Strengthen Higher-Education through Innovative Financial Tools

MAPPING THE FINANCING DYNAMICS OF HIGHER EDUCATION STUDENTS

Executive summary

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SHIFT Partners

SHIFT includes seven partners from four Countries (Belgium, Italy, Poland and United Kingdom) that ensure variety of cultural approaches, balancing large and small, Nordic, Eastern and Southern countries.

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The economic and financial crisis is forcing all EU Member States to drastically reduce spending and investment in education. The EU recognises that "the issue is not about spending more or less, but about spending more intelligently" and calls for "innovative financial instruments to focus on addressing identifiable market failures, taking into account the needs of final beneficiaries" EU Budget Review, Oct. 2012 COM700.

Public funding accounts for 85% of all higher education (HE) funding (Eurydice). The EACEA in "Modernisation of HE in EU: Funding and Social Dimension" clearly states that "the economic downturn led to a decrease in public funding, while demand for HE increases" and that students are the ones paying the price: the "financial burden is increasingly being shifted to students".

The above reinforces the challenge to develop new mechanisms to empower students to be able to afford HE: EU papers are clear about the specific need for innovative and different avenues to finance HE students, so that university is not limited to a few who "can afford it" but is a universally recognised possibility for all Europeans. The DG EAC Report "Study On Student Lending" clearly states that "[m]any national loan schemes are inadequate, apart from a few exceptions (UK, Sweden, Netherlands). Student loans are not available in all EU countries: where they exist, they are limited in scope, number and size.

Against this background, this SHIFT report aims to form a detailed picture of the HE system in Europe, highlighting the key goals and policies pursued by Member States and placing a special focus on student fees, financial support and the level of financial literacy within the European Union. The primary target set in the renewed EU agenda is to ensure that students have the necessary material conditions to study and fulfil their potential.

The recent financial crisis has had an adverse effect on the overall public expenditure and investment in education, shifting the financial burden to students and thus calling for more efficient methods of enhancing students' affordability of HE. Despite the fact that all European countries have been able to maintain a constant share of GDP allocated to education, the economic crisis has led to the stagnation of investments in the education system, equipment and infrastructure in most of the countries.

Member States with the help of the EU have established common goals to fully support the modernisation of HE through policy cooperation, strategic development and funding programmes. In the Europe 2020 strategy, the main aim is to ensure that 40% of the young population obtain tertiary education. To this end, the EU actively promotes international exchanges for students and facilitates an effective cooperation between universities across countries through Erasmus+ and Horizon 2020 Programmes. Student loans provided by the European Investment Fund along with eligible financial intermediaries are designed specifically to provide adequate financing for students willing to study abroad, at reduced interest rates and risk.

Nevertheless, while the European Union agenda clearly sets the incentives, objectives and standards for the entire HE system, each country-member of the EU follows strikingly different approaches to charging tuition fees and managing their own budgets available for loans and grants. Thus,

- "No fee for home and/or EU students" policies (regardless of cycle, study status or performance) are found in only 4 countries, while universal fee policies are observed in 12 countries.
- Only 10 countries do not charge any tuition fees for full-time first-cycle students, whereas 4 out of these 10 countries set fees for second-cycle students.
- All EU countries provide at least one type of *direct support* for student education (grants and loans), whereas only 9 countries have more than 50% of both grant beneficiaries and loan takers for first-cycle studies. In 21 countries, students may expect compensation for a portion of tuition fees in the form of *indirect support* such as tax benefits or family allowances.
- Most countries offer need-based grants for disadvantaged students, 18 countries offer only merit-based grants based on academic performance, and 7 countries allocate grants to students following a mixture of need- and merit-based criteria.
- 29 countries have loans available for students; however this is not always the preferred choice for students – e.g. only 7% of students take loans in Estonia.

