

FINANCING HIGHER EDUCATION IN NEPAL: A QUALITATIVE RESEARCH

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A Thesis

Submitted to

School of Education

in Partial Fulfillment of the Requirements for the Degree of

Doctor of Philosophy in Education

Kathmandu University

Dhulikhel, Nepal

December, 2016

AN ABSTRACT OF THE THESIS OF

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presented to School of Education, Kathmandu University on ..... Title: *Financing  
Higher Education in Nepal: A Qualitative Research*

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Nepal does not have a long history of higher education. Both Tribhuvan University (TU) and Nepal Sanskrit University (NSU) were established with full government financial support. These universities charge minimum and reasonable tuition and other fees. Even with these minimum fees, higher education was just a dream for people from lower financial brackets and people residing in rural areas of the country. TU opened constituent campuses in many district headquarters and big cities which facilitated the rich and the city dwellers to access to higher education but lower middle class population, residing in the rural nooks and crannies of the country, had no access to higher education. Even after almost a century of the opening of the first institution of higher education, Nepal has not been able go very far in both quality and quantity. As public higher educational institutions did not meet the accelerating demand of education conscious public, private institutions started cropping up.

With the start of the free market, many Nepali entrepreneurs saw the opportunity of their business in the educational field. They started opening schools and colleges left and right. These private institutions had to charge onerous tuition and other fees to survive as they got minimum financial support from the government. Along with these private colleges came the private medical institutions. Financial

management issues started coming up due to the political interferences in hiring of high level personnel and management system in educational institutions. Universities and campuses with programs on soft science, business and other subject areas also had to face financial austerity due to low government support. Cost diversification in higher education finance has been happening in Nepal since the inception of higher education institutions. Cost sharing practices have not been planned scientifically. Students pay some fees in all institutions including all public campuses. Besides these government support, tuition and other fees, there are many virgin areas of financing that Nepali institutions of higher education have not even thought about tapping.

A qualitative method has been applied to do research work and purposive sampling has been used under interpretive paradigm to do in-depth interviews. I have spent long hours with my research participants and I have also made several trips until the data was saturated. A coding system has been applied to keep all the research participants anonymous. Data have been reviewed and interpreted without any biases.

In this study, the main characteristics of higher education finance in Nepal have been reviewed and the major activities to facilitate higher education finance and management of higher education finance have been discussed. An attempt has been made to see what course can be taken to address the current situation of higher education finance in Nepal. Nepal may have to choose different financing options with student friendly schemes to meets its need of diversified and technically savvy human capital. Proper use of the findings will have long lasting implications on the all-round development of higher education in Nepal.

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## DECLARATION

I hereby declare that this thesis has not been submitted for candidature for any other degree.

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## DEDICATION

This thesis is dedicated to all higher education students who have not been able to pursue their education due to financial constraints.

## ACKNOWLEDGEMENTS

My family and friends played an instrumental role in inspiring me to go back to school and supporting me throughout the course of my study. Thank you to all of them.

My wife Kamala, and my daughters Jharana and Archana are the eminent people who deserve my sincere thank for their encouragement. Their support was crucial while I was contemplating whether I should continue with the plan. I am immensely grateful for their understanding and encouragement while I traveled back and forth for classes, and sat down with my laptop to write, often away from family time. My family was my sounding boards, who first read some of the chapters of this thesis. I am immensely grateful for their constant support.

I'm also grateful to my late mother Putali Maya Joshee, who taught me the meaning and value of education. Though barely literate, she knew the importance of education and encouraged her children to accomplish higher education.

I am grateful to all the professors of Kathmandu University, School of Education. Professor Mana Prasad Wagley, my thesis advisor was always available for advice. I appreciate his welcoming attitude to his students. His encouraging words boost my energy whenever I was down. Professor Mahesh Nath Parajuli, Dean of the School of Education and also my thesis advisor provided me constructive ideas for my papers, and I am thankful for his support. Associate Dean, Dr. Bal Chandra Luitel was always very approachable and helpful. He was always ready with his constructive ideas, suggestions and comments when I needed them. Administrative staffs of KUSOED were always very accommodating and supportive when I needed their assistance. My sincere 'thanks' goes to all of them.

I am also thankful to all of my research participants. Despite their busy schedules, they were not hesitant in spending hours with me in one seating. I would like to thank each and every individual from the list of my research participants. Thank you to Ujwal Shrestha for reading the chapters of the thesis and providing me with valuable suggestions. Thank you to Mr. / Mrs. Shyam Govinda and Rewa Shrestha and Mr. /Mrs. Ramhari and Bidhya Shrestha for their continual encouragement to pursue with my education.

Three names that I am forever indebted to are my team mates: Toya Nath Khanal, Basu Subedi and Tara Poudel. They are inspiring leaders and very supportive team mates. They availed themselves all the time when any of the team member needed help. Our weekly meetings were the source of encouragement for all of us. There were times we spent hours discussing a team member's problems and issues and looking for solutions.

My sincere thank goes to all the people that I have mentioned above as well as others I may have missed. They were the invisible force in pushing me all the way through the completion of my study. I would not have been able to complete this study program without the strong support that I got from all of you. Thank you all.

Ambika Mohan Joshee, Degree Candidate



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## ACRONYMS AND ABBREVIATIONS

BFI	Bank and Financial institutions
BOTPLS	Bridging for Overseas-Trained Professionals Loan Scheme
CAN	Commonwealth Assistance Notice
DEST	Department of Education, Science and Training
ECD	Early Childhood Development
EPF	Employee Provident Fund
FAFSA	Free Application for Federal Student Aid
FBF	Formula Based Funding
FFELP	Federal Family Education Loan Program
GSL	Guaranteed Student Loan
HBCU	Historically Black Colleges and Universities
HEP II	Higher Education Project II
HESA	Higher Education Support Act, 2003
ICETEX	Instituto Colombiano de Crédito Estudios Técnicos en el Exterior, (Colombian institute of Credit and Technical Studies in the Outside), (The Colombian Student Loan Institute)
ICR	Income Contingent Repayment
ICSL	Income Contingent Student Loan
IIEP	International Institute for Educational Planning
ISFAA	Indiana States Financial Aid Association
NESP	National Education System Plan
NGO/INGO	Non-Governmental Organization/ International Non-Governmental Organization

NHEFC	National Higher Education Fund Corporation
NLSS	National Living Standard Survey
NSFAS	National Student Financial Aid Scheme
NSLF	National Student Loan Fund
OCE	Office of the Controller of Examination
OECD	Organization of Economic Cooperation and Development
OLDPS	Open Learning Deferred Payment Scheme
PELS	Postgraduate Education Loan Scheme
RGOB	Royal Government of Bhutan
RUB	Royal University of Bhutan
SAARC	South Asian Association for Regional Cooperation
SLE	Student Learning Entitlement
SLS	Student Loan System
SSRP	School Sector Reform Plan
SNPLP	Study Now Pay Later Plan
SFAFDB	Student Financial Assistance Fund Development Board
TESFA	Tertiary Education Fund for South Africa
TICAL	Thai Income Contingent Allowance and Loan system
TU	Tribhuvan University
UGC	University Grant Commission
UNESCO	United Nations Educational, Scientific, and Cultural Organization
USDE	United States Department of Education
USDT	United States Department of Treasury
VET FEE HELP	Vocational Education and Training FEE HELP

## CHAPTER-I

### INTRODUCTION

This study is done mainly to figure out the situation of higher education finance in Nepal, how is the higher education finance policy of Nepal, what are the trends and practices of higher education finance, how students are supported in higher education financially and how have the higher education been managed in Nepal. Chapter one describes the historical background of Nepali higher education and chapter deals with available literature about higher education finance. Chapter studies all eight SAARC countries and other countries relevant to this study. This is not a comparative study but countries have been studied to learn from their experiences. Chapter four talks about methodology applied in this study. It explains what method has been applied and how data was collected and analyzed. Chapters five, six, seven and eight deal with findings and relate the findings with theories and literatures. These four chapters also discuss about the issues and contradictions that surfaced during the study. Chapter nine is the final chapter of the study which includes reflection, major findings, future perspectives and implications and recommendation for future study.

This study will look into possible ways of financing higher education in the context of our situation in Nepal. Finding trends and practices of financing higher education in Nepal, what theories and literatures say about higher education finance and how other countries are dealing with this issue will guide us to determine the possible solution for us. In this study, different theories and methods of financing higher education globally have been taken into consideration and strategies applied by different countries in financing higher education are explored to come up with

(different possible options to finance higher education) a viable strategy for financing higher education in Nepal.

## THE BACKGROUND

Higher education plays a vital role in all round development of a country. It not only helps the individual's economic development but also uplifts the status in the society. The individual, the society and also the nation benefit from the qualitative and quantitative development of higher education. The importance of education and human capital has been discussed in many studies of economic growth and development. Education plays a great and significant role in the economy of a nation, thus educational expenditures are found to constitute a form of investment (Olaniyan & Okemakinde, 2008).

Proper assimilation of available knowledge and proper development of human capital formation plans demonstrate successful development trends of a country. These activities can be measured by how properly the country is managing its higher educational institutions. Nepal has not been able to demonstrate successful practice in these areas. Higher education has been out of reach for many intelligent but poor family background students of Nepal. Government support through scholarship to these poor students has not been sufficient.

The belief that education is an engine of growth rests on the quality and quantity of education in any country. Education must be of high quality to meet the skill-demand needs to contribute significantly to economic growth and development of the country (Olaniyan & Okemakinde, 2008). Higher education has a strong impact on the development of a country and it is facing severe challenges, not only in Nepal but all around the world. Accessibility, equity, quality, students' unrest, educational

policies, unemployment of graduates, and financing are some of the major issues that need to be tackled properly for the development of higher education. In case of Nepal, government subsidized public universities and colleges are under performing, providing substandard education and producing unemployable graduates and private universities and colleges are overpriced for the general population of Nepal. So, the dilemma is how the students will find their match of quality education at affordable prices? Higher education financing policy can play a major role in dealing with this dilemma.

From among the various problems mentioned above that we see in higher education, this study concentrates mainly on the issue of higher education finance and higher education finance management and it aims to explore viable strategies for financing higher education in Nepal.

### **A Glimpse on the History of Education in Nepal**

Before the introduction of formal education, Sanskrit education was prevalent in Nepal. Many well off Brahmin families used to send their children (male children only) to Varanashi, India for education. This type of education did not fulfill the requirements of modern world and hence came the need of formal education. As time changed, people realized the need for modern or western education. The foundation of modern education was laid in Nepal only after the first Rana Prime Minister Jang Bahadur Rana returned from his official visit to the Great Britain in 1850-1851 (Nepal Education Under Rana, 1991). This trip made him realize the importance of modern education. Thus, Durbar High School was opened in 1854. This school was opened solely for the purpose of educating the members of the ruling Rana clan and their courtiers. Later, this school was opened to the general public in 1883. This school brought the awareness about education among the people of Kathmandu and they

started to see the need for higher educational institutions in Kathmandu. The Office of the Controller of Examination (OCE), which conducts the School Leaving Certificate (SLC) examination, was formed in 1934 AD (OCE, n.d.). Till then, SLC examination used to be conducted under the education board of Bihar, a state of India.

The foundation of higher education was laid in Nepal in 1918 AD with the opening of Tri-Chandra College. Even though the Rana rulers were reluctant to have higher education available to the general public, the first college of Nepal, Tri-Chandra College was established by the then Rana Prime Minister Chandra Shumsher Jung Bahadur Rana (Nepal education under Rana rule, 1991). Tri-Chandra College followed the curriculum of Patna University and administered examination as the affiliate College of Patna University, a university in Bihar state of India. Professors for Tri-Chandra College and private tutors for Rana Children were also brought from India. The Nepal government borrowed the education system from British India, which was designed mainly to prepare clerks to work for the British regime. Lord Babington Macaulay's minutes on Indian education clearly explains that the new education system had to break the backbone of a strong Indian culture to start an education system that will produce the manpower to support the British rule in India (Jayapalam, 2005). We still have some influence of that system in our current education system.

Tribhuvan University came into existence in 1959 A.D (Tribhuvan University, n.d.) and Nepal Sanskrit University (NSU) previously known as Mahendra Sanskrit University was established on 1986. With the overthrow of the Rana regime, following the restoration of Shah Dynasty, and the return of 'Lahures' (Nepalese people working in Indian and British army) from World War II, people started to become aware of the need for modern education in Nepal. This awareness of need of



education encouraged local communities to start opening schools in the Kathmandu valley as well as in the hills and the Terai. Tansen, Dhankuta, Birgunj, Biratnagar, Nepalgunj and few other cities became the educational hubs of Nepal. At the same time, people also started sending their children to India for formal education.

With the growing numbers of schools all over Nepal, the Nepal government felt the need for trained teachers to man the newly opened schools and colleges. United States Agency for International Development (USAID) helped to start a teacher training facility in Nepal in the 1970s. A College of Education was also established under Tribhuvan University around that time under the guidance of Hugh B. Wood (1909-1995), Professor Emeritus of the College of Education at the University of Oregon. The College of Education changed its name into Institute of Education and currently it is known as Faculty of Education. The Faculty of Education conducts programs from Bachelor of Education to PhD. At the beginning of its establishment, the College of Education started conducting primary school teacher training called “Normal Training” to meet the growing need of primary school teachers all over the country. With all these development, the Nepal government felt the need for mid-level trained man power in the country. With the aim of fulfilling this need, National Education System Plan (NESP) was introduced in 1970. NESP provided various options for vocational education, with the goal of preparing mid-level technical man power like health assistants and overseers for the country. During that time, considering the education for the disabled, the first blind section was integrated at the Laboratory School in Kirtipur. NESP was introduced with all the fanfare but was not implemented successfully.

Since then, the Nepali education system has gone through various changes but none have paid much attention to making higher education accessible and equitable to

the poor, marginalized and down trodden population of the country. From the very beginning of the introduction of formal education, those who cannot afford to pay and who live in the remote parts of the country have been barred from the tertiary education (Vaidya, Manandhar & Joshi, 1993). Only people from economically sound backgrounds had the ability to afford to pay the expenses for higher education. Also people living in the Kathmandu valley and in certain district headquarters had the opportunity to access higher education as government subsidized most of the constituent campuses under Tribhuvan University are in these urban areas.

In the early 1980s, Nepal government introduced a multi-university system and authorized to open non-government community run universities and also community run regional universities (Chauhan, 2008). The multi-university system, has given a broad spectrum for the establishment and development of many universities all over Nepal. This system has helped minimize the load of TU as there are universities and their affiliated campuses in different parts of the country and higher education aspiring student don't have to come all the way to Kathmandu.

Current education policies are aimed at facilitating private sector participation in higher education to help meet the increasing demand of higher education from general public and also to relieve the pressure on the government for financing public universities (Chauhan, 2008) . This policy facilitated opening new universities and campuses in and outside of Kathmandu valley providing more access to people from rural area as well.

### **Current Landscape of Nepali Education System**

With the development of information technology and also the increasing awareness of education among Nepali people, educational institutions started mushrooming all over the country including rural and remote areas of Nepal. As the

Government of Nepal realized the need for educated human capital for the all-round development of the country, the Nepal government started funding educational institutions. After the introduction of NESP, government took over the financial and administrative management of all the schools in the country from the general public. People involved in educational activities felt deprived with this action of the government. Even then, the need was there and the schools have been opening in every village development committee of the country. With the implementation of School Sector Reform Plan (SSRP), the government of Nepal has declared basic education (up to grade eight) free all over the country and free education up to grade XII to all students from Karnali Zone and students from Dalit communities. This is a good sign of inclusion in the education system.

Besides SSRP, the government of Nepal signed an agreement with the World Bank called Higher Education Project I (1997-2002). This project brought changes in the higher education curriculum structure, supported infrastructure development and academic/professional development, equipped the laboratories, and most importantly strengthened management reform processes for decentralized and participatory system in T.U. After the completion of this project, Higher Education Project II (2007-2014) was signed, which aims to enhance quality and relevance of higher education and research through a set of incentives for promoting effective management and financial sustainability of academic institutions; and to improve access for academically qualified under-privileged students, including girls, dalits and educationally disadvantaged Janajati to higher education through financial assistance. The WB financed this project and University Grants Commission (UGC) and Department of Education worked as the implementing agencies (UGC, Second Higher Education Project, 2007-2014). Higher Education Reform Project III, is supporting reforms in

selected institutions for improving quality, relevance, and efficiency of higher education; and to assist under-privileged students for equitable access in the amount of US \$65 million equivalent (World Bank, 2015).

The government started supporting higher education by providing fund to Tribhuvan University and all its outlying campuses. UGC was formed to dispense funding to universities, constituent and public campuses and was also given the responsibility of monitoring these institutions. The government of Nepal has been indirectly supporting the students from economically poor family backgrounds by keeping the tuition fee as low as possible in these constituent campuses. Because of the availability of a huge grant from the government, Tribhuvan University and Nepal Sanskrit University charge minimum tuition fee throughout their outlying constituent campuses. Even with this plan, mostly people only from well off families and from urban areas benefitted.

The country's private sector also saw the business opportunities in educational sector brought by the liberal economic policy of the country and started investing in educational institutions at different levels, in different subject areas and in different geographical areas of the country. Nepal, being the signatory of World Trade Organization (WTO), many private higher educational institutions started working in collaboration with high reputation flagstaff universities of industrialized countries. These private educational institutions serve only those students who can afford to pay the expensive tuition and other fees.

Currently, there are nine universities running in Nepal (Annex I). Among these nine universities, Tribhuvan University (TU) and Nepal Sanskrit University (NSU) are fully financially supported by the government and the rest are supported by the communities, philanthropists and universities own resources. There are also other

six universities in the pipe line Besides these universities, there are five other autonomous institutions serving in the field of medical science and few more medical institutions are in the pipe line (Annex II).

### **Universities in the Pipe Line**

The government of Nepal is doing its exercise to give approval to Madan Bhandari University, Biratnagar, Rajarshree Janak University, Janakpur, Birgunj University, Birgunj and Nepalgunj University, Nepalgunj. A bill has been sent to the parliament for the approval of these universities. Similarly, Ministry of education has written a letter to University Grant Commission asking about the letter of intention after doing the probability study of Khwop University in Bhaktapur and Man Mohan University in Dhading. There are certain physical, financial and academic requirements like land, classrooms, library and lab that the universities have to fulfill to get the government approval. There are also some medical institutions in the pipeline but government has been going through very tough time as there has been big resentment from general public re providing approval to these medical institutions in the pipe line.

### **Rationale of the study**

Higher education is the backbone of socio-economic development of a nation but it is getting more expensive day by day. Many people around the world without higher education back ground in the family can't afford it. Economic status of the person determines the access to tertiary education as many nations don't have proper higher education financing mechanism. The government should have ultimate goal to reduce inequality in higher education between the haves and have-nots, to develop economic growth of the country (Polsiri, Sarachitti, & Sitthipongpanich, 2011), which will also have positive impact on the individual and the societies.

The burning question is how to distribute the limited resources to make sufficient investment in higher education that is accessible to all while also improving the quality of education. This is a major question especially in underdeveloped and developing countries where resources are stretched in different directions which also create the problem of accessibility and equity. It could be a moonshot project to try to resolve these issues of accessibility and equity without properly addressing financial problem as these issues are the by-product of financial austerity.

