no. 3 (November 2007): 1–17, <https://doi.org/10.1787/hemp-v19-art15-en>.

144 Commission of Inquiry Into Higher Education and Training, “Report of the Commission of Inquiry into Higher Education and Training to the President of the Republic of South Africa,” The Presidency Republic of South Africa, n.d., www.thepresidency.gov.za/sites/default/files/Commission%20of%20Inquiry%20into%20Higher%20Education%20Report.pdf.

145 Hanna Hottenrot and Susanne Thorwarth, “Industry Funding of University Research and Scientific Productivity,” Center for European Economic Research, Discussion Paper No. 10-105, December 2010, <https://madoc.bib.uni-mannheim.de/3105/1/dp10105.pdf>.

146 David Blumenthal et al., “Relationships Between Academic Institutions and Industry in the Life Sciences—An Industry Survey,” *The New England Journal of Medicine* 334, no. 6 (February 1998): 368–373, <https://doi.org/10.1056/NEJM199602083340606>; Eric G. Campbell et al., “Data Withholding in Academic Genetics: Evidence from a National Survey,” *JAMA* 287, no. 4 (January 2002): 473–480, <https://doi.org/10.1001/jama.287.4.473>; Dirk Czarnitzki, Christoph Grimpe, and Andrew A. Toole, “Delay and Secrecy: Does Industry Sponsorship Jeopardize Disclosure of Academic Research?,” *Industrial and Corporate Change* 24, no. 1 (February 2015): 251–279, <https://doi.org/10.1093/icc/dtu011>.

147 Canadian Union of Public Employees (CUPE), “Corporatization in Post-Secondary Education,” Backgrounder No. 3, January 29, 2019, P <https://cupe.ca/corporatization-post-secondary-education>; John C. Besley et al., “People Don’t Trust Scientific Research When Companies Are Involved,” *The Conversation*, May 8, 2017, <https://theconversation.com/people-dont-trust-scientific-research-when-companies-are-involved-76848>.



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measured by patent citations.¹⁴⁸

These issues notwithstanding, income diversification is necessary for any university that wishes to excel, and there is evidence that there are positive outcomes associated with private sector funding. Despite the potential unintended consequences, corporate funding can bring substantial streams of external funding to universities and can enhance opportunities for professors and graduates to work on ground-breaking research.¹⁴⁹ It can also help to bring real-life relevance into research and teaching.¹⁵⁰ Further, research conducted by universities for industry constitutes the main channel through which knowledge and technology are transferred from science to private sector, and is thus

essential for innovations and economic development.¹⁵¹

Corporate money should not be a substitute for public funding but rather be an additional source. Research has shown that in terms of university funding one dollar is not the same as next. While government funding fosters innovation that is open to all, corporates want to see commercial outcomes from the research they fund.¹⁵² It is, therefore, the responsibility of policymakers to ensure adequate public funding for research that does not have immediate commercial implications, and that can be freely published.

4.1 The Keys for Income Diversification: Brand and Research

The ability to successfully expand revenue sources varies widely among tertiary education institutions.¹⁵³ Not all institutions have benefitted from their revenue diversification strategies. Some institutions tend to diversify their income sources without rigorously considering the associated costs, including administrative and accounting, as well as opportunity costs of forgoing other initiatives.¹⁵⁴ A common perception is that universities strong on STEM (science, technology, engineering, mathematics, medicine) subjects have better opportunities to earn business income as

148 Hottenrot and Thorwarth, “Industry Funding of University Research.”

149 Gail Edmondson et al., “Making University-Industry Partnership Work: Lessons from Successful Collaborations,” Science/Business Innovation Board, 2012, <http://sciencebusiness.net/sites/default/files/archive/Assets/94fe6d15-5432-4cf9-a656-633248e63541.pdf>.

150 Larry Degaris, “Benefits of Sponsored Research,” BizED Magazine, AACSB International, September 23, 2019, <https://bized.aacsb.edu/articles/2019/september/the-benefits-of-sponsored-research>.

151 Hottenrot and Thorwarth, “Industry Funding of University Research.”

152 Tania Babina et al., “The Color of Money: Federal vs. Industry Funding of University Research,” National Bureau of Economic Research, Working Paper 28160, December 2020, <https://doi.org/10.3386/w28160>.

153 Namalefe, “A Necessary Evil—Revenue Diversification for Higher Education.”

154 James C. Hearn, “Diversifying Campus Revenue Streams: Opportunities and Risks,” American Council on Education, 2003, https://ihe.uga.edu/sites/default/files/inline-files/Diversifying_Campus_Revenue.pdf; Pedro N. Teixeira et al., “Revenue Diversification in Public Higher Education: Comparing the University and Polytechnic Sectors,” *Public Administration Review* 74, no. 3 (2014): 398-412, <https://doi.org/10.1111/puar.12215>.

those subjects create more opportunities for patents, licences, and spin-offs than other disciplines.¹⁵⁵ However, a study on financially sustainable European universities suggests that comprehensive universities are just as able to secure contracts with the private sector as their technology-focused counterparts.¹⁵⁶ This is in line with other literature suggesting that more important than subject mix is the institution's research capability.¹⁵⁷