In terms of financial literacy, more and more countries are nowadays involved in designing and implementing national strategies for financial education. Almost half of EU countries are aware of the need to equip their students with the necessary financial toolkit; however policy implementation in this regard appears to be particularly problematic. Recent surveys show that the level of financial literacy is relatively low across European countries, with an average score of 13.2/21 based on financial questionnaires and guidance. Further, existing evidence suggests that providing finance courses at every level of education results in greater financial literacy among university students. As a result, 5 countries have begun to plan and design the first national program to tackle financial illiteracy, whereas 14 countries are currently implementing either their first or second national strategy for financial education.

Profiles of countries involved in the SHIFT project

Italy

The economic downturn in 2008-2009 has exerted a significant downward pressure on public funding for HE, leading to a substantial increase in tuition fees. In 2015, about €7 billion was allocated by the national budget for HE, which is 21% lower than a similar amount observed in 2009. Although all public (and some non-state) HE institutions (HEIs) are funded by the national budget, students pay fees and significantly contribute to financing the universities.

Moreover, the revenues generated by universities and the share of education expenditure by the public sector have slumped over the last twenty years. The revenue decreased by 18% in the two-year period 2012-2014, whereas spending on tertiary education has fallen to levels below the average of the OECD countries, with the share covered by public funding declining from 80% in the 90s to 66% in 2012. On the other hand, the household expenditure on HE in Italy is one of the highest among the EU countries (26.5%), creating a significant financial burden for students and their families.

The Italian HE system has different types of financial support for students. The main funding resources are scholarships, which are awarded on the basis of academic achievement (measured in number of credits) and economic requirements (disadvantaged financial condition), and a reduction in tuition fees. Thus,

- 9.43% of first- and second-cycle full-time students receive a scholarship.
- The average amount of fees paid in state institutions is around €1000 per year, but varies substantially across regions.
- Tax benefits are only applicable when student is tax-dependent on parents, whereas family allowances are not available.

The student loan system in Italy presents a set of brokering agreements between student, university and bank and does not seem to be widely used by students (less than 1% of students take out loans). Despite the innovative regulations proposed by the government that offer loans at reduced interest rates and with no repayment before employment, the number of loans taken remains at a dramatically low level. The key reasons for such a weak loan demand are affordable tuition fees, availability of scholarships, and debt aversion due to low levels of employment after graduation. Nevertheless, recent evidence suggests that students are increasingly thinking of financing their education through loans – 42% of high-school leavers would consider taking a loan.

The most recent trends indicate that Italian students are starting to get into debt to finance their studies. The phenomenon is still relegated to small numbers (only 1% of total loans is for studies), but the trend is growing, according to the data on various financing offers proposed by banks and financial institutions. For example, from January to May 2017 there has been an increase of 10.2% of the amounts requested, with almost one million Italians (890,000) who have asked for a loan to finance their studies.

Based on recent surveys, the level of financial literacy in Italy is at a very low level, with only 6% of students scoring the highest mark and with the average score being third lowest among the EU countries.

Poland

Since 1991 Poland has undergone a dramatic change in HE system, which has been accompanied by a massive increase in the percentage of students in tertiary education in the initial years (from 10% in 1990 to 40% in 2007) and a slight decline in participation rates over the recent years (37% in 2016). This education boom has led to the growth of non-public HEIs (400 in the mid 2000s), forcing the majority of students to pay tuition fees. In 2005, the number of students in fee-based tertiary education programmes has outpaced the number of students in public institutions.

Due to the demographic and educational changes over the last ten years, Poland is currently designing policies aiming at improving the quality of tertiary education. The share of public expenditure on education, expressed as a percentage of GDP, is only slightly below the EU average, whereas the monetary spending per student is one of the lowest in the EU.

Poland has a dual system of financing HE. Full-time undergraduate courses are free of charge, whereas part-time programmes, courses taught in English, and postgraduate studies are subject to a tuition fee. The financial support system mainly consists of various scholarship incentives and student loan schemes. Thus,

- Around 20% of students receive scholarships, which take the form of both need-based and merit-based grants.
- About 16% of students receive financial support from the government (by law) due to their difficult financial situation or disabilities, whereas 7.9% of students are awarded with grants for outstanding academic performance.
- Only 0.3% of the student population obtain loans and the number of student loans has been declining over the last twenty years, despite the favourable conditions (late repayment date, low interest rates, etc.) offered by the government.