Johnstone (2009) explains six different trends that impact on the financing of higher education and which in turn affect on the participation, accessibility and equity issues. Increasing unit costs, increasing enrollments, increasing knowledge based economy, faltering government revenues, trend toward increased globalization and increasing liberalization of economies are the six trends that he has explained (Johnstone, 2009).

He further explains that this nearly universal austerity does not show any sign of lessening but develops overcrowded classrooms, unhappy faculty, outdated libraries and other facilities, and less time and support for research. At the same time, national systems of higher education are also facing dire consequences for not being able to accommodate all high school graduates who are capable and desirous of further study, loss of talented faculty and not being able to compete in the global knowledge economy. All these factors and also increased tuition fees is producing dismayed, resentful and unhappy students, which has been creating havoc in UK, Canada, Chile and many other countries (The Economist, April, 2012 & The Economist, May, 2010).

Conventional teaching methods may become challenged by more effective and efficient modern technique (Coleman, Walker & Lawrence, 2012), but this study

focuses on financing and financial management aspects leaving delivery system for other studies. Massification, democratization and demographic growth put pressure on financing of higher education and this pressure leads to the austerity in financing higher education (Johnstone, 2009).

Austerity in financing higher education is not only the case in Nepal but this is a problem all over the world. This austerity problem in higher education has been crippling almost all developing countries and many transitional countries emerging from Soviet Union. All these issues are putting pressure on higher education and financing higher education has become difficult day by day. Higher educational institute response to fiscal problems could be to seek operational efficiencies, reduce services, erode student/faculty ratios, defer plans and equipment maintenance, and reduce administrative staff and increase tuitions and fees charged to students (Gardner, 1999, p. 22). These could be only temporary measures till other solutions are found to take care of the austerity in higher education finance. Increasing cost and declining public support have forced most institutions to increase tuition and fees (Duderstadt, 1999, p. 40). Cost increases due to inflation and higher demand of qualified instructors but at the same time government could not provide total support as there are many other areas that need government support.

As Government resource have been spread very thinly to cover many areas, higher education gets a small percentage of funding which forces them to look for other areas of possible funding. This requires the higher educational institutions to charge higher tuition fee to survive in this competitive world. High tuition fees charged by private institutions have been creating bigger gap between the haves and have-nots to access higher education. This situation demands the restructure of higher education finance.

All the issues stated above provided me enough reasons for this study and that is the rationale of the study.

### **Problem Statement**

Higher Education has become very important in this society of fast developing technical changes because of its effect on individuals, economies and societies. This importance has led to the massification and democratization of higher education. Every government in this technically developing world thinks about the long term welfare and comfort of its citizens and earmark a significant amount of funding as a premium for the advancement of higher education. There are various issues that need to be tackled to advance higher education.

It is a bedrock principle that educational opportunity unlocks the door to mobility, political participation and economic success but Nepal still faces the problem of segregation between haves and have-nots. Students from affluent societies outnumber by a big margin to the students from financially deprived groups due to unequal distribution of resources. This is one of the major problems in the financing of higher education in Nepal.

Higher education costs are increasing in many folds in comparison to the available revenues. Increasing per student cost, increasing number of students graduating from high school, declining government support and revenues needed to accommodate these factors are much higher than the available resources. These trajectories bring austerity in financing higher education. To address this issue, the trend of financing higher education has been changing dramatically in the last few decades.



### **Significance of Study**

It has been generally accepted throughout the world that tertiary education is the path to prosperity. It not only helps the individual but also the society and the nation as a whole to move forward to the path of development. But the problem is the austerity in financing tertiary education. Therefore, a viable and a well-planned trajectory is a must for all nations to support the growing demand of higher education. Higher education should be accessible and equitable to all to meet the need of the technically trained human capital of the country.

Education plays a vital role in Human Resources Development (HRD) and the empowerment of the citizens of a country. National policies should be framed based on the HRD plans to ensure that the implementation of the national plan that will not face the lack of skilled and trained manpower. Governments should prioritize its educational needs based upon the country's development plans. Good HRD plans and accessibility to higher education are true signs of a country's development. The government of Nepal has not given much attention to this fact yet. Government of Nepal plans to provide basic education to all but higher education is still a dream for many students.

TU and NSU charge reasonable tuition fee as they are heavily subsidized by the government. Thus, higher education is subsidized to all recipients through TU and NSU, regardless of their family background and their financial status. This creates a heavy burden on the government. Those who can pay also get this opportunity of subsidized higher education through this system. Other universities of the country are either run by the communities or operate on cost sharing basis. These educational institutions play a vital role in human resources development of the country, but at the same time these institutions have to charge high tuition fees to survive and to provide

quality education, which makes these institutions out of reach for many talented but poor students.

Finding resources to fund their higher education is the major problem most students face in Nepal. Proper planning, proper distribution of the resources and also proper strategies of financing will help make higher education more accessible to these students who cannot afford to pay on their own. Unlike some of the welfare states, Nepal government cannot afford to make higher education free for all by paying all the expenses of higher education from its own coffer. But it can certainly try to make higher education accessible by using various schemes prevalent in other developing countries.

Due to world's growing trend of demanding more knowledge economy based higher education graduates, governments have to come up with appropriate higher education financing mechanisms based upon available resources and human capital demand of the country to meet the growing demand. The shift from traditional economy to knowledge based economy also demand far more financial resources, and due to the lack of needed resources, institutions are having hard time producing qualified and talented graduates to meet the need of the country. This effects the all-round development of the country.

### **Purpose of the Study**

The main purposes of this study are: 1. Explore the situation of higher education policy of Nepal. 2. Explore different strategies for financing higher education in Nepal 3. Look for student friendly financial environment. 4. Find out the trends and practices of higher education finance in Nepal. 5. Explore issues of financial management in HE of Nepal.

Higher education policy plays a vital role in the development of higher education of the country. Proper implementation of the policy helps strengthen the qualitative and quantitative development of higher education. Do we have higher education policy? How is it working?

Every government of this technically developing world thinks about the long term welfare and comfort of its citizens and ear-mark a significant amount of funding as a premium for the advancement of higher education. Higher education is facing several problems worldwide. Finance, quality, accessibility, equity, relevance and many other issues are haunting higher educational institutions all around the world. Among all these issues, this study deals only with the financing aspect of higher education. Higher educational institutions in Nepal are facing severe problems financially to sustain in the competition and to finance their pet projects. This study will also look into student friendly financing possibility and also the management issues of higher education finance.

The purpose of this study is to explore different viable strategies for financing higher education in Nepal. The finding of this study is based on the current practices of financing higher education in Nepal and abroad, theories and practices of financing higher education in different countries of the world.

### **Research Questions**

The following questions have been used to gather primary and secondary data from all sources which helped me to come up with my findings on strategy for financing higher education in Nepal.

1. How do policy makers and implementers perceive higher education policy?
2. What are the financing practices of higher education in Nepal?
3. How are students supported financially in higher education in Nepal?

#### 4. How has finance been managed in higher education in Nepal?

This study focused on finding answers to above questions, especially in regards to higher education finance and management in Nepal.

#### **Delimitations of the Study**

This study covers the financing of higher education in Nepal only after the restoration of democracy in 1988/89. Likewise, this study does not include numeric of financing higher education in Nepal. It covers strategic financing only. This study does not include parents and students as the research participants.

#### **Chapter Summary**

With the decrease of government contribution to higher education, higher education institutions are having massive problems to sustain their programs and also to survive in this competitive world. Even though the public universities in Nepal have reasonable tuition fee, students from remote areas of the country and also students from lower financial bracket do not have easy access to higher education. With the growing demand of higher education due to demographic growth of 18-22 years cohort, demand of technically groomed graduates from different field, decreasing government financial support are preventing the under privilege students entering into higher education and also creating austerity in higher education finance in Nepal. This depressing situation prepared the field for this study to find a way of proper financing of higher education in Nepal.

## CHAPTER-II

### LITERATURE REVIEW

Literature review is an important part of the thesis which gives a clear picture of what has been studied in the subject area and what pertinent authors think about the issue under discussion. Literature review plays a minor role but justifies the problem (Creswell, 2012) to see how it has been handled in different countries. Even though literature review plays a minor role in the study, it helps to justify the problems of the study. There are several issues that must be considered while doing a study in higher education finance and its management. Each of these issues are co-related therefore must be studied independently as well as jointly.

In this chapter, we will be discussing higher education financing policy in Nepal by doing thematic review of literature, theoretical review of literature and empirical review of available literatures. Also current practices of higher education finance in Nepal and abroad have been studied to figure out what can be applied to the case of Nepal.

#### **Higher Education Financing Policy in Nepal**

All the institutes of higher education must be governed by plans and policies of the country. These plans and policies must be drawn according to the need of human capital of the country and the available resources. But in case of Nepal, there are no clear cut policies of higher education. No where we can find what kind of human capital is needed for the country and how they are going to be produced. The only policy we can find in development reports or Medium-Term Expenditure Framework (MTEF) or other documents that the main purpose of higher education is

“to produce competent human resources”. No documents tell us the requirement of human resources in any sector. Universities are providing higher education in such a way that producing the graduates is their only job (Wagley, 2010).

### **The University Acts**

Nepali universities are governed by their own acts provided by Nepal government. The Government of Nepal has passed university acts and regulations for all different universities and medical institutions. These acts and regulations outline the financial policy of each and every university in a sketchy way. There are not much differences in financial policies of these different institutions of higher education.

In case of Tribhuvan University, University assembly approves the annual budget prepared by Executive Council. Section 24(2) of Tribhuvan University act (1992) allows university to receive funds from the government as well as grants, donations, financial assistance from other sources and tuition fees from the students. University accounts shall be audited by the Office of the Auditor General of Nepal (Tribhuvan University Act, 1992).

Kathmandu University act provides basic authority to Executive Council to prepare annual budget and the Senate approves it. The University is financially supported by all major stake holders like the government, business community, general public, students and philanthropists. The operating cost of the university is being covered by tuition fee and capital expenditure is funded from other sources (Kathmandu University Act, 1991)

The regulation of Kathmandu University divides its expenditure in two headings. Operating expenses like salary and other day to-day expenses are covered from the income from tuition fees and capital expenses like construction of physical

facilities are covered from other sources like national and international donors, governments and philanthropists.

Purbanchal University board approves the annual budget prepared by the executive council. Section 14 (1) of Purbanchal University Act envisage a Physical facilities and financial resources committee which will try to meet the physical facilities or infra-structure and financial need of the university (Purbanchal University Act, 1993).

Section 13 (b) of Mid-western University act provides authority to the Executive Council to prepare annual budget and section 9 (d) authorizes the University Senate to approve the annual budget prepared by the Executive Council (Mid-Western University Act, 2010). The rest of the universities have also same kind of regulations as Trinhuvan University, Kathmandu University and mid-western university.

The B. P. Koirala Institute of Health Sciences Act [B.P.K Act] (1993) authorizes obtaining financial assistance from native and foreign persons and national and international bodies and mobilizes such assistance for health related works for the operation of, and in consonance with the objectives of, the Institute (B.P.K Act, 1993). All other provisions are similar to other universities

National Academy of Medical Sciences (NAMS) and Patan Academy of Health Sciences authorize their academic councils to determine the fees to be charged for study, training and research (National Academy of Medical Sciences Act 2004 & Patan Academy of Health Sciences, 2008). All other universities and health institutions acts only mention that Executive Council prepares the budget and the University Assembly or the Senate approves the prepared budgets.

### **Thematic Review**

This section discusses mainly the themes of higher education finance and its management practices in Nepal. It will cover the sub sections like sources and distribution mechanisms of higher education finance, appropriate earmarking of available resources, higher education finance as a public good, schemes and practices of higher education finance, existing financial situation of the country, field realities, and international and national experiences, and their inter-relationship.

Different themes of the study have been identified and discussed carefully to see their need and influence while preparing the scheme for higher education finance.

The Themes are:

- a) Policy Formation
- b) Current Practices
- c) Stakeholders Perception
- d) Effectiveness of Current Practices
- e) Finance management
- f) Student friendly schemes

#### **Sources and distributing mechanism of higher education finance**

To achieve the goal of quality higher education and also making it accessible to all interested and qualified students, Nepal has a long way to go. Higher education funding policy of Nepal has not seen any significant changes since last several decades. The prevailing practice of financing higher education in Nepal is mainly government funding (Personal Communication UGC/N Official, 12/11/2014). The second source of funding is the students and their parents and the third source is international agencies, other countries and philanthropists (Jagdamni, File folder # 3). Once in a blue moon, we hear philanthropists donating certain amount of money for



higher education but it has not been a normative practice yet. Private institutions have a huge task to find appropriate resources to survive and at the same time to deliver quality education which forces them to charge heavy tuition and other fees. Therefore, the exploration of different available and appropriate strategies, that which will be the best solution for financing higher education in our country, is a must. Also, a composition of different cost sharing mechanism could be an appropriate approach in financing higher education in Nepal. Singh (2005) in her Ph.D. thesis points out three major sources of revenue of T. U. They are; government grants, foreign aids, and internal resources. She also expresses her feelings that other avenues need to be explored. Cost sharing, revenue diversification, innovative finance, impact investment, education voucher etc. are some other factors that have not played a major role in financing higher education in Nepal yet which need to be explored to find appropriate match.

Since the implementation of NESP in 1971, Nepal government has given high priority to higher education. The government has been providing almost 100% cost for most of the activities of TU including operating cost of the central office, campuses and research centers. Since 1986, the government also met almost 100% costs of Nepal Sanskrit University. After the formation of UGC, Nepal government started channeling all the higher education finances through UGC. Currently, Nepal government is putting more emphasis on higher education institutes for self-sustenance and cost recovery (Shrestha, Manandhar, Manandhar, Shakila, Shrestha, & Shrestha, 2007). This report very clearly states two major financing strategies in higher education in Nepal. They are; state financing and student financing. Besides these two, the report also explains about the role of foreign aid in higher education. Japanese and Indian assistance to build infra-structure and technical support for

medical schools, and World Bank's role in higher education like building physical facilities for engineering campus, and higher education projects (Project I, II and III) are some examples. These are some of the visible role of WB and other foreign aids supporting higher education in Nepal (Shrestha, et.al. 2007). Currently, UGC has been practicing formula funding along with historical budgeting. Universities will have to abide by the UGC rules and regulations and demonstrate certain achievements to get appropriated budget. Formula based funding has been implemented with KU, PU and Pok U to start with (Personal Communication, UGC/N Official, 12/11/2014)

### **Appropriate Earmarking of Available Resources**

Due to current technical development in educational field, diversified educational opportunities and programs, and students demand for their need based curriculum, students would like to have more say in setting their curriculum, selection of subject materials and learning approach. This leads to the demand of faculty members from many different fields of study and well established educational institutions all of which requires proper financing mechanisms. Barr (2005) in his article, "Financing Higher Education" says that students are more capable of making appropriate choices of their field of education with exception of students from poor economic backgrounds. He further says that as the students are the main beneficiaries of the products, they should also be involved in financing their higher education. Government funding should be made available according to the programs and the needs of the institutions. Barr (2005) further emphasizes that central planning is no longer feasible as there are increasing universities, more students and greater diversity of subject matter. He further clarifies that the myth that all universities are identical and should therefore be funded equally is no longer sustainable. In principle, differential funding could be implemented by an all-knowing central planner, but the

problem is too complex for that to be the only mechanism: mass higher education requires a funding system by which institutions can charge different prices to reflect their different costs and missions (Barr, 2005).

The contribution of higher education in the knowledge world is fully recognized by all development actors who play significant role in the development of the country. The education level of people advances the country through a transformative process eventually resulting into national prosperity. In this context, people have accredited the importance of higher education for human capital formation and its subsequent contribution to harnessing financial capital, social capital and cultural capital. This energizes the demand for expanded opportunities of higher education. The constraint however is that in the world of increased competition and limited resources, higher educational institutions have hard time demonstrating their preferences and achievements to attract the cream of the crop faculty and talented students alike. Because of limited resources, the institutions are having to compromise in their programs, faculty and research activities and even the quality of education.

On the other hand, the labor market is increasingly demanding more graduates with knowledge, skills and competencies acquired through tertiary education relevant to their jobs. Substantial investment in higher education is needed to meet this demand. So, financing higher education is the need of the twenty first century world. As the states do not have the capacity of fully financing all the higher educational institutions, a proper mechanism has to be established to produce talented and qualified graduates as per the need of the country.

Every country allocates some fund to support higher education. Different countries adapt different theories of financing higher education according to their

resources. Industrial and welfare countries provide more funds and heavily support their students to go for higher education, with some exception of present crisis situations, whereas developing countries may not have adequate resources to fully support their students.

As demand for higher education around the world grows, so do the costs associated with it, and institutions will have to tap new resources especially as governments shoulder less of the burden. Tuition fees rise and student loan debt grows (Johnstone & Marcucci, 2010). This is the exact phenomena of current situation where we have exploding population in most of the developing countries and the resources are getting scarce. This situation exists in Nepal also and it forces us to find an appropriate strategy to finance higher education.

The United States of America has a very different funding modality in financing higher education. Tuition and philanthropy are the major sources of funding as described by Scott Jaschik (2010), the editor of *Inside Higher Education* from his long interview with Bruce Johnstone and Pamela Marcucci (2010). Alumnae donation is another source of funding in higher education in most of the well-known educational institutions. Government subsidy is another major source of funding in USA. In spite of high tuition fees, students have easy access to higher education in the United States of America because of accessible admission, open admission (which is "short-cycle" into community colleges), bachelor degree colleges and universities and very extensive volume of need-based financial assistance policies. The high tuition fee system is well supported by the functional student loan system. Especially income contingent loan works properly where government have good handle on tax system (Jaschik, 2010).

Jaschik's interview further explains that the Nordic countries (Norway, Sweden, Finland, Denmark, and Iceland) except Norway, with its North Sea oil, are experiencing financial austerity at this time. These countries provide free higher education to all their students. Bologna Process has some impact on trends in financing higher education in Europe. European countries can't charge different tuition fees (like out of state tuition fee in USA) to students from other European Union countries. Secondly, financial assistance and student loans are much more complex across the national borders in European Union countries. Bologna Process encourages the mobility of both students and scholars and the institutional competition among the European countries which creates ecstasies and some universities get privileged over the others (Jaschik, 2010).

Higher education financing system is different in different countries. Some governments provide equal amount of money to all universities and colleges and others provide according to the needs and programs of educational institutions. Cost sharing and revenue diversification are the current trend. Well planned student loan system plays a major role in cost sharing. Private universities and colleges get very little financial support from the government in Nepal. Therefore, higher educational institutions of Nepal will have to work hard to adhere by the Government's policy of self-sustenance and cost recovery system.

### **Higher Education as a Public Good**

Is higher education a public good? Should it be equally available to all without paying for the cost? This is a controversial issue and there are different schools of thought about it. The issue of accessibility comes along with the problem of financing of higher education. The group of conservative economists who do not consider higher education a public good say that students should get as much

education as they can afford whereas the liberal economists say that higher education is a public good and it can't be a luxury reserved for the privileged few. They advocate that higher education is an economic necessity therefore everyone should have equal access to it. These two theories show the extremities of financing higher education. There are other authorities in higher education finance who prefer to choose the middle path, or balancing the opportunity of higher education between the "have" and "have-nots".