There are several reasons why research-oriented institutions have better opportunities to expand their revenue sources. Research itself develops knowledge that people will pay for. Everything from patents and licences to spin-offs stem from research. In order to generate new income, research-oriented institutions can simply accelerate the translation of research from “idea to invoice.”¹⁵⁸ Research also boosts the university's reputation. Universities with strong brands and reputations have been more successful in attracting additional revenue than lesser-known institutions. Some prestigious universities have been able to secure substantial amounts of independent third-stream income from contract research, consultancies, donations, and investments.¹⁵⁹ For example, in 2019, the top 20 academic

institutions in the U.S. received 28 percent of the total \$47 billion donated to colleges while serving a mere 1.6 percent of the U.S. student population.¹⁶⁰

Rankings are important to universities' reputations. The *Times Higher Education* ranking system, in which The UWI is ranked, evaluates universities' performance through five pillars: teaching and learning, research (volume, income, and reputation), citations (research influence), industry income (knowledge transfer), and international outlook (staff, students, research). Teaching, research, and citations count each for 30 percent, while industry income counts for 2.5 percent, and international outlook 7.5 percent.¹⁶¹ Therefore, the single most effective way to improve an institution's ranking is to focus on quality research.¹⁶² Better ranked universities also attract more international students who usually pay higher tuition fees. Some universities have been able to raise a substantial portion of their income from international students' fees. This additional income can be used to fund more research which in turn builds reputation, which attracts more revenues. Hence, in order to attract additional income, universities need to excel in research and build their reputation.¹⁶³

The UWI's strategic leadership has acknowledged the importance of the university's reputation in income generation, and its efforts appear to have paid off. The first half of its ten-year operational plan, “Reputation Revolution” (2017–2022), focused on brand-building. Since 2018, the UWI has earned its place in the *Times Higher Education* ranking among the top 600 universities in the world, moving up to the top 500 in 2022.¹⁶⁴ The improvement in the ranking was largely due to an increase in the number of citations, although most other areas moved up as well. The only exception was industry income which suggests that The UWI could improve its engagement with the private sector.¹⁶⁵ The recent ranking boosts The UWI's reputation and gives a strong base for the second phase of its ten-year plan focusing on financial sustainability. However, when competing for international grants, donations, and students The UWI has to compete against the other 500 best universities in the world. The competition, for example, among institutions offering online education and degrees is fierce. To expand their revenues, many U.S. institutions have outsourced the management and marketing of their online programmes,

155 Martine Garland, “Antecedents and Outcomes of Income Diversification in Higher Education: A Resource-based View,” A thesis submitted to the University of Gloucestershire in accordance with the requirements of the degree of Doctor of Business Administration in the School of Business and Technology, August 2019, <http://eprints.glos.ac.uk/7113/1/M%20Garland%20%20DBA%20thesis%202019.pdf>.

156 Thomas Estermann, and Enora Bennetot Pruvot, “Financially Sustainable Universities II: European Universities Diversifying Income Streams,” European University Association, February 22, 2011, <https://eua.eu/resources/publications/405:financially-sustainable-universities-ii-european-universities-diversifying-income-streams.html>.

157 Teixeira et al., “Revenue Diversification in Public Higher Education”; Estermann, and Pruvot, “Financially Sustainable Universities”; Garland, “Antecedents.”

158 Shore and Wright, “Neoliberalisation.”

159 Simon Marginson, “Global Trends in Higher Education Financing: The United Kingdom,” *International Journal of Educational Development* 58 (January 2018): 26–36, <https://doi.org/10.1016/j.ijedudev.2017.03.008>; Garland, “Antecedents.”

160 Niall McCarthy, “Harvard Received \$1.4 Billions in Donations Last Year,” *Forbes*, February 11, 2019, www.forbes.com/sites/niallmccarthy/2019/02/11/harvard-received-1-4-billion-in-donations-last-year-infographic/?sh=4f90324b3631.

161 The World Education Rankings, “World University Rankings 2022: Methodology,” accessed November 6, 2021, www.timeshighereducation.com/world-university-rankings/world-university-rankings-2022-methodology.

162 Randy Bennet, “Top Ranking for UWI,” *Barbados Today*, September 24, 2021, <https://barbadostoday.bb/2021/09/24/top-ranking-for-uwi/>.

163 Garland, “Antecedents.”

164 The UWI's ranking was 401/500.

165 Bennet, “Top Ranking for UWI”

and the coronavirus pandemic has further accelerated the process.¹⁶⁶ Due to the high demand even many top tier universities have expanded their offerings to online programmes that students worldwide can access.¹⁶⁷ In order to be an attractive choice for international students and donors, The UWI needs to maintain and improve its reputation, focus on quality research, and ensure that its education is internationally competitive. That all requires that the university is financially sustainable. Donors are not interested in covering deficits; they want to support excellence.

