

15th MALAYSIAN EDUCATION SUMMIT 2011

Is There an Economic Case for
Consumer-Led Demand-Side Financing
of Malaysian Higher Education?

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Economic Transformation Plan

Education NKEA

Education will be a key enabler of :

- of productivity growth and
- growth in middle and high income jobs

But also:

- Education will be an engine of growth in its own right
- *Growth will occur primarily in the private sector, through private sector investment*

Education NKEA

Five major industry shifts

- Industry Structure
 - High quality national and regional players
- Internationalisation
 - Shift from domestic consumption to export of education
- New ways of working
 - Level playing field, public-private partnerships and competition across public and private sectors
- Regulatory framework
 - Self-regulation and industry-led quality standards
- Funding Shifts
 - Greater demand-side funding and performance-based funding of best-placed private institutions

Education NKEA

Some Important Outcomes:

- Harmonisation of IPTS and IPTA sectors
 - Increased competition and student choice
 - Increase in quality, more comprehensive quality audit systems
 - No new public sector universities
 - Limited additional public sector funding
 - Increased private sector investment
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- These and other developments suggest a shift towards greater reliance of on demand-side funding
 - ETP mentions demand-side funding
 - Provides only very limited details and examples in the Entry Point Projects that are listed

Supply-side vs Demand-side funding

- Supply-side :
 - Government funds provided directly to the suppliers
 - The traditional approach in higher education funding
 - Suppliers are generally public sector institutions
- Demand-side :
 - Government funds the consumers of the service
 - Consumers then purchase the service themselves
 - Assumes there is a market of competing suppliers
- Demand side instruments can be
 - Vouchers, flat-rate subsidies, money, or some mix of these

Reasons for supply-side funding

- Market failure
 - Not all of benefit may go to the consumer – e.g. employers benefit from a better educated workforce (Externality)
 - Students may not be sufficiently informed to make optimal choices
- Paternalism
 - The Government knows best
- A Government can make large investments and achieve economies of scale and thus lower costs
- Social engineering

Advantages of Demand-side funding

- Consumers (the students and their parents) directly influence what is supplied
- Consumers are value-conscious (a public servant may be less so)
- Forces suppliers to compete for consumers patronage
- Competition can be on quality and/or price
- May increase diversity and consumer choice
- Many result in greater efficiencies and lower costs
- Increases consumer satisfaction by giving them freedom of choice.

Disadvantages of Demand-side funding

- May make costs to the Government more unpredictable
 - Depends on the mechanism used
- Consumer choices may not be fully aligned with policy goals or desired social outcomes
- Relies on an open and competitive market. If the market does not operate freely then the cost to the government will rise, or the benefit provided will reduce.

The Economic Case

- Economic analyses and case studies indicate that demand-side funding of higher education can lead to better outcomes for the same government expenditure (or the same outcome for lower expenditure) provided that:
 - There is a fully competitive market of providers, and
 - There is an effective quality evaluation scheme in place that can be used to qualify (or disqualify) providers¹
 - The funding mechanism is appropriately designed
1. ETP indicates that SETARA ratings will be used to decide eligibility for research grants and PTPN loans.

Design of funding mechanisms

- Flat rate subsidy (government pays a fixed percentage of fees)
 - Harder to predict expenditure
- Voucher system (partial scholarship)
 - Enables a predicable cap can be placed on funding
- Consumers should have to pay for a part of the cost themselves
- Design may depend on Government objectives
 - e.g. Chile has used demand-side funding to increase tertiary education participation rates (using equity scholarships and student loans)

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