Middle path is the way of life, the egalitarian economists describe as proper distribution of skills and capacities and rejecting income distribution. For example, Sanjaya Baru (2012) paints Dr. Manmohan Singh, the Prime Minister of India, as a staunch Keynesian economist propounding middle path economy. He explains an account of Dr. Singh's economics could have juxtaposed specific issues of economic policy. What we get instead is unhelpful double reductionism: first, that Dr. Singh is a post-Keynesian and second, that the job of a post-Keynesian is to coax "animal spirits" into higher investment on private account, which is precisely what Singh is doing through his chosen "middle path".

To simplify the meaning of middle path, it can be explained as the policy which will make higher education equally accessible to all in spite of their financial status and family income. It should not be reserved only for the privileged few but through a comprehensive student support system, it should be made accessible to all who aspire as it is not distributing incomes but distributing skills and capacities.

Again, when we think about higher education as a public good, history goes back hundreds of year since higher education started having a good impact on the society. Chambers (2005) says that there has been a traditional commitment between the society and higher education. Higher education not only develops knowledge of

individuals in the society, but it also brings political, social and other positive changes in the society. It helps increase individual's income, helps build good society, and develops political awareness and many other positive developments. Higher education helps all round development of the society as well as the country. The following lines of Newman and Corturier (2002) as cited in Chambers (2005) clarifies the above statement.

Higher education has long occupied a special place in society. Viewed as the creator of knowledge, the producer of leaders, and the engine of the economy, higher education's role has been considered critical to society's wellbeing. Equally if not more important, higher education has been seen as the intellectual conscience of society, above the market place throng. In return, higher education has received public support, been exempted from taxation, and often screened from the scrutiny of the public eye. Much of that has now changed (Newman & Couturier, 2002, p. 6 as cited in Chambers, 2005).

The Morrill Acts of 1862 and 1890 of the United States of America led to establishment of land grant colleges and universities, to help produce technical human capital in the field of agriculture, military science and mechanical arts, and these land grant institutions were supposed to provide higher education as public good. Federal government made certain amount of land available to these institutions to establish agriculture, science or engineering colleges or universities. There is at least one land grant college or university in each state or territory of the United States of America. However, currently institutions like Cornell University and Massachusetts Institute of Technology (MIT), though started as a land grant institution, have been operating as private institutions (What is land- grant...2009).

The National Forum on Higher Education for Public Good (formerly the Kellogg Forum on Higher Education for Public Good) was established in 2000 at the University of Michigan with a grant from W. K. Kellogg Foundation which helps colleges and universities address important social issues and prepare their students for the civic, economic and cultural demands of current and future generations. The Forum was established to increase the awareness of public service role of higher education (Chambers, 2005).

The current international theme is that basic education or up to high school education is the responsibility of the nation but there are various theories about financing tertiary education. Some people say that higher education is a public good and therefore every citizen of the nation must have easy access to it. They say that it is the right of the people so government should provide tertiary education free of cost to their citizens. Other school of thought is that the beneficiaries should also pay for the cost of their education.

Public goods should be equally available to all. Nobody should be excluded from it. One group's consumption of it should not diminish the benefit to another group. One school of thought is that higher education is the general need of everybody and it should be freely available to all. Therefore, it should be considered as public good. Many people agree with the idea that higher education is a public good and it should be available to all like basic health care and public safety. Higher education has an obligation to serve the society. Higher education helps develop socio, economic and political aspects of the society. It also helps increase revenues of the local and central government by creating better employment opportunities to the people of the society. Thus, individuals as well as the society benefit from the higher education. If we accept higher education as public good, then there should be free



accessibility to it for all students or there should be a mechanism which will allow all capable and intelligent students to go for higher education.

Another school of thought thinks that higher education can't be treated as pure public good as it has limited supplies, it has a price tag and it is not demanded by all. Higher education is also not a basic need of general public like basic health care, and public safety. The demand for it is also limited or not everybody wants to go for higher education. Some people may not choose to go for it whereas some people may not have the needed talent and interest to pursue for higher education. People say that it can't be considered as a public good as people who do not pay can be excluded from it easily (Baum & McPherson, 2011).

So, we can say that higher education is not a pure public good. It is clearly possible to exclude people who do not contribute for it. Modern theories of financing higher education emphasize that students pay at least a portion of the cost of their education. It is the students who benefit most from their college education so they should be responsible at least for a part of it and thus it can't be treated as public good.

### **On-Line Education and its Implication in Nepal**

Future of education tends to be mobile and social. More and more online colleges are coming into existence. Students choose online colleges because of their convenience, affordability, 24/7 access, and flexibility. The standard accusation of these on-line systems is that online education suffers by comparison to peers in academic quality, classroom engagement, and the lower respect that an online degree receives with potential employers. Even with these draw backs, on line education or distance education is developing as the ideal system for the near future. Cost factor

and easy access in convenient time are the main reasons for the development of programs like Massive Open Online Course (MOOC).

Some institutions like Harvard/MIT edX model and Minerva University are trying to make quality higher education available at no cost or at an affordable cost for talented students from all around the world. Minerva University and edX model plan to make quality education accessible through a distance education mode to all those interested and qualified students (Dasantis, 2012). Even though, some universities in Nepal have started offering on-line courses, it may not have substantial impact on higher education finance of Nepal. It is just starting and it will take some time to be accepted as a regular degree. The cost of on-line courses and general acceptability by the employers will decide what kind of impact it may have in higher education finance of Nepal.

### **Investing in Higher Education**

Nepal, coming from Gurukul educational practices to modern day educational system, has to leapfrog to manage its resources to provide access to higher education to all interested and capable students. Central planning and funding is no more practical in modern day world because of the diverse need of human capital, skilled labor forces and the limited resources of the countries (Barr, 2004). Without proper financing of higher education only student from sound economic back ground can participate in tertiary education. Even though, Nepal is lagging behind in cost sharing practices, it is time to look into different possibilities of financing higher education which will support students from all walks of life to access to higher education to make their dream come true.

Every country allocates some fund to support higher education. Different countries adapt different theories and practices of financing higher education

according to their resources. Industrial and welfare countries provide more funds and heavily support their students to go for higher education, with some exception of certain crisis situations, whereas developing countries may not have adequate resources to fully support their students.

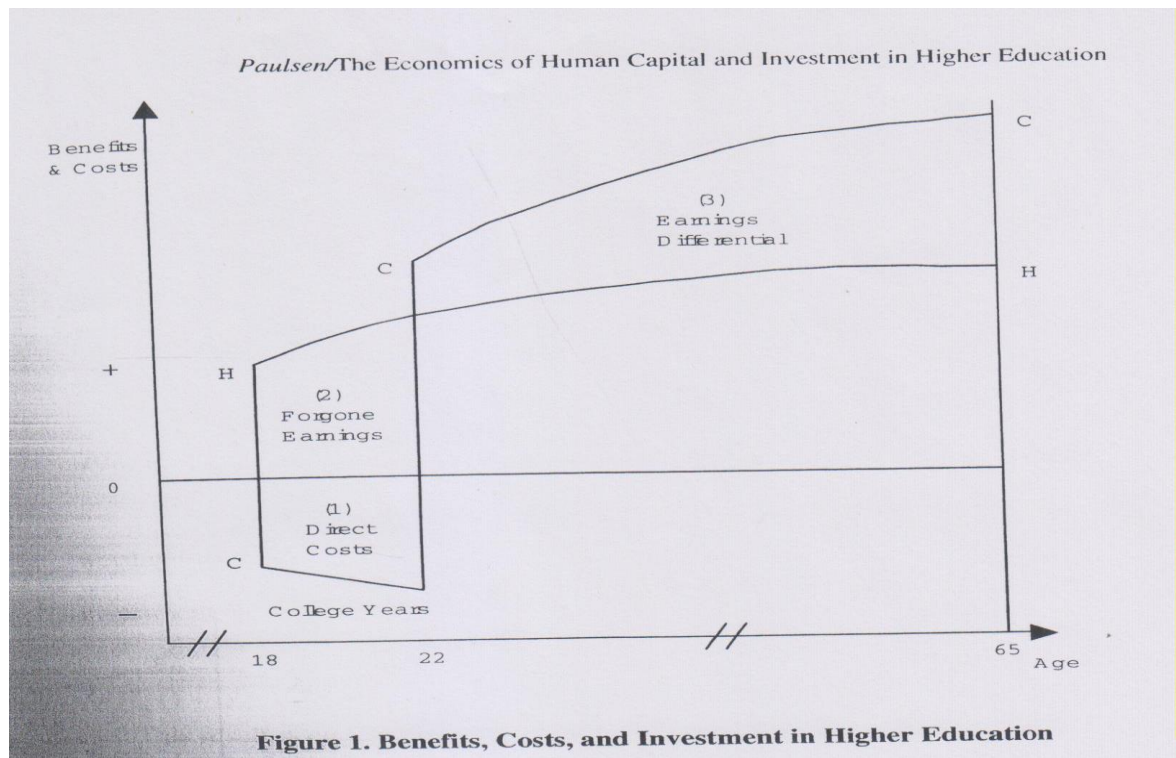
Higher education is getting expensive day by day due to the development of technology, and the growing demand of technically trained human capital to match the need of fast growing knowledge based industries. On the other hand, resources are thinly spread as the developing countries have ever growing demand for areas other than education. The resources are getting scarce and higher education is getting smaller share of it day by day. This is not the case only in developing countries; it is affecting industrial countries like USA and UK as well. Therefore, practices like innovative finance, impact investing, revenue supplementation, cost sharing, student loan, means tested student loan and tuition fee and cost recovery look more practical and more viable to meet the growing demand of resources of modern day educational institutions as well as the students. Cost sharing, student loan and cost recovery help students to pay back for the opportunities of their higher education, which would have been impossible without these diverse financing mechanisms.

The demand for tertiary education is growing vibrantly as job market is getting tight. Skilled and educated mass have easier time finding well paid jobs which leads to comfortable life style, which is vied by most people. Knowledge, skills, and good income are some of the ingredients of comfortable lifestyle and every country aims to provide all these ingredients to their citizens through tertiary education. To achieve this goal every nation invests part of its resources for the development of the education system of the country.

The idea is that investing in education is a long term investment, which guarantees increase in earnings as knowledgeable employees are in great demand due to the technological development in the world. Higher professional degree certainly increases the chance of getting better and highly paid job. According to the data from last year's census, average earnings in 2008 in the United States of America totaled \$83,144 for those with an advanced degree (i.e., a master's professional or doctoral degree), compared with \$58,613 for those with a bachelor's degree only. People whose highest level of school attainment was a high school diploma had average earnings of \$31,283 (The Economist, April 2011). The difference in financial packages between college graduates and high school graduates are always very big. Educational advancement helps the economic growth of the country as the higher education graduates get more lucrative financial packages. Big take home packages means improvement in social standard and affordability of higher education to their off spring which leads to the development of the nation.

Many world renowned authorities of higher education have used the following figure to explain how higher education graduates get more lucrative package and get more economic benefit in the long run in comparison to high school graduates. Paulsen and Smart (2001) explains how college graduates earn more than the high school graduates.

Figure 1. Benefits, Costs, and Investment in Higher Education



Source: Paulsen & Smart (2001).

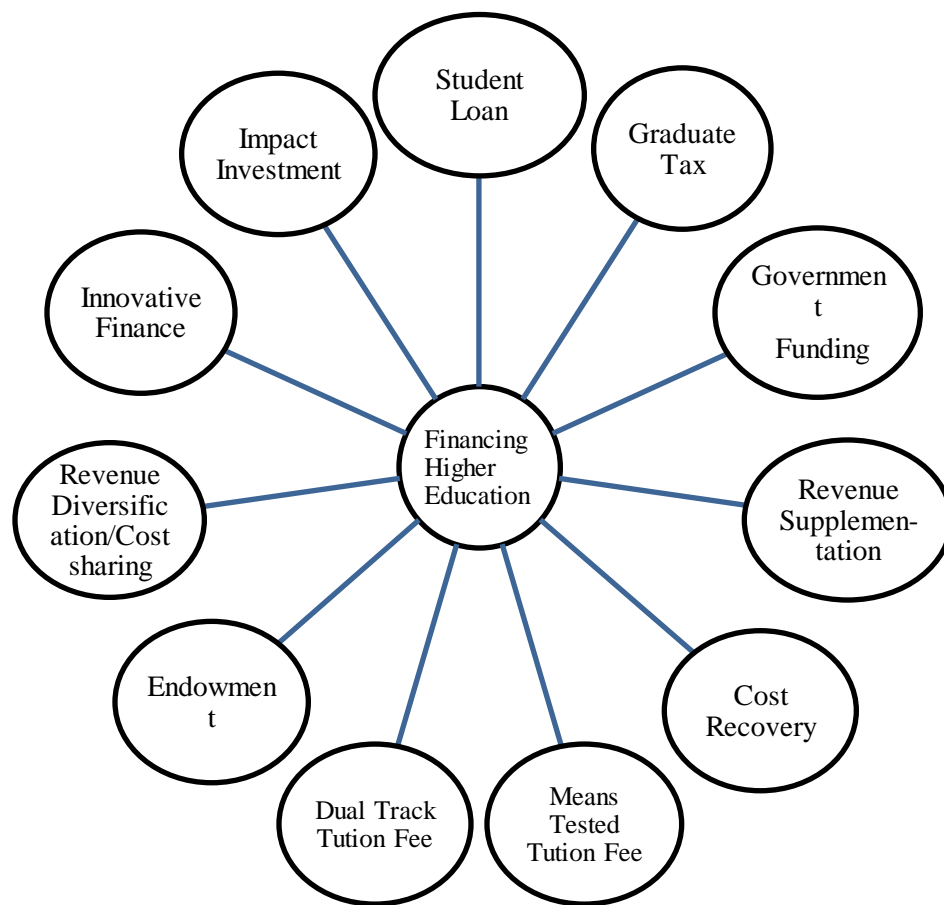
The primary benefits and costs students consider and compare in this model of a higher education investment decision are illustrated in above figure. In totality, the figure shows the huge difference of earning between the high school graduates and college degree holders during their lives as demonstrated in area (3) earnings differentials. Again, Paulsen & Smart (2001, pp.59-60) stress that investment would be worthwhile when the internal rate of return on the investment exceeds the market rate of interest. So, investment in higher education is not a luxury of a country but a necessity to prepare human capital to match the need of the modern day knowledge based industries.

Private investors hesitate to invest in higher education as there is no guaranteed collateral to recoup their investment. The other issue is that, technical higher education like medical and engineering are very expensive and there is no guarantee that these graduates will get their investment back in a stipulated time.

## Schemes and Practices of Higher Education Finance

There are different practices prevalent in financing higher education based upon the availability of resources and the need of the country. Nkrumah-Young and Powell (2011) say that there are three main options for financing higher education i.e. state financing, public

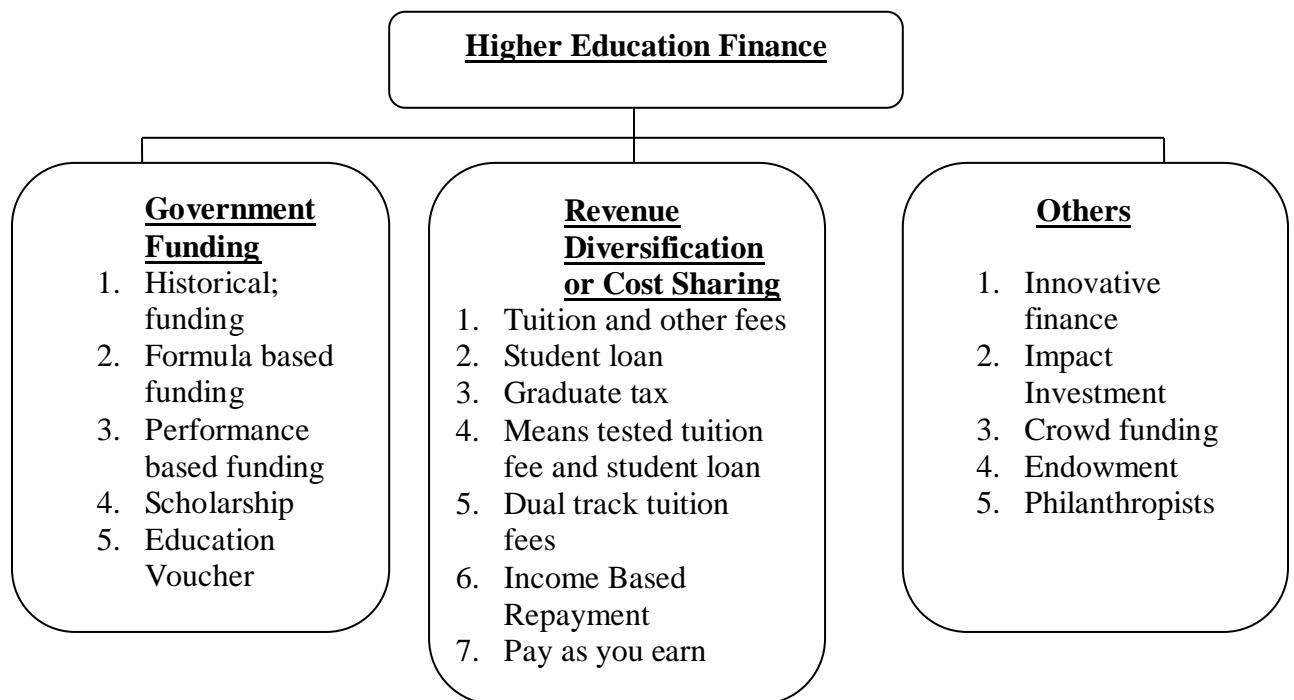
*Figure 2: Different Sources of Financing*



financing and shared financing. There are positive and negative aspects of these three types of financings. They argue that private funding of higher education is based on charging students for courses which provides personal liberty to students through operation of market. There are different sources of financing higher education. Each and every source of funding has its merits and demerits. Countries have to adapt the schemes based upon its available resources and need of human capital of the country.

In general, we can divide higher education financing scheme into three different categories. These three categories represent all those who make the funds available and the practices of how these funds are used. The following figure 3 explains the best practices which can be looked into to implement in our country.

*Figure 3: Different Schemes of Financing Higher Education*



### **Government Funding**

Till the turn of the century, most governments were providing all the necessary expenses for higher education institutions. Due to the financial crisis and enormous demand of higher education all around the world, governments have been slowly withdrawing their hands as a sole financer of higher education and they have been asking the institutions to look and tap resources from sources other than the government. In Nepal, TU and NSU still get the lion's share of their expenses from the government but other institutions have to manage on their own. The following are some of the schemes that are still in practice in Nepal:

### **Historical Funding**

Government or the funding agency of the government look at the previous year's budget and match up according to the availability of funds and current needs to decide how much money should be earmarked for certain institutions. The institutions prepare their budget and submit to the agency (UGC in Nepal's case) and then UGC decides based upon the availability of fund for higher education in total.

### **Formula Based Funding**

As the availability of fund become scarce, the government has to look for different methods of funding and this applies very well in higher education as well. Because of the pressure of the rising enrollments, demand of more tech savvy education and demand of modern gadgets and improved infra-structure sky rocket the demand for more financial resources. To meet the need of these demands of financial resources, the state or the central government or UGCs have started applying different formulas to finance higher education.

Each formula manipulates certain institutional data based on mathematical relationships between program demand and costs to derive an estimated rupee amount to support future program operation. Formulas are based on historical data, projected trends, and negotiated parameters to provide desired levels of funding. Put another way, formula budgeting is a method that calculates the amount of funding a program requires by applying selected measures of unit costs to selected output measures (Vandement, 1989). As such, formula budgeting is "a combination of technical judgments and political agreements" (Meisinger & Dubeck, 1984, p.186; Lasher & Greene, 2001, p. 514).