4.2 Fundraising Brings in the Most

Not all funding sources have the same income generation potential. International experience suggests that technology transfer is not highly advantageous in terms of income generation, although it may sound appealing, and only a few universities, even in the United States, have been able to raise significant revenues from their inventions and patents.¹⁶⁸ In fact, many institutions make so little money from licensing inventions that it does not even cover the cost of managing them.¹⁶⁹ For example, at Harvard University,

income from technology transfer licenses is equivalent to only 1 percent of annual fund-raising receipts. Providing continuing education and selling auxiliary services has typically generated more income. The most successful revenue generation, however, has been fundraising from alumni, foundations, and corporations.¹⁷⁰

Donations to tertiary education institutions can be given as expendable gifts (immediately usable for current purposes according to the donor's wishes) or they can be endowed. An endowed gift means that the principal is invested towards producing annual returns. It is a permanent, self-sustaining source of funding. The institution can only spend the agreed annual distributions on activities consistent with the donor's intent while the principal remains intact. Any excess investment returns are typically reinvested in the fund. This way the endowed fund can grow and provide support for its designated purpose in perpetuity. Depending on the donor's wishes, the distribution can be used to finance specific projects such as scholarships for underrepresented students, or a chair, or a professorship, or it can be used to finance portions of the operating cost of the institution.¹⁷¹

In the United States many prestigious universities cover a substantial portion of their operating costs from returns on their endowments. For example, in fiscal year ending June 2021 Harvard University's endowment distributed \$2 billion contributing over a third of Harvard's total operating revenue that year.¹⁷²

Due to the success of the endowment model in the United States, several other countries have encouraged their academic institutions to build endowments in order to achieve a more sustainable financing base. The universities in Europe are relatively new to fundraising and are not in the same league with their U.S. counterparts in terms of philanthropic giving. For example, Oxford University, which is one of the largest recipients in Europe, had 8 percent of its total income attributable to investment income and endowments in 2016/2017.¹⁷³ However, with government support and investment many academic institutions have been able to boost their fundraising efforts.

Alumni donations and endowments are also an important part of the UWI's strategy to improve its financial sustainability. The UWI aims to cover 5 percent of its operating costs from private sector investment and 5 percent from

166 Derek Newton, "How Companies Profit Off Education at Nonprofit Schools," *The Atlantic*, June 7, 2016, www.theatlantic.com/education/archive/2016/06/for-profit-companies-nonprofit-colleges/485930/; Meredith Kolodner and Sarah Butrymowicz, "Could the Online For-profit College Industry Be 'a Winner in this Crisis'?" *The Hechinger Report*, June 17, 2020, <https://hechingerreport.org/could-the-online-for-profit-college-industry-by-a-winner-in-this-crisis/>.

167 Nguyen Terry, "Revenue from Online Ed Is on the Rise. So Is the Competition, Moody's Says," *Chronicle of Higher Education*, April 9, 2019, www.chronicle.com/article/revenue-from-online-ed-is-on-the-rise-so-is-the-competition-moodys-says/.

168 Walter D. Valdivia, "University Start-Ups: Critical for Improving Technology Transfer," Center for Technology Innovation at Brookings, November 2013, www.brookings.edu/wp-content/uploads/2016/06/Valdivia_Tech-Transfer_v29_No-Embargo.pdf; Paul M. Swamidass, and Vulusa Venubabu, "Why University Inventions Rarely Produce Income? Bottlenecks in University Technology Transfer," *The Journal of Technology Transfer* 34 (August 2009): 343–363, <https://doi.org/10.1007/s10961-008-9097-8>; World Bank, "Improving Higher Education Performance in Kenya: A Policy Report," 2019, <https://documents1.worldbank.org/curated/en/831821566966279688/pdf/Improving-Higher-Education-Performance-in-Kenya-A-Policy-Report.pdf>; Jon Marcus, "Think Universities Are Making Lots of Money from Inventions? Think Again," *The Hechinger Report*, January 17, 2020, <https://hechingerreport.org/think-universities-are-making-lots-of-money-from-inventions-think-again>.

169 Valdivia, "University Start-Ups."

170 World Bank, "Improving Higher Education Performance in Kenya."

171 Albert Phung, "How Do University Endowments Work?," *Investopedia*, updated February 15, 2021, www.investopedia.com/ask/answers/how-do-university-endowments-work/.

172 "Harvard's Endowment," Harvard University, accessed January 11, 2022, <https://finance.harvard.edu/endowment%20>.

173 "Financial Statements 2016/2017," University of Oxford, 2017, www.ox.ac.uk/sites/files/oxford/field/document/University%20Financial%20Statements%202016-2017.pdf.

endowments and alumni contributions.¹⁷⁴

4.3 The Magic of Matching Funds

Probably the most successful incentive mechanism to foster income diversification is a matched funding scheme, whereby public money matches that which the university raises from the private sector. Despite their success in the countries where they have been implemented, only a few governments have used them as a regular tool for financing tertiary education. The governments in Singapore, Hong Kong, and Finland have used such schemes on a nearly on-going basis in order to help their public universities build endowment funds, while on a smaller scale they have been used in countries such as Canada, New Zealand, Norway, and the U.K.¹⁷⁵ The schemes vary in design from one country to another, but they all have proved their effectiveness in increasing the participation of the private sector in higher education through philanthropic giving.¹⁷⁶

