GLOBAL APPROACHES AND MODELS OF HIGHER EDUCATION FINANCING

Higher education is very important for the country’s economy because it enhances the level of its development and human capital. In developed countries receiving higher education guarantees higher wages for employment so the people strive more frequently to get education to improve their material wealth and social standing. The increase of the number of those aspiring to get education caused that most governments are not able to or do not consider it wise to fully finance education system so additional financing sources became essential.

There are several main models of higher education financing and management used by leading developed countries. In most cases those models include a combination of public and private financing with the HEIs possessing varying degrees of autonomy while managing available resources. For faster and more effective development, the higher education institutions aspire to attract more private financing, at the same time it is an indicator of their success meaning that more prestigious and higher ranking HEIs have additional opportunities to receive more financing. In some instances, there are private HEIs that operate funded with private resources. The education at those HEIs is financed by the students or interested organizations.

According to the recent studies, there are three basic models of higher education financing including bureaucratic, collegial and market model. Until recently, in the OECD countries the public funding of the higher education prevailed but most of the HEIs used collegial or market
model. As a result of the crisis, most of the states decrease their financing, the HEIs tend to adopt the market model to diversify the sources of the funds and to gain financial autonomy.

Following that line of reasoning, there are three general models of higher education financing.

1. Bureaucratic financing model allows for financing higher education institutions solely using public funds. Under such model, the government is capable of controlling the HEI’s activities completely through legal regulations, and using financial levers, meaning the government determines the organizational structure of higher education institutions, number of departments, staff, admission size. More than that, the government is able to stipulate priority fields of study and research. It means that the control over long-term material assets remains in the hands of the authorities.

The main advantage of such a model is the fact that the government is able to regulate the number of specialists of necessary fields on the market, which will avoid distortions in the labor market. Also, the government can directly control the quality of education received. On the other hand, this model has a number of drawbacks. First of all, under such framework, HEIs do not have institutional autonomy and academic freedom, that is, the system of higher education depends entirely on political decisions. Secondly, the amount of funding is determined based on historical data, that is, the possible changes in the situation within the HEI are not taken into account. Thirdly, the adoption of financial decisions involves a complex bureaucratic procedure, which makes it impossible to respond promptly to issues that arise in the day-to-day operation of the organization.

2. The collegial model assumes that the HEIs are funded primarily by the government, but have the right to attract funding from private sources in various forms (tuition fees, grants through projects, research work on request of private investors, etc.). Also, under such a model, the HEI has a relative autonomy in determining the directions for using these funds.

The advantage of such a model lies in the fact that the management of the HEI independently establishes the priority directions of the development of the institution and has financial autonomy from the authorities. The disadvantage of this model is that an institution needs a group of highly skilled management personnel to successfully and efficiently operate it. Another disadvantage is that the transparency of the mechanism for distributing funds within the HEI is lost, that is, there may be cases where priorities are determined based on their own interests, and not on market needs.
3. The market model of financing involves close cooperation among all participants of the higher education system, as well as the obligatory attraction of alternative sources of financing. This means that all decisions on the financing of the HEI, its strategic development, the proposed training programs should be made in close cooperation between the providers of academic services, the users of such services, the authorities representing the public interests, and the bodies governing the higher education institutions. Under such a model, the role of the government is limited to the establishment of common priorities and requirements for the quality of education, and the main impact on the functioning of the HEI will be made by the society and the business environment for which, in fact, these institutions train those specialists. Higher education institutions are forced to look for alternative sources of funding; instead, they must provide full information on the further use of attracted funds, offer high-quality services that satisfy donors, and ensure the most efficient use of the resources received. The main disadvantage of this model is its focus on current efficiency, that is, some of the strategically important fields of training can be left out of focus because they are not financially effective.

In recent years, the number of universities has increased in the countries of the world, which has improved the availability of higher education for all social groups of the population. Since the early 1990s, there has been a change in the overall concept of the economic policy of the states, which has led to increased participation of the private sector in the higher education financing. Moreover, there has been a significant increase in the number of private HEIs in almost all countries of the world. As a result, most countries in the world have switched to a collegial model of higher education funding, which involves four main groups: (1) governments and taxpayers, (2) parents saving or borrowing funds for tuition fees, (3) students who save or borrow money to finance their education, (4) charitable organizations that provide funds to parents, students or HEIs.

Recently, there were numerous education reforms around the world. Due to the increasing demand of higher education, the states had to adapt their higher education systems to the new realities. As a rule, there are three basic models of higher education financing meaning bureaucratic, collegial and market models. A comparative analysis of the benefits and drawbacks of said models demonstrated that the most efficient and flexible is the market model as it allows the HEI to diversify its sources of funds, attract additional resources using financial markets and invite donors by guaranteeing continued control over their donations. As a result, there have been drastic changes in the financing structure of higher education, in favor of attracting private funding through financial instruments, donations and
households. This was due to financial crises, which resulted in a reduction in public funding, an increase in university expenditures, the inability to quickly change approved budget estimates for state funding and a more efficient spending of private capitals in comparison with public funds. To diversify the sources of the funds, higher education institutions in the countries with the developed higher education system use endowment funds to receive additional funding for the development of the institution.

By means of attracting private funds, they can be divided into two large groups: (1) funds attracted at the initiative of private donors; (2) funds attracted at the initiative of the higher education institution itself. As a consequence, the management of these groups of funds will vary significantly. With regard to the first group, when using these funds, the financial autonomy of the HEI is very relative. As a rule, private funds of the second group come from financial markets or capital markets, and the HEI can either directly raise funds in capital markets or carry on additional business activities that generate profits, which can be further used for the development of HEI.

There are several forms of additional financing and its management but the main methods are as follows – financing R&D inside the HEIs, financing tuition fees by grants, scholarships and student loans, as well creation of endowment funds based at the education institution funded by donations from organizations and individuals. Profits received from endowment funds become the principal source of the educational institution development.

Conclusions
The most successful HEIs of the world have the best practices for attracting and managing additional funds to finance the educational and research activities of the HEIs. Using comparative and system analysis methods, we looked at the most common models of funding for higher education and the mechanisms for attracting additional funds. It was discovered that most countries use three main models of financing higher education – bureaucratic, collegial and market models. Based on the experience of the OECD countries we determined that at the moment the share of private funds varies but tends to increase. The most successful HEIs use the market model to manage their finances and use additional sources of funds to supplement government support. The most wide-spread instruments of attraction additional funding are issuance of bonds, private equity and donations. The most effective ways to manage additional financing are asset management, securitization and endowment funds. Based on the best practices of the HEIs we proposed a general model
of managing the endowment funds that uses such principles and provisions that can be applied in the activities of the HEIs.

References