So, formula based funding is prepared based on the need of the institutions to produce desired output. Certain requirements are demanded from the government to



make the resources available and the institutions make the commitment to fulfill the demand and also to produce the required outputs as per agreement.

Currently, UGC is working to apply formula based funding in case of KU, PU and PokU. Formula based funding will be calculated based on fee waiver and subsidy. The universities will provide fee waiver to certain percentage of students from poor and disadvantaged categories (dalit, disadvantaged, women and students from rural regions) and UGC will provide subsidy to the universities to match the fee waiver (Ved Byas, File folder # 14).

### **Performance Based Funding/Outcomes Based Funding**

Beside theoretical perspectives, we have to think more about what is applicable in our situation. Empirically, we can say that no country in the world can declare tertiary education totally free. Some industrialized countries have made it free in public institutions, but even then the students have to take care of their food and lodging. Thus, the students have to look for some sources of funding to carry on their education and the government should also apply different practices. Universities have to be outcome oriented and have to meet government demand to get budgeted fund.

Performance based funding is also known as outcomes based funding. The terminology has changed. Within the past few years, performance based funding has been preferably labeled as outcomes-based funding. Jones (2013) says that there is a valid rationale behind this change. Institutions can “perform” along numerous dimensions that have nothing to do with student success, such as increasing enrollments or ranking higher on national rating schemes. The main objective is to improve outcomes. The nature of outcomes may vary, but the common universal goal is to increase the number students graduated. Linking funding to outcomes, not to performance in the broader sense, is the clear intent. The change in language reflects

more than semantics, it reflects substantive changes in intent (Jones, 2013). It is a budgeting approach based on funding desired outcomes or accomplishments (Green, 1971). Although implemented by few states (Banta, 1988; Ewell, 1988, 1985), performance funding developed originally as a cost reimbursement model for resource allocation (Morgan, 1984). It addresses activities rather than objectives, and relies on activity classifications, performance measures, and performance evaluations (Lasher & Greene, 2001).

Performance based budgeting is an approach where funding depends on the performance of the institutions. It also depends on the past history, performance measurements and performance evaluations or in totality, the outcomes of the institutions. Out-come based funding should relate to the types of degrees needed in Nepal. In Nepal, UGC is trying to implement different approaches in financing higher education. Some universities like TU and NSU are getting almost desired funding without much strings tied with the funding. For these universities, UGC tries to match the needed revenues.

### **Competitive funding**

UGC provides research funding to university faculty members and students for research on a competitive basis. UGC will select a number of higher education institutions representing most universities and campuses to participate in this program. Competitive selection is done in various research funding programs. This competitive research funding is available to faculty members and students from M. Phil and PhD programs.

### **Scholarship**

Scholarships can be divided into three different categories: that is government scholarship, scholarship set up by philanthropists and scholarship provided by the

institutions. In this section, we are talking mainly about the government funded scholarship. Usually government provides certain amount of fund or certain number of seats for poor and talented students. Government will have certain regulations to select candidates based upon their financial condition and their academic performances in the past.

The government of Nepal provides scholarship to certain number of higher education students. All higher education institutions in Nepal must provide certain numbers of seats to financially poor students. It is a government requirement.

### **Tuition and Other Fees**

This is a very common phenomenon in higher education all over the world. Even government funded institutions charge some tuition and other fees whereas private institutions charge high tuition fee as this is their main sources of revenue generation. This is one of the basic resources for non-governmental institutions to survive in the competitive business world. Even interested students may not be able to pay their tuitions due to their financial condition so they need to find way of tapping resources for their educational expenses.

### **Others Sources of Revenue**

The followings are some of the avenues to tap to finance higher education.

#### **Education Voucher**

Education voucher is a document provided by the government to the parents, which can be exchanged for educational products in any school or other educational service providers. The voucher is usually for a specified amount of money. It is in practice for elementary or secondary schools. Milton Friedman, the Nobel laureate in economics introduced the idea of education voucher in 1955.

A minimum degree of education is necessary for a stable and democratic society. An educated child not only benefits himself or herself and the parents but the society as a whole benefits from it. Milton Friedman calls it “neighborhood effect”. The education of child contributes to the welfare of the society by promoting a stable and democratic society. There is therefore a significant “neighborhood effect” (Friedman, 2009, p. 86).

Governments could require a minimum level of schooling financed by giving parents vouchers redeemable for a specified maximum sum per child per year if spent on "approved" educational services. Parents would then be free to spend this sum and any additional sum they themselves provided on purchasing educational services from an "approved" institution of their own choice (Friedman, 2002).

Education voucher can also be implemented in higher education with some modification according to the need of the country. Especially in our case, where public higher education institutions are not doing well, they will have to compete to attract students. People support education vouchers because it provides the consumers or the students a chance to choose the schools of their preference. Instead of direct transfer of public funds from government to higher education institutions, a student centered funding method turned education voucher system is used. The core idea of a voucher system is that the public funding for tuition is being driven by student choice. This change of path of funding has two significant effects, students now have choices and institutions now have to compete for students (Cheung, 2003). This demand side funding of higher education gives a chance to students to choose institutions that they would like to attend. They can take the voucher and present it to the institution where they would like to study instead of paying cash for their tuition and other fees.

Voucher system provides the opportunity to the students and their parents to choose the schools of their liking and their preference. They are the consumers and they know their needs more than the planners and the government officials. This puts the funds into the hands of consumers rather than producers. In the vast majority of situations, individuals know their own interest and what is good for them much better than government officials and intellectuals do. The second is the competition among providers of goods and services. This is the most effective way to serve the interests of individuals and families, especially of the poor members of society (Becker & Posner, 2006). Thus education voucher provides benefits to both students and the institutions.

### **Revenue Diversification or Cost Sharing**

Revenue diversification in tertiary education is a common phenomenon, which shifts part or total financial burden from the government to other stakeholders like students, parents, corporate houses, philanthropists, communities and others. Revenue supplementation takes place in almost all the countries but the shares of different stakeholders may be different based upon their willingness and ability to carry on the burden. Some entities like corporate houses and philanthropists donate voluntarily to social cause like higher education. Corporate Social Responsibility (CSR) is a self-regulating mechanism whereby business houses ensure its active compliance to financially support social works in their areas of work. The donation through CSR could be in any areas like environment, consumers, employees, communities, education and any other stakeholders or public goods. Corporate houses can play a vital role in supporting higher education through CSR. Nepali corporate houses have also realized the value and importance of CSR and have slowly started allocating funds for different kinds of social activities.

As the state funding is decreasing for higher education, revenue supplementation is one of the reliable sources to meet the needed revenues of the institutions. Zumeta, (2004) explains the role of privatization strategies of revenue collection of universities in his article, “State Higher Education Finance; Demand Imperatives Meet Structural, Cyclical, and Political Constraints”. On the revenue side, colleges and universities are increasingly looking to a range of steps that are sometimes collected under the umbrella heading of privatization strategies. The general argument is made that if public authorities will not provide adequate funds to sustain quality institutions and their growth to meet new student demands, and then college and universities should seek more private resources-including increased revenues from tuition-to pursue these noble ends (Zumeta, 2004).

Looking at the situation of financial status of our higher educational institutions, we certainly can incorporate his view of collecting revenues for our tertiary educational institutions through privatization strategies. Revenue supplementation opens different avenues of financing higher education including increased tuition fees but at the same time, students must have access to resources to pay increased tuition fees.

Cost sharing is a mechanism whereby parents and students pay a big chunk of expenses of tertiary education like tuition, food, lodging, text books etc. In many cases students and parents are compelled to pay where higher education is not free. The following is a definition of cost sharing given by Johnstone and Marcucci (2010) in their book, “Financing higher education worldwide: Who pays? Who should pay?”

The term cost sharing refers to a shift of at least some of the higher educational cost burden from governments, or taxpayers, to parents and students. Cost sharing is thus both a statement of fact-that is, that the costs of

higher education are shared among governments (taxpayers), parents, students, and philanthropists and also reference to a policy shift of some of these costs from a predominant (sometimes a virtually exclusive) reliance on governments and taxpayers to being increasingly shared by parents and/or students in addition to taxpayers (Johnstone & Marcucci, 2010, p.2).

According to Johnstone and Marcucci (2010) cost sharing helps reduce financial burden from one party or the government and shifts to many other parties. Mostly, it implies taking the financial burden off from the government and putting it in the shoulder of students and parents. Even though it makes the nation's burden lighter by sharing the expenses, compelling students and parents even to pay partially for their higher education, makes it out of reach for many students from financially poor back ground. This system prevents participation of economically poor students even though their performances are higher than other students. To facilitate cost sharing scheme, students should have access to financial resources so that they will be able to pay their share of the expenses for their higher education.

The practice of shifting the burden for paying for higher education from government to students and/or their families is known as cost sharing or revenue diversification (Johnstone, 2000 as cited in Van-Harte, 2004). Cost sharing or revenue diversification refers to parents and students contribution to tuition fees and other expenses. Cost sharing is getting strong foothold all over the world even though it creates some problems to people from poor economic background. There is a need to look for other measures to widen participation or fair access to higher education for students coming from families which do not have tradition of higher education. Education is their right but their inability to pay for it keeps them away from it. So, the question becomes: whether education should be funded from the government

coffer or the tax money or the student should pay fees for their education? Cost sharing or revenue diversification, if applied properly, can play a vital role in making higher education accessible to all who are interested in it.

Cost sharing forces educational institutions to improve their products and also provide curriculum palatable to students from different backgrounds. The feeling of competitive market keeps the institutions in high alert which provides the students a better chance to choose the institution of their liking and also curriculum of their interest based upon the demand of the market.

Determination of scope and level of cost is the key question. How to determine the percentage of sharing between the government and the individual or students and parents? Some communities may not be willing to pay for education not appreciating the benefit of higher education. In such cases, the government will have to take the initiative and make education accessible to all.

Pricing theory is one way of determining the cost of education which sets the price at the marginal cost. But, the number of students in a particular school or the number of schools in a particular community may fluctuate the price. Educational level of the members of the community and also the cultural influence may have a strong role in the willingness of the community to share the cost of education. There are several other factors like tax and foreign aid which also influence cost sharing practices.

Cost sharing through student loan is an alternative which will provide an environment to the educational institutions to provide their own menu based upon the courses offered and it will also be based upon the interest of the students. This will minimize the financial burden to the country as well.

### **Student Loan**



Different authors have defined student loans in different ways in their own words. Various stakeholders may define it differently based upon their needs, available resources and situation of the country. The following are some of the definitions which help clarify the meaning of student loan. “Student loan is a loan taken by a student to pay for educational expenses, usually at a favorable rate of interest that is subsidized by the government” (Encarta World English Dictionary, 2009). This definition includes all the expenses (tuition and living expenses included) of student. It also says that interest rate of the loan is usually student friendly because, in most cases, it is subsidized by the government. Alternative loans usually have high interest rate as it is conducted by the commercial institutions with business purpose or with profit as their major goal.

Student loans are loans offered to students for the payment of the costs of education which includes tuition, books, room and board. Loans are issued to students with the understanding that they will be paid back after the students complete their education and secure a job. Some government and private institutions provide loan to students with the understanding that they will work for them after they complete their education (*South Africa Student Loans and Bursaries*, 2009). This system is more prevalent in South Africa and Australia. Longman Dictionary of Contemporary English defines student *loan as*, “an amount of money that you borrow from the government or a bank to pay for your education at a college or university.” All the above definitions point out that student loans are used mainly to cover the expenses of students while they are studying and these loans are supposed to be paid back after they complete their study and start earning a decent salary. Student loan is a way for students to share the cost of their higher education and usually charges lower interest rate than other loans. Johnstone (2004) defines student loan as a way of cost sharing

in his article, “Higher Education Finance and accessibility: Tuition Fees and Student Loans in Sub-Saharan Africa. Cost” –sharing is generally thought of as the introduction of, or especially sharp increases in, tuition fees to cover part of the costs of instruction or of user charges to cover more of the costs of lodging, food, and other expenses of student living that may have hitherto been born substantially by governments (taxpayers) or institutions (Johnstone, 2003).

According to Johnstone (2003), student loan supplements the distribution of national resources of the country. Availability of student loan helps students pay part of the expenses of their education. This is usually very supportive to the students from low economic background as it provides them access to their dream education which otherwise would not have been possible. Student loan is a form of cost sharing mechanism. The government as well as the students can share the cost of their higher education very easily through student loan. This will help the government to divert their scarce resources to other needed areas of the country. It will minimize the practices of central funding for higher education.

In most cases, government and/or the private investors make the loan available to students and the students will pay back in installments upon the completion of their education. Usually student loans are subsidized by the government. Therefore, the interest rate in most cases, are in par with the government interest rate. According to Shen and Ziderman (2008) student loan scheme are in operation in more than seventy countries around the world. Student loan has been in practice in most developed and developing countries since the mid nineteenth century. Industrial countries have developed a good student loan system so that students will not have to face financial constraints while pursuing their higher education. Developing countries are

struggling with it and different countries have set up their own rules and regulations based upon their financial situations.

Formal student loan programs started from Columbia in 1940s. Salmi (2009), writes in his article, “Students Loans in an International Perspective: The World bank Experience” that Gabriel Betancourt, a Colombian youth, fulfilled his dream of university education with the help of a loan in the late 1940s. Immediately after he completed his education, he was appointed as the Minister of Education in Colombia. As a Minister of Education, he successfully lobbied the Government of Colombia to establish the Colombian Student Loan Institute, ICETEX, the first institution of that kind not only in Latin America but in the entire world. Gabriel’s daughter, Ingrid Betancourt writes in her book, “Until death do us apart: My struggle to reclaim Columbia” that her father was so overwhelmed with the opportunity of higher education that he got with the help of the loan, he was determined to make such opportunities available to all needy students. So, he lobbied strongly for the establishment of ICETEX (Betancourt, 2002).

In the 1950s, the student loan was introduced on a small scale in Europe and in the United States, and also in Colombia and India. Later on it expanded in many developed countries, particularly United States of America, United Kingdom, Canada and many other European countries, including the Scandinavian countries (Norway, Sweden and Denmark). Student loan scheme was established in other Latin American, Asian and African countries around the same time (Woodhall, 1983).

South Asian countries like Malaysia and the Philippines have also included student loans as part of their scheme of financing higher education. Among the developing countries, the Philippines started providing loans to students in 1970s. “The student loan schemes (SLS) have a long history in the Philippines. The ‘oldest’

(since 1976) system-wide scheme is called the ‘Study Now, Pay Later Plan’ (SNPLP)” (Kitaev, Nadurata, Resurrection, & Bernal, (2003). The government of the Philippines started SNPLP by providing an adequate amount of money to start the scheme. SNPLP is not working properly in the Philippines now as the repayment rate is very poor and the government has not been able to enforce proper collection mechanism (ibid.).

In this competitive world where there is big gap between the haves and the have-nots, it is difficult for people from low income bracket to go for higher education without strong financial support from the government or other financial institutions. Therefore, student loan is operating in more than 80 countries around the globe (Rani, 2004). This proves that student loan is a necessity rather than a luxury.

Salmi (2001) says, “Traditionally, public agencies have run student loan programs, but in recent years new loan agents have appeared: commercial banks, for-profit private agencies, and nonprofit institutions.” Similarly, Nepal can also involve many different agencies including banks and financial institutions and other profit making agencies to assist the government to start the student loan system.

In many countries the student loan system is not working properly. The repayment rate is negligible in many countries where government provided financial assistance to start the system. “The Philippines case is of interest not because of its success but rather because of its failure. The example of the Philippines is about lessons to be learned. More about ‘what should not be done’, rather than about ‘what should be done’ to put the SLS in place.”(Kitaev, et al. 2003, p. 20). A proper study should be done with the hope of not repeating the same mistake in Nepal.

Many developed countries like USA, Sweden and Japan make student loans easily available to their students. Some student loans require credit check and some do

not. Loan amounts in developing countries are usually higher because higher education is free in Scandinavian and other industrial countries and students take loan just for their living expenses whereas in developing countries, students have to take care of their living expenses as well as tuition fee from the loan money. Loan repayment rates in developed countries are also higher compared to developing countries as most students in industrial countries get jobs as soon as they complete their study and it is more feasible for these students to repay their loans. If they default, it is easier to track these students in industrial countries.

Due to low repayment rates, financial institutions may scrutinize loan qualifications more strictly. For this reason, the banks and financial institutions in developing countries like Nepal require collateral from students or their parents in order to get student loans. Bollag (2001) says in his article, “Student Loan: a slippery Lifeline” published in *The Chronicle of Higher Education; International*, on December 7, 2001 that there is very little possibility of creating viable loan program in many poor countries where there are no formal income taxes in practice. He further says that student tracing program is essential to have loan program succeed.

Johnstone says that poor countries may have to settle initially for modest loan programs, perhaps providing the money only to those who can provide collateral, or to those graduate students who would be more likely to obtain gainful employment after graduation. There are different types of student loans. Fully government run student loan, government scrutinized student loan and alternative student loans. Government run student loan is executed by the country’s government whereas the government scrutinized student loan is subsidized by the government. Alternative loans, on the other hand are basically consumer loan and the lender decides to extend

the loan on the basis of the applicant's ability to repay the loan (Fabozzi & Markowitz, 2002).

Each country should decide the type of student loan they should run based upon their financial resources, country's economic status and students situation. There are various factors that make student loan systems successful in welfare (Norway, Denmark, Sweden and Finland) and developed countries. In developed countries, college and university counselors provide information to students about student loans. Also in highly industrialized countries, students don't have to worry about collateral because in most cases, student loans are subsidized by the government and collateral is not needed and trust that it will be paid back. At the same time, some lenders sanction the loan to the students based upon their credit history. Students in developing countries face the challenges of high interest rate and one hundred percent collaterals whereas the lenders face the problem of low repayment rate.

Currently, Nepal government is working with WB to provide scholarships and student loans to students. This scholarship is being provided through Student Financial Assistance Fund Development Board (SFAFDB) under UGC. If the scholarship money is not sufficient for the students to continue their education, then SFAFDB will make some loans available to needy students. This facility was available only to certain number of students and the loan amount is also very limited (Joshee, 2010).

Barr (2004) opines that "students should contribute to the cost of their degree". He further says, "Most students cannot afford to pay for higher education, leading to the third set of lessons from economic theory. Well-designed student loans have essential core characteristics" (Barr, 2004). Student loan will facilitate the students to go for higher education and pay the loan back after they start having good

income. Student loan could help Nepali student pay for their higher education and this is definitely one of the best way as Prof. Barr suggested. Many Nepali students from poor family background will benefit from such a program. Also some programs reduce student loan if the student works for a certain type of non-profit or government agencies.

If the nation can't afford to fund universities, private finance should be encouraged, but students without family history of tertiary education will have problem to finance their education in private institutions. Furthermore, Barr (2005) says in his article published in *Finance and Development*, a quarterly magazine of International Monetary Fund (IMF), that due to the changing scenario of human capital, students should be made liable to pay for part of their education. He further says that central planning is no longer feasible. Due to technological change, the number of universities and students are increasing and there are more diversity of subject matter. Central planning will be too complex to meet the changing need of the universities and the students. Current higher education needs a funding system which will be able to charge different prices according to their costs and missions.