The Case of Singapore

The Singapore government launched the University Endowment Fund in 1991, following the successful endowment model in the United States, and the emerging attempts to build endowments in Europe. The Endowment Fund was established with an initial government contribution of S\$500 million. The two public universities in Singapore at that time, National University of Singapore

The Singapore government launched the University Endowment Fund in 1991, following the successful endowment model in the United States, and the emerging attempts to build endowments in Europe.

and Nanyang Technological University, were encouraged to raise together another S\$250 million to acquire another S\$250 million in matching funds, making the fund worth S\$1 billion in a period of five years. At the end of 1996 the fund was dissolved to create separate endowment funds and fundraising programmes for the two universities. In March 1997, to encourage donations to these separate funds, the government announced that on top of this dollar-for-dollar scheme, it would match every dollar raised with another two dollars. In other words, the government gave S\$3 dollars for every dollar raised between 1997 and 2001. The dollar-for-dollar matching scheme continued after that. Due to the success of the schemes, the government announced in 2010 that it will commit another S\$4 billion over the following 20 years to provide matching grants for tertiary institutions. Half of that money was set aside to the Singapore University Trust so that matching grants could be provided regardless of economic circumstances.

The Singapore government prefers endowed donations to universities, and therefore it matches all endowed donations up to three times for the four newer universities, and one and a half for the older two, while non-endowed donations continue to be matched dollar-for-dollar. To further incentivize donations, Singapore has made donating to universities attractive by giving donors a tax advantage of 250 percent of tax deductions.¹⁷⁷ Due to successful fundraising over the past 30 years the National University of Singapore, for example, has built an endowment fund worth S\$5.9 billion. In 2022, it was ranked as the 21st best university in the world by the *Times Higher Education* World University ranking.

The Case of Hong Kong

Since 2003, the Hong Kong government has launched a total of eight rounds of matching grant schemes to help the higher education sector diversify its funding sources, promote community

174 Judana Murphy, "UWI Launches Plan to Revolutionise Finances," *Gleaner*, July 16, 2021, <https://jamaica-gleaner.com/article/news/20210716/uwi-launches-plan-revolutionise-finances>. Information on endowments and alumni contributions was not made available and so is not included in this report.

175 E.g. In Canada, the government of Alberta underestimated the potential of its Access to Future Fund, established in March 2005. Philanthropist responded so generously to scheme that by the end of 2006 it had exhausted the money set aside for to match private donations. Mount Royal University, for example, whose expectation was to receive a 1:1 co-financing, could not get more than US\$3 million, even though it had collected US\$16.5 million. In New Zealand partnership for excellence programme launched in 2002 helped leverage about 110 million from private sector. It started initially as matching grant only for the University of Auckland Business School but it was later extended to all tertiary institutions in New Zealand. OECD, *Higher Education in Regional and City Development: Southern Arizona, United States 2011*, Higher Education in Regional and City Development, (Paris: OECD Editions, 2012), <https://doi.org/10.1787/9789264028036-en>.

176 Estermann, and Pruvot, "Financially Sustainable Universities."

177 Arnold de Meyr, and Jovina Ang, *Building Excellence in Higher Education: Singapore's Experience* (New York: Routledge, 2022).

involvement, and improve the quality of education. For the first round the government set aside one billion in Hong Kong dollars and proposed to match dollar-for-dollar any donation made to the eight public universities in Hong Kong. The leaders were unsure how the community would react considering that Hong Kong was missing philanthropic culture at the time, but within a year donations started flowing to universities. The University of Hong Kong, for example, raised 50 percent more than the previous year. The matching grant scheme eased the impact of funding cuts of 10 percent that the Hong Kong Government had simultaneously made, and in fact, it seemed as if the funding cut had not happened at all.¹⁷⁸

Together the first six rounds secured additional resources for public institutions of about HK\$22.2 billion (US\$3 billion), comprising HK\$14.8 billion of private donations and HK\$7.4 billion of government matching grants. The seventh scheme targeted a total of 12 self-financing degree-awarding institutions that had been excluded from the earlier schemes. The scheme ran for two years from August 1, 2017 to July 31, 2019. During this time the institutions received about HK\$1 billion in private donations and around HK\$500 million in government matching

grants.¹⁷⁹ The eighth round of matching grant schemes commenced in July 2019 for publicly funded institutions, and ran until March 2021. Despite the student protests in Hong Kong during that time, and the pandemic, the scheme secured about HK\$5 billion in donations and HK\$2.5 billion in matching grants.¹⁸⁰ The matching grants scheme in Hong Kong has been deemed highly successful in cultivating a philanthropic culture, diversifying funding sources for higher education, and fostering development of a systematic fund-raising mechanism in the participating institutions.¹⁸¹