In terms of financial education, Polish pre-university students aged 15 show an average level of financial literacy among OECD countries, whereas Polish university students demonstrate a solid knowledge of financial instruments, achieving the best score (77% of correct answers) among all the participating countries.

Poland stands out from other EU countries in that almost all private spending on HE comes from households (predominantly in the form of tuition fees and other similar payments), whereas business sector involvement is minimal. This may be seen as reflecting established features of both the HE system and the business sector attitudes. However, it can also be seen as offering opportunities for strengthening – currently very limited – public-private co-operation in this area.

The key potential opportunity for greater private sector involvement in student support appears to be related to strengthening co-operation between business and HEIs. Such co-operation is actively supported by the government (at least at the level of declarations). The generally very weak co-operation between HEIs and the business sector is widely seen as a challenge for promoting innovation and increasing the labour market relevance of tertiary education (European Commission, 2017 and 2018). For students, the key potential gain consists of easing financial constraints and allowing them to pursue studies or to focus exclusively on their area of studies (rather than taking up simple student jobs) and valuable work experience.

United Kingdom

The UK education system has been experiencing profound alterations in fee-paying and student loan programmes since 1962. Starting with a no-fee policy for home students in 1962 and the introduction of student loans for living costs (maximum of £420 per year) in 1990s, the UK has substantially increased both tuition fees, from £1000 per year across the UK when first introduced in 1998 to £9000 in 2012 for full-time undergraduate students in England, Wales and Northern Ireland, and loan expenditure, reaching an overall amount lent to students of £13 billion in England, £576.7 million in Scotland, £438.7 million in Wales and £330.9 million in Northern Ireland, over the recent years.

Moreover, the student loan system has been transformed to an income-assessed framework, which increases loan entitlement and requires students to pay back both tuition fees and living costs once two conditions are met: a temporary condition (nine months from graduation) and an income threshold (student has to earn £25,000 a year in 2018 to contribute 9% of annual earnings to repay the loan). Thus,

- In 2016/17, 40% of first- and short-cycle students received a full maintenance grant for living costs, while 14% were awarded a partial maintenance grant support.
- Indirect financial support in forms of tax benefits and family allowances is not widely applied within the UK.

Nevertheless, despite the availability of various loan schemes across the UK, the increase in a fee cap to £9,000 per year in England, Wales and Northern Ireland and a related cut in direct public funding seem to have a major effect on students' unwillingness to obtain a tertiary education and take loans. Thus rhe fraction of students aiming to apply for HE courses has plunged to its lowest level since 2009. For high-fee courses, it may take up to 30 years for students to repay their loans, causing a significant drop in loan demand due to a high degree of debt aversion and deterring prospective students, especially from lower-income households, from participating in HE.

The student survey of over 250 undergraduate students in two British universities show that student loans and family savings are the first and second source of income for studies. Students generally do not find applying for a loan and understanding Terms and Conditions of the loan contract difficult. Financial advice, however, usually comes from students' family members, which suggests a relatively low levels of financial independence and literacy. Additionally, the alumni's survey from two universities, designed to capture their opinion on the possible barriers to enter HE, reveals a consistent evidence that the size of debt acts as an important deterrent to entering HE.

To broaden HE participation of young adults and reform the HE funding, the UK government has introduced a number of policy initiatives in support of HE students. In particular, the eligibility requirement for student finance support has been redefined and relaxed to some extent. For instance, student tuition fees and maintenance support has been extended to students with discretionary leave to remain (DLR). On the other hand, with the increased use of loans for HE funding, the total student loan balance has risen significantly in all parts of the UK. The non-repayment rate, however, is over 30%, which may cause some concerns about the sustainability of the current funding framework.