Nepal government may also be facing the same crunch as mentioned above, as private universities are expensive for poor students and it is difficult to get enrolled in Tribhuvan University campuses. However, a well-defined student loan plan will solve this problem and also help the government by avoiding appropriating huge budget for higher education as the cost of running higher educational institutions will be shared by the students and parents. Many countries in the world have been applying student loan systems to partially fund their higher educational institutions. Revenue supplementation and cost sharing in higher education will free the government to channel its budget in other most needy areas like health and agriculture. To have a

properly run students loan schemes, the government of the country should come up with clear plan and policy and unbiased board to run the system. The interest rate should be par with the government rate and must have good collection system.

### **Problems with Student Loan**

All countries exercising student loan programs are having some problems. Among the Asian countries, Thailand and the Philippines are having major problems in recovery. In the Philippines, SNPLP is not working properly as the loan repayment rate is very low (Kitaev et al, 2003). “Study Now, Pay Later Plan” (SNPLP) introduced in 1976, is the oldest among all the current student loan plans in the Philippines (Kitaev et al, 2003, p.18). The government of the Philippines started SNPLP by providing an adequate amount of money to start the scheme. Students are allowed to take a maximum loan of Peso 7,250 per semester to cover tuition and other school fees from the SNPLP program (SNPLP website). But as the repayment rate was very low, the Philippines government had to look for alternative ways to support the students in higher education.

In Thailand, as the student loan interest rate was very low, people started taking loan and spending that money in non related areas as motor bike and jewelery. Thus, the repayment rate was very low. Therefore, to avoid this situation, SLF established a relationship with Krung Thai Bank to collect the repayment from the students. Tirasriwat (nd) says that within 30 days after starting employment, student is required to report job and salary status to the KTB. KTB informs student the amounts of money to be paid before the due date every month. KTB keeps track of the defaulters and informs them by mail and phone is made

Loan recovery is an issue in most of the developing countries. The government or the lending agencies have to take some stern actions to make sure that



the student loan money is used towards achieving higher education and loan repayment is taking place as planned. This is a problem even in the industrial countries. The United States of America is also facing the crunch of student loan program. With about one trillion dollar outstanding student loan and about 12 million students (out of 20 million students enrolling for higher education every year) borrowing each year (Statistics from American Student Assistance Program, a nonprofit outfit), millions of Americans are struggling to pay off their student loans or consolidate their loans or at least find a way to lower their monthly payments. About seven million student loan borrowers are now in default. Scammers know this is a big problem for those millions of students, so there are people who have created phony student loan relief companies promising these students to help for a price (Weisbaum, 2014).

Most of these phony companies claim to offer a broad range of services. One such company promised the clients to help enroll in the “Obama Forgiveness program”- there is no such program says Illinois Attorney General Lisa Madigan. She further says to the students, “Do your homework before you do anything. Be highly skeptical of any company that charges a fee and requires payment in advance” (Weisbaum, 2014). Also commercial universities put students in great debt without any real promise of a degree which causes problem in repayment.

In Australia, loan repayments are part of a person’s tax liability, so that someone outside Australia is not liable to make repayments. With interest subsidies, this is a particularly costly mistake, In the United Kingdom, the individual loan contract includes the collection of repayments through the tax system, but does not exempt a person outside the country (Barr, 2011).

Beside repayment there are several other problems with student loan programs. In a developing country like ours, it is difficult to figure out who should get the loan and who should not. The loan could be easily misused like in Thailand. Interest rate is another problem. Many poor students may not be able to provide collateral as it is needed in most of the developing countries. It is a basic problem in developing countries. Indian governments' education loan scheme of April 2001 aims to cater towards the poor and needy students. According to this announcement, collateral is not needed for loans up to the amount of rupees four hundred thousand (\$8600). If they exceed the loan amount then they will have to provide 100% collateral for the entire loan. On top of that, the students' parents' monthly salary must be more than \$209 to qualify for student loan which disqualifies many students. Overland (2001) says that the government loans do little good for the poor or for private college students. Banks have their own requirements to qualify for student loan. Their rules and regulations are so complicated that Overland suggests reading between the lines to get clear notion of the regulation. Thus, Indian student loan scheme does not provide much assistance to the students who aspire for higher education but do not have the means.

Industrial countries provide student loan without collateral based upon the financial history of the student which is not applicable in a country like ours. The government may have to come up with a scheme to facilitate this problem.

Commercial institutions catering alternative student loans usually charge high interest rate as they are more focused on repayment possibility than the need of the students. Government should have good grip on these institutions to make the interest rate in synch with the government rate.

### **Income Contingent Repayment**

In many developed and developing countries, the government supports the students to repay their loans if their income after finishing their degree is lower than expected. Finnie, 2004 terms it as Income-Contingent Repayment (ICR). In this system, students' installment or repayment is calculated according to their income. Thus, ICR help students to repay their loan after graduating which helps them live their lives comfortably in the society. As ICR has strong tie up with income tax collection, it is impossible in a country like Nepal to establish this system. The income contingent loan was developed and popularized by Australia and adopted by New Zealand and Scotland (Johnstone, 2004). Only countries with good financial system can adopt this system.

### **Cost Recovery or Loan Recovery**

Cost recovery is a practice of establishing and collecting user fees for services. Full cost recovery means recovering or funding full costs of a project or service. It includes all costs including administrative cost of the project. In plain language, cost recovery in higher education can be defined mainly as students paying fee for the services they receive or paying for the degree they receive from the universities or the colleges. But, here in this study, when we talk about cost recovery, we will be concentrating mainly about recovery of student loans.

In many cases students and parents are compelled to pay where higher education is not free. Even though it makes the nation's burden lighter by sharing the expenses, compelling students and parents even to pay partially for their higher education, makes it out of reach for many students from financially poor back ground. This system prevents participation of economically poor students even though their performances are better than other students. The need is to look for other measures to

widen participation or fair access to higher education for students coming from families without the tradition of higher education.

Good student loan schemes make the cost recovery possible. Without good student loan programs, parents and students will not be able to share the cost of their education. Student loans provide access to tertiary education to students from all economic background. It has been in practice for more than half a century in industrial countries but it still needs to grow in developing countries like Nepal.

Recovery has been a problem in many countries where student loan has not been managed properly. Some student loan scheme do not implement cost recovery practices properly whereas in some countries, students take it lightly and ignore that they have to pay back what they have borrowed. Student loan schemes should also apply the practices of commercial banks to collect their loans. Some countries use collecting agencies to collect the loans. Students should apply for deferment if they are not in a situation to start paying their loan back even after they graduates.

### **Graduate Tax**

There is no such thing as a free lunch. Everybody must pay their share of expenses for what they get. Graduate tax stands on this ground. Graduate tax is another mechanism of cost sharing practices. Graduate tax stands behind the philosophy of beneficiary pay. People who graduate from higher educational institutions pay certain amount of their income after their income cross the certain threshold. Some people are against this philosophy as it is a lifelong process whereas through student loan, they will have to pay only until they pay back the loan that they have taken. Currently, graduate tax has been the talk of the town in the UK, but we still have to see it implemented successfully. This idea came up in the United Kingdom in 1970s but it still has not been levied on the students.

In the United Kingdom, people have been talking about supplementing student loan with graduate tax. Both the Conservative party and the Labor party agreed to launch graduate tax in the 1997 election. They also set up “The Dearing Committee” to make enquiry on graduate tax. Graduate tax has been proposed to improve the level of support for students living costs and increase spending on universities by recovering the cost from new students after they graduate. This could be done through the graduate tax-essentially a loan repaid through income tax. Glennerster (2000) says in his book, “British Social Policy since 1945”, “A graduate tax operates on the principle that the fairest way of raising additional income for higher education is from the beneficiaries of the system. High earning graduates subsidize lower earning graduates, so the higher the financial returns to your degree the more you pay. Under this specific model, all graduates pay at the same rate whatever degree they study” (Glennerster, 2000).

National Students Union (NSU) strongly supports the graduate tax. NSU has also suggested to limit it for certain years only. Barr (2009) does not agree with this argument. In his article “A graduate tax is for life, not just for a few years” published in *The Guardian* on March 24<sup>th</sup>, 2009, he argues that student loans are a far fairer way of paying for university than graduate tax. In graduate tax, graduates pay an extra tax for life, irrespective of the cost of their higher education. It is not fair because in graduate tax system, students who do not take loans will also have to pay the tax. This will encourage students from financially sound back ground to apply for loan which will minimize the chance of getting loan for the poor financial back ground students. Everybody will apply for loan irrespective of their need since every graduate will have to pay back as graduate tax no matter whether they have taken student loan or not.

Dietsch (2006) of the University of Montreal in his paper, “Financing Higher Education: The Case for a Graduate Tax” says, “a strong case can be made in higher education for adopting the beneficiary pays principle, and for institutionalizing it in the form of a graduate tax.” He further says that he has presented three arguments in favor of a graduate tax model, which fares better from the viewpoint of justice. First, even though it still is a proxy, a graduate tax goes a longer way towards implementing the beneficiary pays principle. Second, and contingent on the current perception of income taxation as an infringement of individual property rights, the graduate tax is more likely to be perceived as just than the general tax model. This means it compares favorably with the general tax model when it comes to political feasibility. Third, a graduate tax offers the possibility to accommodate the effects of increased international mobility of university graduates, though doing so may prove difficult in practice.

The strong case for a graduate tax as an exclusive means to financing higher education rests on the assumption that higher education creates private benefits for those who attend university, but no positive externalities for society at large. However, even if this assumption is questioned, a more moderate argument still calls for adding a graduate tax to the policy mix to finance higher education to the extent that it produces private benefits (Dietsch, 2006). From Dietsch view point, it can be considered as a viable option but it could be quite complicated to levy this system in a country like ours where tax system is not properly implemented and many people shy away from enrolling themselves as the regular tax payers of the country. Also as discussed before, the needy students may lose the chance of getting student loan as everybody will be applying for loan because they will have to pay tax whether they had taken loan or not. Even though there have been a lot of discussion about graduate

tax all around the world, this system does not seem practical in our case as it needs good tax collection system.

### **Means Tested Tuition Fee and Student Loan**

Means test is a form of financial test of the student and/or the students' family to determine whether an individual or family is eligible for lowered tuition rate and low interest students loan in the form of subsidy from the government. Means test includes family's household income and also the deposits in the bank and other assets. Based on the financial status of the student and/or family, it is determined that whether the applicant is eligible for the means tested tuition fee and student loan. Means testing is a form of subsidy targeting to distribute at least some higher education assistance to low income group students on the basis of need or estimated ability to pay. It is difficult to say who is qualified for the means tested subsidy as conventional measures of income or assets can be hidden. Therefore, to determine the need of means tested subsidy, more observable and difficult to hide categorical indicators of need such as students' tribe or ethnicity, parents' education, type of employment of the parents, parents' education or profession can be used (Good practices in cost sharing and financing in higher education, 2009). Means test in higher education is in practice in most of the industrial countries like UK, Canada and Australia (Johnstone & Marcucci, 2010). This makes the burden of the nation lighter as only those students who need support can apply for means tested tuition fee or student loan.

The other definition of means testing is to help parents and students to come out of financial barriers and making the higher education accessible to students from poor families. This is done by assessing the family's ability to pay for their children's education. This system is carried on by providing governmental assistances to these

needy families. This is mainly provided to the families with low financial income or those families who spend unusual amount in medical expenses or the tuition fee or the educational expenses of the second or third children. Johnstone and Marcucci (2010), say

The combination of an expected parental contribution and means tested financial assistance to preserve higher educational accessibility in case of low income or other extra ordinary expenses (such as other dependent children in school, or unusual medical expenses) is the essence of two main rationales for cost sharing, which are efficiency and equity (pp. 77-78).

They further explain that means testing is complex, difficult, and costly. Two particular complexities are: the treatment of the assets and the stipulation of the parental or family unit that is deemed to have financial responsibility.

Many wealthy parents can afford to pay for private schools if the public schools do not have good reputation. Thus, introduction to means tested tuition fee in the public schools could bring more revenue in the education fund as these well off parents will be paying higher tuition fee for their kids. Wealthy parents sending their kids to public schools are a good practice which brings the equality among the students. But introduction of means tested tuition fee will make these parents pay more which will bring more money in education coffer and it will help reduce tuition fees for means tested students. Similarly means tested student loan will also make low interest rate student loans available to poor students who really need financial support. Because wealthy parents will not get low interest rate loans which will help make more loan money available for the poor students.

No means tested tuition fee will be higher than the means tested fee which will represent the cost of education. So, this should be charged to those students who can



afford to pay it. Similarly, non means tested student loans should be available to all without considering the family income or the financial status of the family. This gives an opportunity to students from low or mid income group as Bar (2010) terms it, “Redistribution from richer to poorer”. Thus, means tested tuition fee and student loan opens the door to higher education for poor and intelligent students.

### **Dual Track Tuition Fees**

Dual track tuition fees is a form of revenue supplementation whereby certain students get full tuition waiver or pay a very small amount of tuition fees whereas those who do not meet the academic criteria either do not get admission or will have to pay full tuition.

It's a system where government provides free tuition access to some students on the basis of academic merit and charges full tuition fees to the rest who do not meet the academic credit requirements. Dual track tuition fees systems are very much in practice in most of the communist countries, Eastern Europe and other transitional countries where the government may have promised free higher education. Marcucci, Johnstone and Ngolovoi, (2008) define some criteria of academic merit, one paying very low, or no tuition fees whereas other students, presumably qualified for university admission but falling below the cut-off point entitling them to the free or very low tuition, pay a substantial tuition fee, generally at or very close to the full marginal cost of instruction.

The negative aspect of this system is students who qualify for admission to universities but do not meet the academic cut-off line will not get admitted or will have to pay full tuition fee. So, this system does not provide equal access to students.

### **Income Based Repayment**

This type of program has been in use in the UK and Australia for decades. In this type of scheme, students do not pay any money to go to school but they are charged certain percentage of their income after they complete school and get a job. The payment increases along with the income and continue for few more years even after the average amount of their share of expenses has been paid.

Student loans in the United States of America have surpassed a bench mark of \$ 1 trillion (2013) this year. Tuition fees have been sky rocketing every year all over the world. Institutions are compelled to cut their expenses at the cost of the quality of education. Due to the austerity in education finance, the concerned parties are looking for better programs to meet the need of financial resources for educational institutions. Different states of the United States of America are also looking for options. To resolve this problem, Oregon State has decided to follow income based repayment program. A bill has been recently passed to create a pilot program for income based repayment program with the title “Pay it Forward, Pay it Back” by both the Senate and House of Representatives of Oregon. The legislature will make the final decision about implementing the pilot program in 2015. This program will enable students to attend state colleges and universities without any payment. For their free study, the student will have to agree to pay 3% of their salary annually for coming 24 years (Belkin, 2013). He further says that income-Based Repayment scheme (IBR) is a loan repayment plan that allows students to limit the amount of payment on government loan that s/he has to pay every month based upon the payer’s income. If the student’s earning is below the required level, s/he will not have to pay till s/he reaches that level. If the student’s earning is above the required level then s/he will have to pay 15% of the earning. If the loan is not paid within 15 year time period, then the loan is written off. This system is in practice in USA.

### **Pay as you Earn**

This is another mechanism that the US government has introduced. It allows students under certain circumstances to borrow an unlimited amount of money from the government and then cap monthly payments at 10% of their income. If they work in private economy, loans are forgiven after 20 years. If they chose to work for the government or a non-profit, loans are forgiven in 10 years. This program was passed into law on December 12, 2012. It is different from Income Based Repayment (IBR) Program as it has the cap of 10% instead of 15% in IBR and the year of repayment is 20 years instead of 25 years in IBR (Damant, 2012). This is a great program for getting graduates to go to work for NGOs or service related parts of the federal government.

Besides government funding, there are some other type of finance which might be tapped easily by the institutions but need some work in exploring new resources. Some examples below:

### **Innovative Finance**

The education sector has yet to harness the benefits of innovative financing mechanisms for development, as has been the case in other sectors like health. Innovative finance is different than the regular mechanism of funding through the state or collecting user fee. It suggests the concerned parties to tap different available sources of financing. The following is Altman's (2010) description of innovative finance in his article "Innovative Financing Mechanisms for Education":

Reaching higher levels of global public good provision thus requires a new or "innovative" set of fundraising mechanisms to supplement the traditional ones. Improved education in developing countries is a global public good, because it has positive effects beyond their borders. Developing countries with higher education

levels tend to have higher incomes and higher economic growth rates as well, and thus their residents can buy more imports from the rest of the world. Countries with higher education levels may also have less fragile governments and experience less political instability. This paper attempts to open the discussion of how innovative financing mechanisms might add to traditional sources of funding for education (Altman, 2010).

Altman suggests that the entrepreneurs should provide part of their profit from their globalized businesses to the world of less fortunate or at least use a part of the profit to mitigate global problems like epidemic, climate change or education. In his article, he also discusses about raising fund through lotteries or other non-investment mechanism. Lottery is widely used in the United States of America to raise fund for educational purposes. The purchasers of lottery ticket may not feel bad as they will know that the money they are spending will be going for good cause and that will not make them feel like they are gambling (Miller & Pierce, 1997 as cited in Altman, 2010). Similarly, non-investment mechanism like levying taxes on airplane tickets, or university text books or computer is a way of raising money for the benefit of global public goods.

Altman (2010) divides innovative finance into two categories. He says that the first one is investment mechanism which issues bonds and the government promises to pay back the money in due course. The second category collects money voluntarily and there is no provision for payment in the future. These donors do not expect anything in return except potential benefit from the global public goods (e.g. public health, poverty reduction, clean air, education etc.). The second category of innovative finances can very easily be used in higher education in our case in Nepal.

Altman's second category of innovative finance will be more appropriate and practical for financing higher education. He argues that higher education will provide higher rate of income for the individual as well as higher economic growth of the country. He also argues that higher education will bring political stability in the country and claims that innovative finance could help higher education finance.

### **Impact Investing**

Impact investing has been defined as investment made into companies with the intention of generating measurable social and environmental impact at the same time also making some profit. Impact investment does not look only for financial return, but also intends to have social impacts on general public which happens along with the operation of the business. Thus, impact investment balances the interest of the investor by providing the chance of earning interest as well as an opportunity to do good for the general public by providing resources for social impacts. Bugg-Levine and Emerson (2011) mentions Impact Investment recognizes that investments can pursue financial returns while also intentionally addressing social and environmental challenges. Despite, or perhaps because of, this simplicity, it can seem threatening to some people. Many mainstream investors reject the idea that they should pay attention to the social impact of their investing, insisting instead that these considerations be left to governments and charities. And for their part, most traditional philanthropists reject the idea that they should use their investment to advance their mission or that business generating profits have a right to stand alongside philanthropy and civil society in the noble work of promoting equality and justice.

Bugg-Levine and Emerson (2011) clearly explain in their book, "Impact Investing: Transforming how we make money while making a difference" that

philanthropy and profit making can go along side by side. It does not need to have two very clearly defined paths. An impact investor seeks to create social good or improve the health of the environment, or help develop quality of education in public institutions as well as achieve financial returns. This could be an example for public-private partnership to help assist diminishing austerity measures in financing higher education worldwide. Impact investing in higher education could help attract entrepreneurs at the same time educational institutions could benefit from available resources. This process may encourage the commoditization of higher education, but it will give an outlet to the resource-thirsty higher educational finance. Impact investing and proper student loan could be a good chemistry for financing higher education in a country like Nepal.