While these schemes have involved a substantial amount of public funding, it does not always have to be the government who takes the lead. The experiences from the University of Hong Kong (HKU) show that matching gifts from wealthy alumni, or from the university, can boost fundraising. In 2005, the vice-chancellor of the University of Hong Kong proposed to alumnus Stanley Ho, a major Hong Kong businessman and philanthropist, the launch of a match-funding scheme for increased alumni participation. Dr. Ho took up the challenge. He established the “Stanley Ho Alumni Challenge” and set aside HK\$500 million (US\$64 million) to match dollar-for-dollar every alumni donation to HKU up to HK\$100 million each year for the five

consecutive years.¹⁸² The challenge was a success. During the first year the actual dollar amount of donations rose nearly 700 percent compared to the previous year, and the number of alumni donors rose 200 percent. Eight-five percent of them were first time donors.¹⁸³ By 2010, 13,000 alumni, local and overseas, had together donated HK\$500 million, and with a matching grant from Dr. Ho the total gift to the University of Hong Kong amounted to HK\$1 billion (US\$128 million), benefitting more than 100 departments across the university.¹⁸⁴

In 2005, the University of Hong Kong (HKU) launched its own matched funding scheme for endowed professorships. Under this scheme, a donor provides a minimum donation of HK\$10 million which is then to be matched dollar-for-dollar by the university to form an endowed professorship. This provides a permanent endowment of at least HK\$20 million, with the principal generating almost a million dollars a year for a designated academic area.¹⁸⁵ The professorship is named in honour of the donor. This scheme proved attractive to potential donors who, as the university realized, were interested in supporting excellence, not in covering deficits.¹⁸⁶ As of October 2021, 199 endowed professorships have been established.¹⁸⁷

178 Frank Ching, “The Naming of the Faculty,” in Frank Ching, *130 Years of Medicine in Hong Kong* (Singapore: Springer, 2018), https://doi.org/10.1007/978-981-10-6316-9_15.

179 “Results of Seventh Matching Grant Scheme Announced,” The Government of the Hong Kong Special Administrative Region Press Releases, September 18, 2019, www.info.gov.hk/gia/general/201909/18/P2019091800270.htm.

180 University Grants Committee, “UGC Announces Results of Eighth Matching Grant Scheme,” May 12, 2021, www.ugc.edu.hk/eng/ugc/about/press_speech_other/press/2021/pr20210512.html.

181 Legislative Council Panel on Education, “Eight Matching Grant Scheme,” LC Paper No. CB (4)375/18-19(01), January 4, 2019, www.legco.gov.hk/yr18-19/english/panels/ed/papers/ed20190104cb4-375-1-e.pdf.

182 Bernadette Tsui, “Share the Mission: Philanthropy and Engagement for Universities,” in Al-Youbi A.O., Zahed A.H.M., Atalar A. (eds) *International Experience in Developing the Financial Resources of Universities*, (Springer, 2021), https://doi.org/10.1007/978-3-030-78893-3_7.

183 “Interesting Finding on Alumni Giving,” The University of Hong Kong, Stanley Ho Alumni Challenge, accessed October 25, 2021, www.alumni.hku.hk/alumnichallenge/findings2006.php.

184 Tsui, “Share the Mission.”

185 Ching, “The Naming of the Faculty.”

186 Ching, “The Naming of the Faculty.”

187 “The Endowed Professorship Scheme,” The University of Hong Kong, accessed October 25, 2021, www.daao.hku.hk/ephku/en/Endowed-Professorships-Scheme/Established-Endowed-Professorships.html.

The Case of Finland

In 2010, the Finnish government passed a new Universities Act that separated the universities from the state budget, providing them with an independent legal status and allowing them to collect endowments. Among the main goals of the reform was to diversify the funding base of the universities and provide them with better opportunities to compete for international research, and increase cooperation with foreign world class universities, as well as ensure the quality and effectiveness of the universities' research and teaching. In addition to the new legislation, the reform also merged several smaller institutions into one. The flagship project was the Aalto University, a public research university in the capital, that merged three institutions (arts, technology, and business) into one university, with the objective to foster Finland's innovation capacity by bringing together top students and experts in science, business, and design. To secure the financial base of the new university, the Finnish government set up a matched funding scheme whereby the government agreed to match 2.5 times the sum raised from private sector. During the fundraising campaign that ran between 2008 and 2011, the Aalto University received €200 million in donations from Finnish companies, organizations, and private persons, and the government provided another €500 million. This match-funded fundraising helped the university to accumulate endowed capital of a total of €700 million

which was then reinvested in order to generate long-term annual funding for the university's operations.¹⁸⁸ In 2020, the market value of Aalto University's endowment was €1167 million, and the endowment provided €36 million in funding to the university's operations.¹⁸⁹

The other Finnish universities found the government's decision to support Aalto university unjust, and after heated public debate, the government decided to extend the matched funding scheme to cover all Finnish universities. While they did not manage to raise as much as Aalto, which was supported by large business enterprises located in the metropolitan area, they too raised considerable sums, considering that it was in the midst of global financial crises, and Finland did not have a strong philanthropic culture, nor were the universities used to fundraising. During the first matching fund scheme the universities raised €102 million in donations and received another €241 million from the government.¹⁹⁰

