

Private Financing for Higher Education: A New Global Trend



Expanding enrollment in colleges and universities around the world has created a new and vital role for private finance in paying for higher education. Household incomes, business and philanthropy now are more crucial than ever in closing the funding gaps in postsecondary education.

The Institute for Higher Education Policy (IHEP) reported last month that national governments around the globe are having trouble keeping up with the increased demand for higher education and now rely more heavily than ever on private capital to help students earn their degrees.

Private vs. Public Contributions

Of all expenditures in 53 countries in 2002, 63 percent came from public sources and 37 percent from private sources, on average. In advanced industrial countries, private finance accounted for an average of about 23 percent of higher education finance in 2003, but there's a great deal of variation among these countries: In the U.S. and Japan, private financing contributes more than 50 percent of the funding, while in countries like Austria, Denmark and Turkey, the proportion is less than 10 percent.

Recent Innovations of Private Funding

University-Industry Collaboration — The U.S. is the front-runner here, where entrepreneurial universities diversify their revenue streams through fees, royalties and equity investments.

Philanthropy — American-style endowment campaigns are now common around the world.

Securitization — This financial technique facilitates the issuance of student loans and the payment of tuitions. It bundles groups of similar assets that support a regular payment stream. Securitization also allows markets to place a price on the risk of default and sell this risk to willing investors through the issuing of bonds.

“The popularity of private financing has grown so tremendously that it now serves as a critical supplement to public funds,” said IHEP president Jamie P. Merisotis. “The result is expanded opportunities for those who understand that education is now a necessary part of having a successful life and strong global economy.”

The full IHEP report, *The Global State of Higher Education and the Rise of Private Finance*, is available online at www.ihep.org/Research/gcpf.cfm.

did you know...

Most high school counselors believe student loans are a good investment for a typical student at their school. However, more than one-third believe that low-income students should avoid student loans because of the risk of default.

Source: National Association for College Admission Counseling.