American billionaire philanthropists like Warren Buffet, and Bill and Melinda Gates have made entrepreneurs think about “Impact Investing” which describes how to invest money to make profit and do good to the general public at the same time (Philanthropy: Spreading gospels of wealth: America’s billionaire Giving Pledgers are forming a movement, 2012). The theme of the corporate world shouldn’t be only to seek profit from their investment but can target to provide benefit to general public by investing in higher education which will minimize the austerity in financing higher education.

Impact investing is somewhat in practice in Nepal. We see many business houses investing in education. The only problem is that the concern of these business houses are more about profit than thinking about doing good to the general public. There needs to be some changes in the philosophy of the corporate world in Nepal to include the practices of doing good to the general public from the profit they make from their entrepreneurial practices. This will help create good image of the corporate

world in the eyes of the general public of Nepal and at the same time the resource-thirsty higher educational institutions of Nepal will also benefit from the generous investing practices of Nepali entrepreneurs. Schools of medical sciences are good example of this. There has been strong criticism from all around the country about their onerous tuition and other fees and substandard delivery of quality of education they provide.

Bugg-Levine and Emerson (2011) further explain that impact investment is the right intentions to help the societies as well as make money. To borrow the words from their book, “it is about having the right intentions, to improve the world as well as make money, and about taking seriously the process, especially measuring social performance. Leapfrog has turned down investments that a regular fund might have made.” People need to think more seriously about it and need to come out of the cocoon of mainstream finance and consider the double benefit of impact investment. Philanthropists can use their money properly to earn profit at the same time help fund higher education institutions to support and make quality education accessible to all interested and intelligent students.

Impact investment has a strong agenda of social welfare while profit making out of the investment. How do we differentiate impact investment from other investments?

What differentiates an impact investor from a regular sort is much debated. “It is about having the right intentions, to improve the world as well as make money, and about taking seriously the process, especially measuring social performance”. Leapfrog (an alternative asset class called “Impact Investment” of JPMorgan, one of the big commercial bank of The United States) has turned down investments that a regular fund might have made. It has been designed to yield both a financial return

and a broader benefit to society (The Economist, September, 2011). The draw-back is that this type of funding may remain very difficult in measuring the intentions of those offering the investment.

### **Crowd Funding**

Weisbaum, (2015) says that when the desire to go to college exceeds the ability to pay for it, students need to get creative. For a growing number of students, that means asking others for help through crowd funding. This scheme has become very popular worldwide. Just this year (2015) 130,000 students opened GoFundMe accounts in the United States of America and collected more than \$20 million (Weisbaum, 2015). As higher education is becoming increasingly difficult to pay for as more students are looking for available options of resources to pay for their education. Crowd funding is a brand new alternative that anybody can take advantage of. Students just open the account with their proposal and ask for donation. People donate if the proposal touches their heart. As most of our students and parents are not that much tech savvy in Nepal, this scheme may not be that popular in current situation. But it is getting popular among our young generation and it may pick up among them in near future. It is one of the easy ways of targeting friends and relatives without not really confronting them face to face.

### **Mixed Methods**

There are different methods of financing higher education. Aturupane (2013) suggests the following seven different models for financing higher education.

- Free tuition: In this model government provides all expenses to the higher education institutions. Students do not pay any tuition fee. It could be only a few institutions in a country. This model can be seen in countries of Western



Europe including the UK. Sri Lanka also provides this system for under graduate students.

- Model number two is cost sharing between the government and students. The ratio of cost sharing may vary from country to country. Like in USA, the students from out of the State may have to pay higher tuition fee in comparison to the resident students.
- Model number three is dual track system. Some students who qualify are admitted free whereas other may have to pay full tuition fee. This system is prevalent in China, The Czech Republic, Hungary and other Eastern European countries.
- Model number four. In this category, some universities may charge fee whereas some may be totally free.
- In model number five, government may support universities and institution of higher education with both demand side and supply side financing mechanisms. With demand side financing mechanism, students will get scholarship, education voucher, stipends etc. Students will be free to use these documents as per their needs and interest.
- Model number six is deferred tuition fee. In this model students do not pay any tuition while they are studying but have to pay the cost after they graduate and get employed. Australia, New Zealand and England have this system in practice.
- Model number seven charges upfront tuition fee. In this system, universities get total autonomy and free to set up their own schedule of tuition fee as well as set up their own curriculum.

Many countries have mismatched the above models and have their own set of financing mechanisms. Different models can be seen applied in the same country. Public universities and community/private universities may have chosen to apply methods based upon their needs and availability of resources. One set of regulation may not be applicable to any country so they prepare their own model depending upon their human capital requirements and their financial ability to support the institutions.

### **Theoretical Review**

There are different theories in practice in financing higher education around the world. Among the various economic theories, the supply side and demand side theory plays a vital role in educational finance. According to this theory, the equilibrium at the money market is reached when demand and supply of money become equal. In higher education, the demand side is always heavier than the supply side.

The new trend in financing higher education is moving towards innovative finance, revenue supplementation, revenue diversification, graduate tax and cost sharing. All these approaches help the central government to concentrate its resources in other important areas by making students, parents and philanthropists share the cost of higher education.

Education strategy plan sets the development goals of a country. Financing decision for higher education depends upon the educational strategic plan and the need of human capital for the country. The education strategic plan plays as a reference point for a government's human capital policy making decision. Studies of expenditures for education, of educational attainments, and of other related developments led to the conclusion that "education steps up living standards." It

seems generally to be true that nations with the least adequate programs of education are among the most backward in many respects and tend to have the lowest standards of living (Johns & Morphet, 1975).

The above statement explains the validity and importance of investing in higher education. Without proper investment in higher education, it is not possible to prepare needed human capital for the country. In this modern day world, educational institutes prepare graduates ready to jump into the band wagon equipped with needed technical and administrative knowledge. Proper strategic planning is a must to produce these graduates who will help to achieve targeted goals and objectives which will step up the living standards of the nation.

Financing in higher education is investing for the future. It not only develops the mental capacity of the individuals, but it also upgrades the financial status of the individual which leads to the social recognition in the society. Proper investment in higher education helps the society and the country in their socio-economic and political development as higher education generates better jobs and better salaries which provide wide range of socioeconomic benefits including social uplift of the individual in the society. Poudel (2010) describes four approaches to educational finance. Among these four approaches, one approach is, “The forecasting manpower-need approach”. Under this scheme, a detail study is done about the kind of manpower needed and number of manpower needed and then a plan is prepared to fund in education to produce the needed human capital with needed skills.

These are just the samples of approaches of financing in higher education. Countries have to choose or find the right approach that best suits the needs of the country and also the one based upon the available resources. Financing in higher education is a tricky issue. It can't be decided just by looking at one aspect of the

country, which may not be beneficial for the all-round development of the country. Different aspects like human capital need of the country, available resources and its equitable distribution, and fundamental strategy of distributing fund among different educational institutions are some of the factors which must be kept in mind while making the financial decision for higher education.

Many nations, especially developing and transitional countries (Eastern European countries) are facing critical problems to finance higher education. Higher education is getting smaller portion of the national budget because of the limited resources of these countries and growing demand of the limited resources in many other fields. This Phenomenon has forced the educational institutions to look for various other sources for funding which has led to the privatization of higher education (Murphy, 1996, p. 137). Two critical issues led to the privatization of education, they are: the failing health of education and pleas for improvement. He then goes further explaining three trends which caused the failing health of education.

We then examine three trends dominating the environment in which schools are embedded- the perceived crisis in the economy, the social fabric of the nation, and the evolution to postindustrial perspectives on politics and organizations-that have created a particularly hospitable climate for privatization initiatives. Privatization of educational institutions did not materialize just because of the whim of the people involved in educational field but it surfaced because of the perceived failure of efforts to improve education by strengthening the public sector. Murphy further says after the crisis in education first surfaced in the early 1980s, initial proposals to improve education centered primarily on raising standards by expanding centralized controls. The focus was on improving the effectiveness of what would remain essentially a publicly provided service. A state-centered, top down model of

change was employed. Prescriptions and performance measurements were emphasized. Piecemeal efforts were undertaken to repair the existing educational system. A variety of stakeholders found these approaches to be philosophically misguided and conceptually limited. A number of critics maintained that the standard-raising movement simply enhanced the site bureaucracy (Murphy, 1996).

The result of the above efforts did not help much to improve the failing health of educational institutions worldwide. Entrepreneurs and educationists felt the need of some other ways to improve education system. Even the industrialized countries including Scandinavian countries felt the heat. The stakeholders in America started searching for alternative solutions to public funding. Again Prof. Murphy says that the search for alternative solutions led to two lessons: knowledge about restructuring in the corporate sector and the literature on privatization of public sector services outside of education (Murphy, 1996).

First lesson from the corporate world was to deregulate and decentralize operations pushing the decision down to the consumer levels. The corporate world had restructured themselves from more hierarchically organized, producer-focused units to more consumer oriented systems. This system has been implied to education sector by giving more attention to the students need and interest and also trying to produce more graduates according to the need of the employers hence encouraging the privatization of institutes of higher education. There was severe pressure on the education sector to adapt and incorporate current business practices (Goldman, Dunlap, & Conley, 1991, p. 1 as cited in Murphy 1996) to reinvent schooling consistent with these innovative management theories.

Second lesson was to adopt privatization movement in the private sector. In the second lesson, people saw the success of privatization strategies in other public

sectors and it provided a sense of the possibilities for similar activities in the education arena (Murphy, 1996). These two lessons offer very clear pictures of how education sectors got attracted to privatization. Due to the decline of resources worldwide and even from the available resources, higher education not getting the proper share, forces the active players of educational front to look for other possible avenues. Success of privatization in other public sectors and adapting the innovative management theories like bottom up rather than top down approach stirred the curiosity and forced them to try this new approach and thus, privatization of higher education started.

People have started regarding higher education as a shared responsibility between students and society. The notion of cost-sharing make people understand that tax payers can't take full burden of financing higher education. At the same time, people believe that if students pay part of their educational costs, they will make better-informed choices (Vossentseyn, 2004) of their needs and interest. He further argues that giving more autonomy and responsibility to higher education institutions means making them more responsive to their customers and environment thus leading the path to quality education involving different stakeholders of the game. The authorities can make higher educational institutions and programs more responsible by measuring their performances and deliver public funds accordingly.

Privatization of higher education started in Nepal with the opening of Kathmandu University in 1991. Public higher education institutions were not producing satisfactory results and many students started going abroad to get their dream education. The educational leaders and the entrepreneurs saw the bright perspective of private higher education in Nepal and started getting involved in it.

In most cases, higher education institutions started out-reaching different sources for financial help to continue their practices. The old institutions were able to survive because of their big body alumnae, former students in higher places in corporate world, flagship schools attracting a big number of new enrollments and other philanthropists. The need for new schools also felt in many places and in many areas of instruction especially in the developing world. Starting new institution for higher education is a big job and many times people got together to meet the demand of their locality for educational institutions.

The promoters to start the institutions included entrepreneurs, retired bureaucrats, senior academicians, active and retired politicians, NGOs, active Societies and communities, combination of some of the above.

Higher education is facing various problems all around the world. The amount of public finance in higher education is decreasing every year, education quality is deteriorating, absence of proper access for students from disadvantaged groups, and the students from the higher socio economic background are reaping the benefit of public funding in higher education. This is partly due to the supply side theory implied by the government.

Market has to be studied before launching any product in the market. This theory applies to education also. Market research must be done to determine the demand and supply situation of the product in the market. Demand and supply of education is based mainly on human capital theory. Among the various economic theories, the supply side and demand side theory plays a vital role in educational finance. Supply side theory always concentrates on measures to increase output of goods and services or concentrates on providing more opportunity to students to

obtain higher education. In education finance, the demand side is always heavier than the supply side.

### **Demand Side Financing of Higher Education:**

John Maynard Keynes defines demand side economics as increased government expenses to boost total demand, raising out-put and stabilizing economy (Murphy, 1996). In education finance we can translate this theory as more public funding in education to produce more graduates on government expenses. But the questions remain: how is the government funding going to be distributed? Will the government have enough funds to provide necessary fund to all higher education aspirant students?

Accessibility of higher education is influenced by many factors like economics, politics, and social/cultural situations of the country. Due to these factors, students may not be able to get enrolled even in public universities and colleges. The focus of demand side financing of higher education is to put resources on the hand of those who demand higher education that is students rather than the suppliers of education (Vawda, n.d.). Direct funding for higher education through institutions may not provide much relief to poor students as the institutions may levy the same rate of tuition and other fee to all students. If the funding is channeled directly through the individual students, that may produce direct effect. Scholarships, Community financing, bursaries, education vouchers and student loan are some ways of channeling the fund through demand side funding mechanism.

Patrinos (2007) explains demand-side financing as a way in which government finance private consumption of certain goods and services. In contrast to supply-side financing, where public funds go directly to suppliers, under demand-side financing consumers (or in the case of education, parents or students) receive a certain amount



of money for specific expenditures. Under demand side financing, Nepal government is providing several schemes to students directly. Most important and most visible one is scholarship. Many students are benefiting from this government support.

If we go back to Barr (2005), he explains his second lesson from economic theory. He points out in his article that the students must contribute for their education to some extent as they are the main beneficiaries of the product. Students benefit most as their income will be higher because of their higher education. Therefore it is very reasonable that they should contribute for their education. This contribution will be possible only if there is a mechanism to channel the funding through students hand. However, most students cannot afford to pay for higher education, leading to the third set of lessons from economic theory well-designed student loans have essential core characteristics (Barr, 2005).

The above sets of economic theories very clearly points out that the beneficiaries of the product should also take the responsibility of paying for the product. It should not be the responsibility of the tax payers only. Government should come up with a good cost sharing mechanisms so that the student will not have any problem to pay their share of the cost for their higher education. Strong market for college graduates also boost demand side factors of financing higher education.

### **Supply Side Funding of Higher Education**

Supply side of economic theory explains that government provides tax holiday to the manufacturers and abundant amount of materials comes to the market. According to this theory in financing higher education, as government will provide support to the educational institutions directly, students will have to pay only reasonable rate of tuition and other fees. Even for this reasonable tuition and other

fees, students will try to get support from where they will not have to pay high interest rate to pay their tuition and other expenses.

Although some funds are available from cheaper sources than others, the amount of low cost fund available is limited. Therefore, an individual requiring funds to invest in human capital will use as much of the cheapest source as is available and then will have to move on to funds from expensive sources (Paulsen, 2001).

The inability of low income families to finance investment in higher education (not being able to support their off spring) impacts the higher education finance of the country and it also impacts social equity as members of low income families are under-represented in higher education (Tangkitvanich & Manasboonphempool, 2011). To remedy this problem, Nepal government could support higher education institutions by providing more financial subsidization so that higher educational institutions will increase its enrollment from under-represented groups or low income families.

Again, the supply side theory puts more emphasis on making funds available to the suppliers or the institutions so that they will charge low tuition and other fees and therefore students will be able to get enrolled for higher education. Nepal government is also supporting students under supply side financing through University Grant Commission (UGC) by providing performance based financing or outcome based financing and competitive financing. Supply side financing is happening through direct aid to the institutions.

### **Theory of Creative Destruction**

New invention displaces the old materials in the market. Joseph Schumpeter named this theory as “Creative Destruction”. The act of newly created things destroying its predecessors is creative destruction. Previous markets are destroyed or

disrupted by the market following new innovation and disruptive innovation leads to creative destruction (Harvey, 2007). Similarly, in education, demand for new knowledge make the old school of teaching and learning and the knowledge transferred through this system is disruptive and out of place. Previously produced graduates will have difficult time to remain in the market if their knowledge is not updated. Thus, previous markets are destroyed or disrupted by the market following the new innovation. Therefore, new innovation which is also called “disruptive innovation” leads to the creative destruction, which needs new finances (Harvey, 2007). This requirement of funding to upgrade the continuing education system also creates more austerity in higher education finance. Without updating and without revising old curriculum leads to creative destruction. Institutes need financial support to remain in the developing market.

### **Theory of Giffen Goods**

Bachelder (2015) quotes Perdue University President Mitch Daniels, “economic theory says that demand decreases when the price of the product increases but college tuition fees are increasing every year and the number of students is increasing even when the tuition fee is in rise.”

Greenstein and Merisotis (2015) quote Harvard economists Claudia Goldin and Lawrence Katz and MIT economist David Autor saying that there is always a big difference in earning between the high school graduates and college graduates. The difference in wages between these two degrees, the college graduates got high wages even when the market was flooded with university graduates. When supply increases, economists expect the price to fall. But instead the college graduates’ wages increased from 33% to 62% between 1980 to 2013 (Greenstein & Merisotis, 2015). This explains the value of higher education.

## **Human Capital Theory**

Human capital theory reveals that investment in education has a correlation with economic growth and development. Formal education is highly instrumental to improve the production capacity of a nation which proves the rationale behind the investment in human capital building. (Olaniyan & Okemakinde, 2008). The concept of this theory emphasizes that the development of skills is an important factor in production activities especially in knowledge based economy. Transition is occurring in which intellectual capital-brain power-is replacing financial and physical capital as the key to our strength, prosperity, and wellbeing. Our society is becoming ever more knowledge-intensive and ever more dependent upon educated people and their ideas (Duderstadt, 1997). There is a pressure for higher education in many developing countries as it uplifts the status of the individuals as well as brings economic growth and social transformation. Therefore, higher education demands more capital investment to produce more college graduates according to the demand of the market.

Strong institutions of higher education that promote access, that enable access without regard to financial circumstances or the ability to pay, that provide large numbers of spaces for those who are most able, regardless of their connections or their family's wealth, are also important guarantors of the kind of social mobility that promote a healthy society (Summers 2011). Summers (2011) also points out at the freedom of expression allowed to the students in these flagship American Universities. Students in these universities do not hesitate to disagree with their world renowned professors if they have a valid point to discuss which provides the room to generate new ideas which leads to produce more graduates according to the market demand. These points make the universities the torch bearer for the financial and social development of a society or a country.

Students make a series of choices that are manifested in their college going behavior (St. John, 1994; St. John & Asker, 2001 as cited in Paulsen, 2001). They choose whether or not to attend college (on access decision), which college to attend (a college choice decision), whether or not to re-enroll each semester and year (a persistence decision). Human capitalist theorists view these choices as the result of students' decision to make investment in higher education- a form of human capital (Paulsen, 2001). Paulsen (2001) defines human capital as the productive capacities i.e. Knowledge, understandings, talents and skills- possessed by an individual or society and investment in human capital refers to expenditures in education to attain those above said products. Proper investment in human capital will produce needed human resources for the country which will help the socio economic development of the country and that could be a surefire investment. Investment in human capital is a long term investment which leads the country towards the improved socio- economic standard.

### **The Theory of the Firm**

Paulsen (2001) says that post-secondary institutions and for-profit firms are similar as both take raw materials (faculty, students, machinery, land) to provide services to customers (students). The only difference is that for-profit business firms try to maximize profit whereas other educational institutions spend all they receive. Winston, Carbone & Lewis, 1998 (as cited by Paulsen, 2001) observed that the price charged to students rarely covers all of the costs incurred by the institutions. The price equation they have quoted is  $\text{Price} = \text{Cost} - \text{Subsidy}$ . The subsidy can be government funding, and private donations. So, there is a vast difference between for-profit business organizations and educational institutions. As educational institutes are not-for profit entities, the theory of firm does not apply properly to higher education

finance but in some cases, the institutions may look purely for profit which will end up producing sub-standard unemployable graduates.