In 2014, due to the success of the first scheme, the government decided to recapitalize universities as part of its public finance and investment growth plan. Under this plan the government agreed to match the private capital raised by universities up to three times with the condition that universities raise €50 million subject to a ceiling of €150 million. The fundraising campaign took place between November 1, 2014 and June 30, 2017 and exceeded all

expectations. The universities raised nearly €130 million from private sources.¹⁹¹ Three years later, to continue capitalising the Finnish universities, the government launched a third matched funding scheme with a one-off contribution of €100 million funded by Finnish innovation fund Sitra. The contribution is allocated to universities in two stages. In the first stage, in autumn 2020, €33 million was allocated to the Finnish universities based on research impact criteria. The remaining €67 million is to be allocated in autumn 2022, based on the results of the universities' fundraising. The campaign entitles the universities to receive matched funding from the Finnish government up to 2.5 times the amount raised, as long as the donation follows the rules of the campaign. However, matched funding received by any individual university may not exceed €11 million.¹⁹²

After Aalto University's success in the first scheme, the largest recipient of donations has been the University of Helsinki, which is also the highest ranked university in Finland. Its experience with investment activities show that they can considerably boost university's self-sufficiency. Thanks to investment income in 2019, for example, University of Helsinki's overall result amounted to €15 million, despite its operating result (the result without taking investment activities into account) being €35 million in deficit.¹⁹³

188 "Sincere Thanks to Our Supporters!" Aalto University, updated January 10, 2022, www.aalto.fi/en/give-for-the-future/a-warm-thank-you-to-all-our-supporters.

189 "Aalto University Endowment Provided EUR 36 Million to Fund Education and Research," Aalto University, March 18, 2021, www.aalto.fi/en/news/aalto-university-endowment-provided-eur-36-million-to-fund-education-and-research.

190 "Yliopistoille 195 miljoonaa vastinrahaa valtiolta," Ministry of Education and Culture, December 8, 2011, <https://minedu.fi/-/universitetten-far-195-miljoner-euro-i-motfinansiering-av-staten>.

191 "Yliopistot Onnistuivat Vastinrahakampanjassa: Yksityistä pääomaa kerätty 130-miljoonaa euroa," Ministry of Education and Culture, August 24, 2018, <https://minedu.fi/-/yliopistot-onnistuivat-vastinrahakampanjassa-yksityista-paaomaa-keratty-130-miljoonaa-euroa>.

192 "Talouspoliittinen Ministerivaliokunta. Yliopistoja Pääomitetään 100 miljoonalla eurolla," Ministry of Education and Culture, June 12, 2020, <https://minedu.fi/en-/10616/talouspoliittinen-ministerivaliokunta-yliopistoja-paaomitetaan-100-miljoonalla-eurolla>.

193 Year 2019 an Academic Success for the "University of Helsinki – Overall Result Positive Thanks to Investments," University of Helsinki, April 29, 2020, www.helsinki.fi/en/news/higher-education-policy/year-2019-academic-success-university-helsinki-overall-result-positive-thanks-investments.

4.4 Encouraging Matching Fund Donations to The UWI

As the examples from other countries demonstrate, successful fundraising can bring considerable amounts of private funds to the university. The obvious conclusion is that The UWI should build its fundraising capacity and increase its engagement with alumni and other potential donors. The UWI has been doing this for nearly two decades, but the results of its efforts are not known, and do not appear to have had a significant impact on the funding challenges. The existing efforts have not, to date, embarked on or

attempted a matching fund campaign (or if it has, this information has not been made public).

The current fundraising plans are aimed at establishing a University Trust Fund. According to the stated plans, the fund would be initially capitalized by the contributing governments. Information regarding the status of this fund scheme has not been shared. However, considering the success of the matching fund schemes in other countries it could be more successful to capitalize the fund through such an initiative whereby the contributing governments would match every dollar donated to the fund, perhaps up to an agreed ceiling. Other

donors, such as Caribbean development partners, following the suggestion by Vice-Chancellor Beckles, could also be approached to do a matched funding initiative. Endowed donations should be given preference to generate long-term financial support for the university. When the donations are re-invested, instead of being used to cover the deficit, the investment income can boost the university's self-sufficiency. Further, based on examples from Hong Kong, The UWI could consider match-funding schemes led by wealthy philanthropists, a matching fund challenge targeting alumni, or do a matching grant specifically for endowed professorships.



5

Conclusion and Recommendations



Financial constraints are thought to contribute to Jamaica's relatively low tertiary education participation rates of **27%**

No country can prosper without investment in its human capital. In Jamaica, inadequate and inequitable access to tertiary education is among the major developmental challenges. The University of the West Indies, being the premier higher education institution in the Caribbean, plays a vital role in supporting the region's development. To function effectively, and produce quality education and research, the institution must be financially sustainable. With a focus on Jamaica, this report sought to evaluate which financing model would be best for The UWI to bring in additional funds to strengthen the quality of the university, increase participation rates, and improve equitable access.