### **Bennett Hypothesis**

If anything, increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase (Bennett, 1987). This statement by the then Secretary of Education of the United States of America, William J. Bennett about three decades ago supports the saying that if students have money in their pocket they would not hesitate to pay higher tuition fee for the study which meets their interest and the demands of the job market. There are two different ideas on the issue. A school of thought is that most colleges and universities are public or non-profit entities, so why should they raise tuition just because students have easy access to student loan. Only a few “for-profit” institutes may try to take the benefit of the situation. The other school of thought is that colleges and universities could have increased their charges so rapidly over time without the ready availability of students’ ability to borrow (Hauptman, 2010). Easily available resources for students like student loan with below par interest rate without any requirements of collateral may encourage students to take loan and pay higher tuition fees.

Based upon the theories discussed above, higher education finance around the world needs a serious look. The basic questions are: who pays and in what percentage. There are several avenues to tackle these issues and we may have to select several of them that match the needs based upon our human capital need and the available resources.

### **Empirical Review**

There has not been much study done in higher education finance in Nepal. I went through all previous studies that I managed to find. These literatures support me to do this study as not much study has been done in this field of higher education finance in Nepal.

As mentioned in previous chapters, the share of higher education budget vis-à-vis the total education budget has been declining from 29.30 per cent in 1992/93 to 24 per cent in 1994/1995 to 11.94 per cent in 2001/2002 (Singh, 2005). The income from internal revenue in TU and NSU has been very low during Ms. Singh's study period. As in other studies, Ms. Singh also emphasizes that several crucial components of the financing package should be built up to make financing more meaningful for higher education in Nepal (Singh, 2005, p. 187). She thinks a consolidated higher education financing package will be more effective to address the current need of higher education finance. She also emphasizes that internal resources of higher educational institutions should be explored and mobilized properly (Singh, 2005). She further goes recommending that fund raising activities such as consultancy, training, workshops, and seminar can be done by the institutions to raise funds. She recommends delegating local government like municipalities to utilize some of their tax revenue in supporting higher education. Education tax can be imposed on business sector, agricultural sector and also individuals. She further goes recommending fund raising campaign from alumni, establishing linkage with institutes of other countries, creating chairs in the name of donors and scholarships and medals for the meritorious students.

Due to intra and inter-sectorial relocation of government funds, severe constraint continued to emerge in higher education finance, thus the tenth plan

(Poverty Reduction Strategy Paper, 2002–2007) has formulated the education policy in such a way that all education institutions including universities should operate under the principle of cost sharing basis (Shrestha et al, 2007). The study says that there are two main sources of higher education finance in Nepal, i.e. government financing and student fees. The tenth plan envisage to reduce government assistance to higher education institutions by adopting cost recovery approaches in higher education (The Tenth Plan, 2002–2007).

Low fee rates in TU constituent campuses especially in humanities, management, education and law and high fee in private universities make imbalance in higher education finance. High fee has been charged to students from foreign countries and SAARC countries. Fee rates in private affiliated campuses and university campuses are quite high. There is no fee structure provided by the government which gives monopolies to universities and their campuses. Some private medical colleges collect total fees for the full study period (of 4 or 5 years) at the time of admission. Such practice obviously debar students from poor and middle class families to join medical campuses. The study also says that Nepal government has set the goal to raise the standard of education to the international level which will require provision of sufficient facilities, dedicated teachers, highly motivated students and access to high quality learning resources which will all need more financial resources (Shrestha et. al., 2007). Low government support, low student fee and lack of proper management of available resources are the hindrances to achieve this goal.

About financial management, this report says that no studies have been done on the system of financial management in higher education as yet. One issue that has surfaced at the time of study is that the private affiliated campuses are charging very



high fees on their courses. Shrestha et. al. (2007) says that the Ministry of Education and Sports has not done anything for the prevention of such practices.

In one study conducted by the School of Education of Kathmandu University, the respondents said that innovative and technology adopted teaching method is demanded by the learner. They also suggested that adequate full time experienced faculties are needed in KUSOED (Joshee, Subedi, Poudel, & Khanal, 2012). This shows the need of improvement in faculty as well as infra-structure of the institutions. All these need appropriate funding facilities and this is a problem in almost all of the higher education institutions of Nepal. A proper attention is needed to solve this problem.

Most of the state funding for higher education has been allotted mainly for regular (salaries and allowances) and development (infra-structure) expenses. Very little attention is given to research work. Thapa (2013) in his PhD thesis opines that fifty percent of the total state funding should be allotted to research works and remaining fifty percent in administration. He further says that currently one hundred per cent of state funding for higher education has been going to operation and administration. He opines that the state fund should be divided between academic, administration and research (Thapa, 2013).

He further says that there is no any scientific fund allocation system of resources. The allocation of funds should be based on student enrollment, numbers of teachers, program and size of the university. At the same time, strict monitoring and evaluation system for reward and punishment is essential to encourage quality education (Thapa, 2013). He also emphasizes that coordinated effort must be made to have a collaborated system of higher education finance including different schemes. Various sub systems in higher education system will have to come together in a major

cooperative effort to make our financing system the best through commitment and courage, to face challenges of the new global social order (Subramanian, 2004, p.76 as cited in Thapa, 2013).

Thapa (2013) agrees with my observation that financial improvement is needed in higher education institutions in Nepal and says that financial indiscipline should be stopped. Culture of proper resource utilization has to be maintained. Right person posting in appropriate place may improve financial management system (Thapa, 2013).

### **Research Gap**

The above discussion shows that I tried to find as much literatures as possible in the area of higher education finance in Nepal. In Nepali context of higher education finance, I found and read Thapa (2013) “Sustainable financing of higher education in Nepal”, Singh (2005) “Financing higher education in Nepal”, Shrestha et al (2007) Financing higher Education in Nepal: A report submitted to South Asia Network of Economic Research Institutes (SANEI), and Bajracharya (2014). Financing higher education in Nepal. Some of these literatures do not fit into my subject matter where as some are old and not very specific.

I also looked for more literature internationally to find out more about higher education finance. The international literatures I found and read are: Johnstone, B. (2004), Higher education finance and accessibility: Tuition fees and Student loans in Sub-Saharan Africa, Nkrumah-Young, K. & Powell, P. (2013). Exploring higher education financing options, Johnstone, B. & Marcucci, P. (2007). Worldwide Trends in Higher Education Finance: Cost-Sharing, Student Loans, and the Support of Academic Research, Barr, N.(2010). Paying for higher education:What policies, in

what order? and Aturupane, H. (2012). Economic Benefits and Options for Financing Higher Education in Sri Lanka.

Some of the above literatures are country specific and we can learn from their experiences and mistakes but did not fulfill my need. After reading all these literatures, I still very strongly felt about the need of doing my study. All these readings did not quench my thirst of “Financing Higher Education in Nepal”. The more I read the more I felt the need of serious study on this subject matter.

### **Conceptual Framework**

Nepal government has been trying its best to support students going for higher education. Heavy subsidization of the government makes it possible to all constituent campuses of TU and NSU to provide higher education in very nominal tuition and other fees. SFAFBD has been working under the guidance and supervision of UGC and HEP II with the financing assistance from WB to provide scholarship, work project and student loans to higher education students. Still there are grave issues on financing higher education in Nepal.

Revenue subsidization and/or revenue diversification are some of the most reasonable ways to support higher education finance. Nepal government has to divert its attention from the traditional central funding or historical funding for higher educational institutions to other possible alternatives. Formula funding is being implemented. Still financing of higher education remains a crucial issue in managing higher education in Nepal.

Innovative finance, Impact Investment, revenue subsidization and cost sharing are some of the other alternatives that have been in practice in different countries. Also there are many private financial institutions who are vying to grab lions' share in investing in the field of higher education. Putting together all these possible resources,

a viable scheme can be selected to finance higher education in Nepal. This will help all interested and capable students, who have been looking forward to gain knowledge, skills and competencies through higher education, to remain in the classrooms and complete their education and attend gainful employment. This will not only help the students, but it will also help the country by producing employable youth, preparing capable human capital, and thus increasing per capita income which will lead the country to its all-round development.

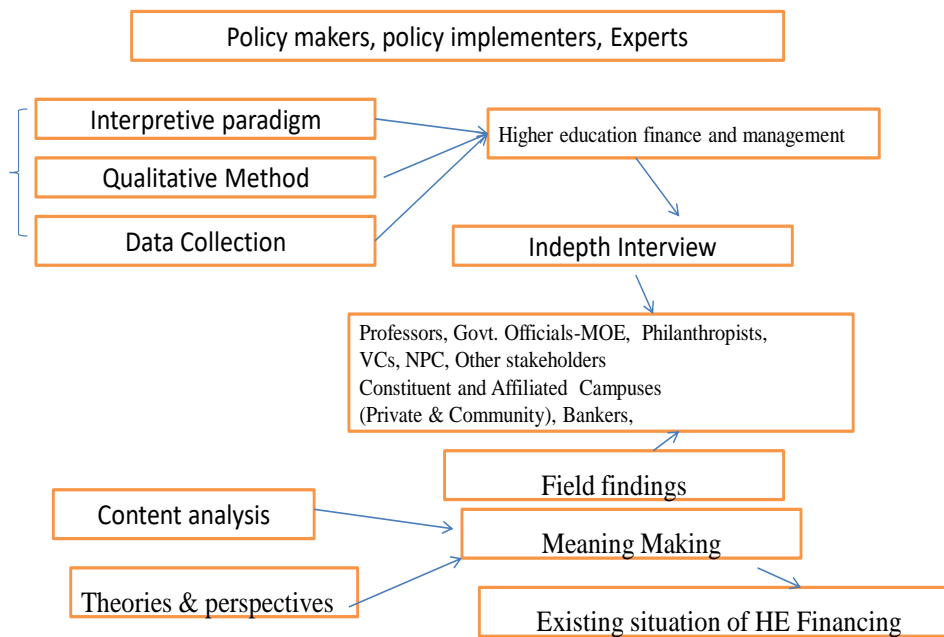
The following conceptual framework explains the process and methodologies I have used in this study.

*Figure: 4. Conceptual Framework*

This study looks into all these possible avenues for financing higher education in Nepal. I have looked into different themes and schemes for financing higher education. Under interpretative paradigm. I have chosen purposive sampling to select my research participants. I have used in-depth interviews to collect data from as many as possible high ranking educational authorities from Nepal. Issues and ideas have been discussed with all stakeholders and their ideas have been incorporated in this study. Anonymity has been maintained of all the research participants. All these data have been thoroughly analyzed and interpreted for this study.

## Conceptual Framework

### Financing Higher Education



Policy decision for preparing higher education finance scheme must be based on guidelines which reflect the need of human capital of the country and also the availability of resources. A basic stock of available manpower, institutions capability of producing skilled and trained workforce and demand and supply curve of the country are the basic ingredients to prepare a scheme for higher education finance.

Current practices of higher education finance and their effectiveness exhibit the need of changes and provide general idea to start the scheme. All the stakeholders' opinion must also be sought so that they will have the feeling of ownership and every aspect of the scheme could be implemented easily. These themes have been observed through the qualitative paradigm to come up with an interesting and reliable result of my study.

UGC/Nepal has realized the need of different funding schemes to support the universities of Nepal. Formula Based Funding (FBF) has being used in some of the Universities of Nepal like KU, PokU, and PU (Ved Byas, File folder # 14). Outcome

based funding and competitive funding has also been used. There are many other funding mechanisms that can be applied in Nepali higher education finance. This study shows the need of change, accepting new schemes, in higher education finance and its management practices. My conceptual framework explains the methods and practices used in this study.

### **Chapter Summary**

Literature review covers thematic review, theoretical review and empirical review part of the study. Under thematic review, different topics have been discussed such as, funding sources, earmarking available funds, investing in higher education and different schemes and practices of financing higher education. In theoretical review section, different theories such as supply side funding, demanding funding, human capital theory etc. have been discussed. There is not much study done on this subject. All available prior studies related to my research topic have been studied and reviewed to acquaint myself with the subject matter. Available books, national and international journals and other publications and web sites have the sources of this study.

## CHAPTER-III

## COUNTRY STUDIES OF HIGHER EDUCATION FINANCE

Different nations have adapted different system in financing higher education. In many countries, central government and state government finance tertiary education in different ratios. Different countries execute it according to their needs and availability of resources. Revenue supplementation, and cost sharing or revenue diversification are some of the methods adopted by many countries. Student loan program is another form of financing higher education which comes under cost sharing or revenue diversification. Revenue diversification and cost sharing could be a good option but these options only may not be feasible looking at the current socio-economic scenario of our country. Cost recovery can be very well tied up with student loan scheme. All different options described above in chapter two can be implemented in our country to some extent. Among all these options, student loan scheme stand out as one of the most strategically sound option if implemented and administered properly along with some other schemes.

Income based repayment could be another bold step to take to finance higher education, but it could be problematic due to the lack of proper tracking system of students after they graduate and it may also be difficult to arrange needed fund to start with. In this system, those students who can pay will pay upfront, and those who can't pay will be paying after they graduate. As the amount will be deducted from their monthly or annual earnings for several years, it will not have big effect in their day today life but a good tax system is necessary to execute this scheme properly.

In this section, we will be looking into different options of higher education financing practices around the world. The study will include South Asian Association for Regional Cooperation (SAARC) countries and many other countries from all six continents to provide a taste of prevailing methods of financing higher education and also the management of higher education in these countries. The following is a short narrative of higher education finance in these different countries.

### **The SAARC Countries**

There are eight countries in SAARC including Afghanistan. Afghanistan joined SAARC in April 2007. There are many similarities in higher education between these eight countries. All these countries have similar higher education structure including entry qualification and duration of courses. There are pressing demands for higher education in all these countries and many youths from these countries are going abroad dreaming for foreign qualifications and foreign employments. Gross enrollment ratios of 18 to 23 years old students are between 5 to 10 percent in many of these countries. The share of education in most of these countries budget ranges below 4 percent of the GNP. There are many private and community or not for profit universities cropping up in many of these countries to meet the demand of growing numbers of high school graduates especially in the field of practical education like medical sciences, engineering and business administration etc. (Chauhan, 2008).

#### **Afghanistan**

Afghanistan, while recovering from decades old conflicts and civil war, it is facing quality degradation and financial constraints in higher education. Afghanistan had a respected and well recognized higher education system before the beginning of the civil war. Thirty year long civil war and foreign invasion destroyed the higher



education system of the country. Because of the unrest in the country, the faculty fled away looking for green pasture in foreign countries. Infra-structures were destroyed by the civil war, Taliban and Mujahiddin occupations and foreign invasions. Higher education started deteriorating from 1990, when the enrollment was 24, 333 which came down to 7,881 in 2001. The applicants of tertiary education enrollment were 62,000 in 2009 and the government had estimated that there will be more than 600,000 applicants in 2014 in higher education (Abdulbaqi, 2009).

Currently, almost one hundred percent of the higher education funding comes from the government as all foreign donations go directly to the government coffer. Higher education is mostly free except post graduate courses like master and PhD programs. Government of Afghanistan is working on a strategic plan which will allow universities raise and collect donations from different corporate houses, foreign donors and philanthropists (National higher education 2010 – 2014.). This will facilitate to improve the quality of education and also develop needed infra-structure for the institutions.

There are a total of nineteen universities including some autonomous higher education institutions. Out of these nineteen, seventeen are public and two are private. The two private universities are: Kardan Institute of higher Education (2003) and American University of Afghanistan (2004).

Higher education institutions are not allowed to solicit any funding from donor agencies. Any fund received from the donors must go to the Ministry of Finance, and then Ministry of Finance will make the decision to distribute the available amount according to the need of the institutions (McNernery, 2009). This makes the institutions inactive to raise fund as they are not allowed to keep the money that they have raised. Most of the central government funded money goes to students' housing

and meals and faculty salaries. There is no budget from the government for infrastructure development, research activities and other quality improvement projects. According to the available data, in 2008 Ministry of Higher Education received a total of 25 million USD, which was spread among 19 institutions, 56,000 students and 2,400 faculty members. 60% of that budget was spent on student housing and meals, 35% went to faculty salaries and only 5% was spent on other areas (McNernery, 2009).

In December 2009, Afghanistan government launched a US\$ 560 million five year national higher education plan. This plan aims to build an internationally recognized and well managed higher education system by producing market relevant graduates to meet the need of human capital needed for Afghanistan's all round development. To support this higher education plan of Afghanistan, government of India made a commitment to establish a US\$ 25 million agricultural university in Afghanistan. Indian government has also made a commitment to provide opportunities for 500 Afghan students annually to continue their higher education (Sawahel, 2009).

Public Universities in Afghanistan are totally dependent on government. They are not allowed to charge tuition and they can't collect endowment. Higher education in Afghanistan got a total of \$35 million in 2009 which is 1.5% of Afghan government budget. A big chunk of this money comes from USAID (Boak, 2011). After thirty years of vacuum in the development of higher education, now Afghanistan needs to gain traction to produce market relevant graduates to meet the need of the country's human capital (McNernery, 2009). Afghani higher education institutions need to spread their wing to practice and welcome different mode of

higher education finance. Cost sharing and revenue diversification will help improve financial health of the institutions as well as improve quality of education.

### **Bangladesh**

Bangladesh is one of the most densely populated countries in the world. It is also one of the poorest countries. There are about two million students enrolled in 80 universities of the country. Out of these 80 universities, 53 are private and 27 are public (Aminuzzaman, n.d.). The population of Bangladesh is about one hundred forty eight million and only two million students are in the universities, which is not a big number at all. There are many million students who can't enroll in university because of their poverty. "Over 23 percent of students registered in class XI to sit for the Higher Secondary Certificate (HSC) examination this year have dropped out, due to financial constraints" (Chisty, 2008). This, very clearly explains how financial constraints prohibits students from attending higher education in Bangladesh.

Bangladesh has realized the problems it is facing in higher education finance. Limited access, limited financial resources, weak governance and management of institutions, low quality of higher education are some of the issues it is facing. The government has realized it and has developed a national strategic plan for higher education for the next 20 years (Chisty, 2008).

There are three types of educational institutions in Bangladesh. They are: public universities, private universities and campuses of overseas universities. Public universities are run and managed by the government. Total funding for these universities come from the government through UGC. So, the tuition fees are not very high even according to Bangladeshi financial standard. It is affordable by the general Bangladeshi students.

Private universities are not completely under the government control. Vice-chancellors, the chief executive officers of the universities are appointed on the recommendation of the governing body of the university. Chancellor, the figure head of the university is the president of the country. As the sources of revenue of these universities are mainly the tuition fee from the students, these universities are very expensive for the general people. These universities mostly run programs on the subject areas that will provide job to the students as soon as they graduate like business, medical sciences, engineering etc.

The third types of educational institutions are the campuses of universities from overseas. Some of these university campuses have earned good reputation for providing quality education, but many of them are running as 'certificate factories' churning out certificates for a certain amount of money. The well-reputed universities, meanwhile, charge very high tuition fees in the context of a poor country like Bangladesh (Kamol, 2009). Most of the Bangladeshi students have problem of accessibility to higher education as the private institutions are expensive and public institutions do not have enough space for growing number of high school graduates. Keeping this problem as a focal point, Grameen bank came up with an idea of opening the door of higher education for these students. The Grameen Bank, the brain child of Nobel laureate Professor Muhammad Yunus has taken a bold step to help the poor students extending its hands to provide loan for them for higher education. Grameen Bank hopes to fight the cycle of poverty by preparing a generation of skilled and trained manpower by making the financial assistance available to them to go for higher education.