This study has not considered other aspects of The UWI's financial situation, for example, the extent to which the financial management oversight and processes are visible, transparent, accountable, and effective, and risk management, issues that were highlighted in the Byron Report as in urgent need of revision.¹⁹⁴ Nor has

this report looked into the prospects for the divestment of assets. There are several assets that are not core to the university's mission, and are likely low return if there is any net gain to these assets at all (eg the university's beach at Lyssons, the guest house in Flamstead in the Blue Mountains, or the staff housing complex at College Common where several houses are in disrepair, and several have not been occupied for decades). The report also has not delved in detail into the prospects for other sources of funding such as entrepreneurial activities. Indeed some commercial projects, despite sounding appealing, may generate so little revenue that it does not cover the cost of managing them. All of these deserve more detailed scrutiny, and may bear fruit if realized, but the most immediate and impactful solutions to The UWI's funding crisis are reorganizing governments' contributions, increasing tuition, and bringing in more private donations.

The Optimal Use of the Government's Contribution

The Jamaican government cannot afford to support The UWI (or the University of Technology, though the operating costs there are far lower than The UWI) to provide a quality education to which all Jamaicans have equitable access. Education already is the largest line item in the budget, and primary education, which is higher priority than tertiary with regard to developmental and equity goals, is underfunded, and so any increase in the budget ought to go there first. Increasing taxes would not remedy equity concerns, nor would government borrowing to fund tertiary education, which is also incongruous with the country's economic model.

The most the GOJ can do is provide a subsidy to The UWI, which in consideration of the government's limited capacity against the university's needs, would not be substantive. This funding should be separated between research and teaching. CAPRI made

¹⁹⁴ The UWI, "Report of The UWI Chancellor's Commission."

Increasing taxes would not remedy equity concerns, nor would government borrowing to fund tertiary education, which is also incongruous with the country's economic model.



this recommendation in 2009,¹⁹⁵ and the rationale still holds. The governments' funding obligations to the university would then be divided between funding to research through competitive research grants, and tuition, which would be subsidized apart from research. This would allow for each contributing country to ascertain what proportion of the full economic cost they can provide their nationals, based on their own resources and priorities.

Separating government contributions into research and teaching, and channelling more public funding towards research instead of tuition, would also contribute to improving the university's reputation, and fortifying its income sources. Tertiary educational institutions with strong brands and reputations are more successful in attracting additional revenue than those that are lesser-known. Some prestigious universities have secured substantial amounts of independent third-stream income from contract research, consultancies, international

students, donations, and investments. In order to build such a reputation, the university needs to excel in research and succeed in rankings. Therefore, what is perhaps the single most effective way for the contributing governments to help The UWI to diversify its income sources is to support quality research, which is also core to the university's mission, and is key for regional and national development of The UWI's member states. The UWI will have to make up the balance primarily through fees and private donations.

Increase Fees Without Harming Access or Participation

Increasing tuition fees to cover more of the cost of a quality tertiary education can be done without harming participation rates, and while preserving and even improving equitable access, with an appropriate student loan and grant scheme. Financial constraints are thought to contribute to Jamaica's relatively low participation rates in tertiary education (27 percent – relative to Barbados and Trinidad and Tobago, who have higher

participation rates [65 percent], and who offer their citizens a free or subsidized tertiary education). However, evidence from countries that have introduced tuition fees in combination with income-contingent loans schemes shows that the fees did not worsen the socioeconomic gap in enrolments as compared to the period when tertiary education was free of charge. When fees allowed for an increased number of students accepted to tertiary education, and the cost of education was deferred until after graduation, participation rates slightly increased, including, importantly, among low-income students.

Moreover, with regard to equitable access, fees are not the main factor hindering students from disadvantaged backgrounds accessing tertiary education. Even in the absence of fees, living and other education-related costs, as well as the income forgone while studying, would remain a barrier to accessing and completing tertiary education. The more germane barrier to low-income

¹⁹⁵ CAPRI, "Funding Tertiary Education in Jamaica."

students' access to tertiary education, though it is less obviously discernible, is an underfunded and inequitable basic education system that ill equips them with the necessary skills to qualify for higher education. Therefore, free tertiary education mainly benefits those who have been able to afford a high quality primary education, and thus are already better off. Yet all taxpayers bear the cost of educating the more privileged, bringing about a situation where low-income taxpayers, who themselves have a slim chance of attaining tertiary education, subsidise it for high-income students. From an equity point of view, it can thus be argued that it is not free education per se that matters, but a situation where no capable person is denied access to tertiary education due to lack of funds.

Given that the evidence shows that when loans are readily available, an increase in fees does not seem, on average, to affect a student's decision to participate, an appropriate loan scheme could cushion the effect of higher fees in Jamaica. Since the realities in each contributing country are different, and the wealthier Caribbean countries may be able to subsidize their students at a higher level, a funding model that gives flexibility to the contributing governments to set their own arrangements regarding how much they subsidize their students based on their national needs, would be most suitable for The UWI.

An income contingent loan scheme would be the most appropriate loan scheme for Jamaica. UWI students would choose between paying their tuition upfront or deferring payments through the contribution scheme. The fees would be paid upfront on behalf of the students who choose to defer payment, out of a designated pool of funds set aside by the government. This proposal rests on the realization that the tuition fees are affordable to all students in consideration

of their potential lifetime earnings with a university degree. From this perspective, the actual obstacle is a mismatch of liquidity given that the time at which they need to pay for the degree precedes the time at which they have the means to pay. So if the students can actually afford the tuition but for this liquidity constraint, then a loan scheme overcomes that problem.

A second obstacle is the reluctance of students, especially poorer ones, to bear the risk of being unable to service the loan. The purpose of an income-contingent loan is to shift that risk to the lender. In this way, if the student ends up in low-income employment for factors other than their education, or becomes unemployed, then the debt-service obligation automatically adjusts.

Such a scheme would bring the needed additional revenue to The UWI as it could charge higher fees, that could cover the cost of a quality education. It would also increase access as students would not have an upfront payment obligation, and tertiary education would be free at the time of use.

This loan scheme is more equitable than what presently obtains and more than free education would be. The tertiary education of those who subsequently reap a large financial return will not be subsidized by the low-income taxpayers who themselves never have a chance to enter higher education. Since students themselves benefit from tertiary education in terms of increased income and upwards social mobility, it can be argued that they also have a responsibility to bear a greater portion of the public cost. The debt would be recorded and linked to a student's Tax Registration Number (TRN). When the student graduates, or for other reasons ceases studying, after a short moratorium period they would start making contributions, contingent

on their income. The contribution would be collected by employers, based on the borrower's current income, just as are income tax and social contributions.

The possible success or failure of the scheme depends on several factors, bearing in mind that even with a well-designed system not all students will pay back their loans in full. There may be a cost to the public if tuition fees are set higher than what an average graduate will be able to comfortably repay during their working life. Either the government will have to absorb the unpaid debt, or the graduates will have to contribute above their means which decreases their own discretionary spending, and consequently drags down the economy, or both. Therefore, tuition fees should be calibrated against what graduates can reasonably be expected to earn, and thus repay, and the quest for other private sources of income must be ongoing.

Other factors to be considered with this scheme include the size of interest rate subsidies, the effectiveness of tax administration, and its ability to keep track of graduates' incomes, the effectiveness of collection mechanisms, and finally, on the general macroeconomic environment and students' ability to find gainful employment. But these are secondary to the imperative of being able to recover loan repayments from those who leave Jamaica.

The most important prerequisite for this, or any student loan scheme in Jamaica, is that loan repayments can be effectively collected from emigrants. Where up to four of every five tertiary graduates live outside of Jamaica, the inability to recoup their loans would make any scheme untenable. It would be necessary to create mechanisms for sharing information with foreign credit bureaus. Another option would be internationalization of the income contingent student loans. That

would require bilateral or multilateral agreements between countries that receive Jamaican migrants regarding the repayment of the loans.

Revenue Generation and Fundraising

Most universities around the world, including in OECD countries, depend to some extent on private funds to cover their operating costs, provide quality education, and continually invest in and upgrade their education product in all its many dimensions. Donations to tertiary education institutions can be given as expendable gifts or they can be endowed. An endowed gift means that the principal is invested towards producing an annual return. Many universities, particularly in the U.S., cover a portion of their operating cost from the returns on their endowments. To generate long-term financial sustainability for the university, endowed donations would have to be increased.

International experience shows that the most successful revenue generation has been fundraising from alumni, foundations, and corporations, specifically using matching fund schemes. Evidence from other countries suggest that matching fund schemes are effective incentive mechanisms to encourage donations to tertiary education institutions. This is a straightforward

premise that has had positive outcomes across the world, but has not, thus far, comprised The UWI's fundraising efforts.

Recalibrating the role and specifics of the government's contribution to tertiary education, focusing on one or more matching funds initiatives to raise money from the private sector, and implementing an income contingent loan scheme that will not harm access or participation and will increase equity among those seeking tertiary education, are the most propitious pathways to a quality tertiary education that is available to all who want and qualify for it. Whereas the first two tenets of this model are readily attainable through policy change and concerted effort, the third is entirely dependent on the government pursuing the necessary steps to be able to recover loan repayments from tertiary graduates who have taken loans, and who have left the country to make their lives overseas.

Recommendations

1. Teaching and research funding should be separated. Caribbean governments should provide funding to research through competitive research grants. Tuition should be charged separately and The UWI would list the full price of each programme. Each contributing

government could then set their own arrangements regarding how much to subsidize their own students.

- 2. The Government of Jamaica should establish an income-contingent loan scheme.** This requires reform in the services of the Students Loan Bureau. Another option would be that the bureau liaises with the private lenders who have the capacity to effectively serve the borrowers and the SLB would only offer the credit. The most important element of the scheme is that loan repayments can be effectively collected from emigrants.
3. To increase equitable access, means-tested grants should be offered to low-income students to support with living expenses and other school-related fees.

This already exists, but should be recalibrated and strengthened, based on evidence of students' needs and the current economic context.

- 4. The UWI should focus its fundraising (towards an endowment) on matching fund schemes, whether the government matches donations, or a wealthy philanthropist, or both.**



An income contingent loan scheme would be the most appropriate loan scheme for Jamaica. UWI students would choose between paying their tuition upfront or deferring payments through the contribution scheme.

Notes

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Footing the Bill

The Hard Choices for Financing University Education

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