“Grameen Kalyan, the welfare division of Grameen Bank, famous since 1983 for its innovative lending programmes for the landless poor, has

expanded its objectives beyond micro enterprises to include higher education. Grameen Kalyan has devised a programme, the higher education loan programme (HELP)—that identifies intellectually talented young villagers and helps them to finance their university education through loans (Chisty, 2008).

Bangladesh government also fund state universities through University Grants Commission. Many commercial banks are also providing loans to students. Some banks provide interest free loan as part of their CSR program. Even though, these banks claims to help the poor students, their need of high value collateral and high interest rate on loan are obstacle for the poor landless people of Bangladesh.

There are many commercial banks which claim to help the poor and talented students either through scholarship or through student loans but all these banks charges either onerous interest rate or demand one hundred per cent collateral which make these loans not available to many students from financially poor background.

Bangladesh needs to work on exploring different ways of financing higher education which will be suitable to its economy. Bangladesh produced almost half a million graduates annually, but many of them could not find good employment. These graduates must be market relevant and employable in their own field of education to boost the economy of the country (Chisty, 2008).

### **Bhutan**

Bhutan, a small land locked Himalayan kingdom of about 38,394 square kilometers of area and the population of 634,982 according to the census of 2005, established Royal University of Bhutan (RUB) in 2003. RUB is fully funded by the Royal Government of Bhutan (RGOB) and is governed by the University Council (Thinley, 2009).

RGOB has been increasing the funding for education every year. In its first five year plan (1961-1966) it allocated 9.4 million Ngutrum which is 8.8% of the total budget and it increased to 33,453.5 million which is 23.6% in its 10<sup>th</sup> five year plan covering 2008-2013. RGOB is increasing its budget in education sector in every five year plan even though it has dwindle in few five years plan percentage wise (Thinley, 2009). The following chart shows the education budget in RGOB's five year plans:

*Table 1. Bhutan's Investment in Education (In Millions of Ngultrums);*

Five year plan Periods	Total RGOB budget	Education Budget	% of total Budget
5 <sup>th</sup> (1981-1987)	4,648.00	519.1	11.2
6 <sup>th</sup> (1987-1992)	9559.2	778.8	8.1
7 <sup>th</sup> (1992-1997)	15,590.7	1738.0	11.1
8 <sup>th</sup> (1997-2002)	34,981.7	3292.7	9.4
9 <sup>th</sup> (2002-2008)	70,000.0	10,209.4	14.5
10 <sup>th</sup> (2008-2013)	141,692.2	33,453.5	23.6

*Source: Thinley, 2009.*

RGOB is also spending a huge amount of money in scholarships for higher education, providing full scholarship to at least ten percent of class XII graduates. Government of Bhutan gets scholarships for higher education especially for under graduate programs from different countries like India, Australia, UK and Denmark.

The government of Bhutan also has student loan schemes, which provides loans to the students with some strict requirements difficult for many students to fulfill. Students have hard time to provide collateral for loans and also can't find people to guarantee for their loan (Thinley, 2009). Even though, Bhutan has started working on student loan scheme, looking at its economic development process, it looks difficult to start full-fledged student friendly loan schemes in near future. To properly finance its higher education, Bhutan must find some other matches to go with its student loan scheme. Revenue supplementation and cost sharing should be

properly implemented to boost the development of higher education. Different approach of financing in higher education is the trend of the days and government should try to follow the trends that have been successful in other countries.

Bhutan is embarking a US\$1 billion education city project spread over about 1000 acres of land inviting top universities of the world including US Ivy league universities to open their branch campuses. It is in a planning stage and it could take a while to materialize (Wangdi, 2010).

### **India**

With the population of over 1.21 billion, India is the second mostly populated country in the world. India has one of the largest higher education systems in the world with the enrollment of over ten million students. But the current scenario is, according to Rani (2007), only 7 percent of the population in the age group of 17 to 24 attends higher education in India compared to 92 percent in USA, 52 percent in UK and 45 percent in Japan. But it was only 5% in 2000 as Varghese (2000) says in his article. So, it is moving upward but slowly. Current Gross Enrollment Ratio (GER) is 15%, which shows India is still below the world average (Joshi & Ahir, 2013). This shows the increase in enrollment in higher education but it is very low in comparison to other industrial countries. Even for this low enrollment, government of India has not been able to provide enough public budgets to support higher education adequately. Funding for education in India comes from all three levels of government that is federal, states and local and also from the public as well

India has a large number of higher education institutions and the Indian government is responsible for devising policies and plans to improve the quality of education in India to meet the need of qualified human resource for the development of the knowledge economy of the country. There are various problems in higher

education in India. Access, equity, relevance, quality, privatization, internationalism, global competitiveness, and financing are some of the most daunting problems that India faces in current situation (Joshi & Ahir, 2013).

In this study, we will be talking mainly about financing issues of higher education, so we are concentrating our focus on financing of higher education in India in this section. The Government of India is trying its best to provide support to the education sector but because of its pressing demand of resources in other sectors, progress is still lagging in the education sector. According to a study done by India Study Center, there are over 300 Universities and 45,000 Colleges of various types in the country (Central Universities in India Education, n.d.). Substantial number of these universities and colleges are privately run but most of them receive some type of support either from the central government or from the state government.

Growing number of high school graduates, growing number of young population and growing awareness of education among the new middle class generation is outpacing the supply of higher education by demand in Indian demography. Since independence, India is increasing its budget in higher education. Public expenditure on higher education increased from a modest of Rs. 171.5 million in 1950-51 to 23,120 million in 1990-91 and to Rs. 95,620 million in 2004-05. However, rising inflation makes this growth an illusion. After adjusting for inflation, the growth for higher education comes merely 5.4% per annum. Government's share on higher education has remained about 20 to 25 percent since 1990-91. Almost all the grant from central government is channeled through UGC. UGC provides bulk of the fund to the central universities and their affiliated colleges and very little goes to other private universities and colleges. Many universities are not eligible to get



government grants. Out of 348 universities only 158 are entitled to get any kinds of government grants (Prakash, 2007)

Having very diverse population, many students from the poor families face problem to finance their education. Student loan is one way of supporting these students from the financially lower income bracket. Indian Banks Association makes clear the need of such funding in India. They say that government endeavors to provide primary education to all on a universal basis, higher education is progressively moving into the domain of private sector. With a gradual reduction in government subsidies, higher education is getting more and more costly and hence the need for institutional funding in this area. (Revised model educational loan scheme for pursuing higher studies in India and abroad, 2009).

The government of India announced a new education loan scheme in April, 2001 catered towards the poor and needy students. It does not require collateral for loans up to the amount of Rs. 4 lakh (\$8,595). But if they exceed Rs. 4 lakh, then a collateral or bank guarantee of 100% for the entire amount is needed. The April 2001 education loan scheme announcement offset the increase in tuition fee as students do not need collateral for loan up to rupees four lakh, which will provide access to loan to every student, therefore, they will be able to pay the increased college fee.

This loan scheme is non-bank specific and it covers broad areas of study. Interest rate is tied into lending rate of the Reserve Bank of India. A drawback of this scheme is that it does not provide loan to those students whose family income is less than \$209 per month (Overland, 2001). Overland (2001) also quotes Prof. Surya Narayana from Indira Gandhi Institute of Development Research in Mumbai who says 75 percent of the Indian students will not qualify for the loans from private banks

as the parents income must be more than \$209 per month (Brief Description of The Higher Education System of India, 2009).

The 2001 loan scheme of India is not that easy to follow. Overland (2001) says in her article, “In India, government loans do little for the poor or for private-college students” published in The Chronicle of Higher Education in 2001. There are strict eligibility requirements to qualify for these loans in India. Students must secure admission to a professional or technical school before the loan gets approved. The institution must be certified by the government and the course must be approved by the government.

On top of the above mentioned criteria, commercial banks set their own criteria. In addition to the commercial banks, some private trusts and endowments and higher education institutions run their own loan schemes and offer some scholarships. With all these practices to support students by the government of India, only less than 3% students, mostly from middle class families get education loan in comparison to 85% in UK, 77% in US and 70% in Germany and France according to the study by ASSOCHAM (Only 3% Young Students Avail Of Education Loan In India, 2009).

### **Maldives**

Maldives is an archipelago of about 1200 islands situated in the middle of the Indian Ocean. The highest points of these islands are about two meters above the sea level. For its 90,000 sq. kilometers of area, it has a population of little over three hundred thousand. Maldives does not have a long history of higher education. In 1998, the existing colleges were merged to establish Maldives College of Higher Education (MCHE). Only in 2011, the Maldives National University (MNU) was established under the Maldives national University Act 2009, previously known as MCHE, a public institution fully funded by the government (UNESCO, 2009).

A bill presented was in the parliament on October 23, 2009 proposing student loans through commercial banks. Because of this bill all commercial banks in the country will be obliged to secure Rufiyaa (Rf). 15 million (US\$ 1.1 million) fund annually for loans to students. If all six registered banks in Maldives set up a fund, it would create an Rf 90 million (US\$ 7 million) pool for students in the country. He further said that commercial banks have not borne their social responsibilities but even then, as reward the bill proposes the government tax reduction from 25 per cent to 15 per cent. Under this bill, the students will be able to get a maximum loan of US\$ 6,000 to US\$ 39,000 per year to study in a Maldives government accredited educational institutions. The loan must be paid back within 10 to 15 years. There should be three different guarantees for the loan. Forty per cent of the unpaid loans must be guaranteed by two parties each having US\$ 800 bank account. The government will have sixty per cent guarantee if the contract is breached. Third, the students must agree to have the installments directly deducted from his/her salary after their graduation and getting an employment. Repayment starts six months after the completion of course (Naish 2009).

Previously, Maldives used to give free money to the students which they did not have to pay back. This monetary gift was known as “pocket money”. The proposed bill substituted the pocket money with student loan. Some students protested against this change. Amina Ali, Deputy Minister of Human Resources, Youth and Sports said that the students are concerned about the change providing loans against free grants. But she thinks that the new system is better both for the country and the citizens. She further said that, under the current budget we cannot provide free learning and funding for students at higher education institutions. The student loans are similar to mechanisms in place in countries all over the world. Say a student has a

total loan amount of Rf. 24,000 over their studies, they will have to pay back this amount and a five percent administration charge to cover the role of their bank over an agreed period of time (Merrett, 2011).

Maldives is moving to the right direction making loans available to students who would like to peruse for higher education but their financial condition do not support them. Nobody would like to give up their free gift if they can continue getting it. So, it will take some time for the students to get adjusted from “pocket money” to “student loan”. Government would have to take a bold step to formulate student loan scheme in proper way.

Maldives has a poor rate of students pursuing higher education. Room and board in Male is expensive and it is difficult to get enrolled in higher education. Higher education is out of reach for many students in Male. By contrast, statistics released by the Education Ministry in August showed that only six percent of Maldivian youth aged between 17 to 25 are pursuing higher education. Vice President Mohamed Waheed said, “Just imagine, you have 24,000 students completing lower secondary and only 300 students are entering national degree course. That’s like 1.25 percent. Although we are a middle income country, our higher education enrollment ratio is about same as countries in sub Saharan Africa.” “Compare this figure to other relevant social sector statistics. While 300 students start degree programs 3000 students await drug rehabilitation. Also last year there were 300 teen age pregnancies officially and about 600 young people entered prisons.” “I suppose we can build more schools OR we can build more prisons.” (Johnstone, 2011).

This is the current scenario of Maldives. There is a long way to go. It is heading towards the right direction but it will take time to have full fledge well equipped higher education institutions to accommodate all students graduating from

high school and the government will have to come up with more resources and feasible schemes to support aspirant students to finance their higher education. Different options of cost sharing and revenue diversification practices should be applied to support students and institutions.

## **Nepal**

Nepal was announced the Federal Republic of Nepal after it got rid of 10 yearlong Maoist insurgency in 2008, dethroning the then Shah King Gyanendra. Nepal has a short history of formal higher education. Tribhuvan University (TU) and Nepal Sanskrit University (NSU) are the only two universities heavily subsidized by the government and all constituent colleges of these universities charge very low tuition fee. Other universities are community run not for profit universities and quite expensive in relation to Nepali economy, which makes the students look for sources for funding their education. All other universities except TU and NSU run on the cost sharing basis. Until the start of multi university system, government fully funded both TU and NSU. Even now a days, 95% of the expenses of these two universities come from the government coffer. Public spending in higher education is also increasing every year. It was merely 2.4% of the GDP in 1992/93, it reached 4.46 % in 2009/10 and 4.5 in 2013/2014. As government contributes expenses to higher education institutions from its resource tight budget, educational institutes also need to be awake and look for different sources for funding. Revenue supplementation and cost sharing are very common in modern day world, so, Nepal can look into implementing these schemes in Nepal. Student loan plays a vital role in cost sharing mechanism.

UGC is looking for different schemes to support universities in Nepal. Formula based funding is new step that UGC has implemented. Besides these steps, student loan could be a proper way to introduce cost sharing mechanism in Nepal.

Many commercial banks and financial institutions of Nepal provide student loans for both students studying in Nepal or going abroad. But these student loans are not very student friendly. All these bank loans can be categorized as commercial loan rather than student loan. But these student loans are not very student friendly.

There are also age limit and students performances in previous tests and parents' and/or guardians' sources of income plays a vital role in decision making. Employees Provident Fund, Nepal introduced education loan in November 2001 under the name of "Educational Loan Scheme 2058". It provides loan to its members or their spouses or children. A member can get a loan for 15 years or the remaining tenure of his/her service. The loan amount can go up to Rs. 0.9 million for study abroad and Rs. 0.6 million for study in Nepal.

These are just few of the banks who claim themselves as the providers of "so-called" student friendly loans. There are many other commercial banks and financial institutions who provide student loan but with hundred percent collateral and high interest rate.

The objective of these banks is to help students fulfill their higher educational aspirations. The banks schemes provide support to meet all the expenses of these students. Also the requirement of progress reports by most of the banks keep the students in right footing. But the following are some of the drawbacks of these bank schemes:

- a) Loan amount is not big enough for going abroad or even studying in Nepal for higher education.
- b) Students who cannot afford collateral cannot get loans because of the requirement for 100% collateral.

- c) Some banks have age limits which prevents older professional students from gaining access to the student loan programs.
- d) The paper work is very lengthy and cumbersome.

In a nut shell, all these banks say that they would like to support the prospective students to fulfill their ambition for higher education by providing loan to meet all their requirements. But the banks have to come up with student friendly plans in regards to collateral, students age bar, interest rate, repayment schedule, and lengthy paper works.

The above are not only the problems here in Nepal. Even in the United States of America, president Obama constituted a committee in Vice President Joe Biden's leadership to minimize the cumbersome paper work which keeps many students from applying for student loan. At the same time, there must be a uniform policy in this regard and all the banks must adhere to the government policy which will give some relief to the students.

Nepal government has realized the need of financial assistance to students going for higher education. Recently, the government has formed Student Financial Assistance Fund Development Board (SFAFDB) under HEP II administered by UGC. WB had allotted \$60 million for this project. Most of this fund under SFAFDB went to students of Higher Secondary Schools and bachelor level students of TU as financial assistance which the students don't have to pay back. On top of Rs. 16,000/- for higher secondary students and 40,000/- for TU bachelor students per year plus the money from work study project, maximum of Rs. 10, 000/- loan will be provided to these students without collateral as per need basis. They will have to pay this Rs. 10,000/- immediately after they graduate from their program. SFAFDB has negotiated with Rastriya Banijya Bank (RBB) for the role of fund administrator for the whole

project (SFAFDB brochures, and Personal Communication, 31 March, 2010). This loan amount is very small and also the students will not be able to pay back immediately after they graduate as they will not started earning salaries until they get a job. This Rs. 10,000/- loan is the only government sponsored loan available to students in Nepal. All other educational loans are alternative loans.

Recently, Nepal has been practicing different models of financing higher education. History based funding, formula based funding, competitive funding, and cost diversification and cost sharing are all in use in Nepal. Under cost diversification, it has been providing scholarship to students. Banks are providing student loan. All these schemes are good but need to be done with proper management and good administrative support to make these schemes student friendly and at the same time making them sustainable with issues like good repayment practices.

### **Pakistan**

Pakistan continued following British system of education after it got independence from British Empire in 1947. Like in India and many other south Asian countries, Pakistani students get enrolled in higher education after passing grade 12. The University of Punjab is the oldest university of Pakistan. There are currently 50 public and private universities and 18 other degree awarding institutions. State controlled public universities enroll about 85% of students in higher education. Based upon current population growth rate, it was estimated that there will be about 25 million students in between the age group of 17-23 by 2010. Government plans to accommodate at least 10 % of these students in higher education and a massive expansion of infra-structure as well as improvement of faculty and curriculum will need to be addressed (Chauhan, 2008). Resource mobilization will be another factor that will need a serious consideration. Government has been encouraging to open



Private universities as it will not be able to financially support all the universities of the country. Government grant goes to public universities through University Grant Commission. Public universities need to improve their performances to prepare graduates to face the challenges of modern day employers' need and compete in global market. Because of the poor quality of education of public universities, many students are looking towards obtaining degrees from foreign universities. Students, who can afford or find a way to get enrolled in foreign universities, prefer mostly American, British or Australian universities.

Natural calamities and security issues are taking a big chunk of money from the budget of the government of Pakistan. Higher Education Commission Chairman Mr. Javaid Laghari said that he had not received a single penny of the \$183-million that the government allocated to it for 2010-11, and that the money may be transferred to pay for relief efforts in flood-damaged areas of Karachi (Neelakantan. n.d.). This kind of circumstances put higher education institutions in problems. This shows that higher education is not a priority in the country. With this kind of attitude of the government, both public and private universities can benefit from revenue supplementation or cost sharing practices.

In 2001-2002 budget speech, Federal Finance Minister of Pakistan made an announcement about a Student Loan Scheme (SLS). This scheme was launched on collaboration with major commercial banks of Pakistan like National Bank of Pakistan (NBP), Habib Bank Limited (HBL), and State Bank of Pakistan (SBP), Allied Bank Limited (ABL), and many others. Under this scheme, most of the commercial banks of Pakistan provide interest free loans to intelligent, capable students from low financial background. While applying for loan, the students must prove that they can't afford to pay for their higher education (Ravi, 2010). There are

certain criterions to be eligible for student loan in Pakistan. The student must obtain admission in government approved universities or colleges. There are age bars for obtaining loans. For graduate program, students must not be above 21 years of age. For Post-graduate program, students must not be above 31 years of age. For PhD program, student must be under 36 years of age. The applicants must have secured at least 70% mark in last public examination and must prove that s/he can't afford it financially.

According to the scheme regulation, tuition fee is directly paid to the institutions. Students receive the boarding and book expenses but no food expenses. Repayment starts after ten years. Payment is made in monthly basis. The installments start six months after the date of employment or one year after the completion of study whichever comes first. Like in other South Asian Countries, Pakistan also faces political interferences in financial management of higher education. Government also needs to adjust fee structure of private universities (Parveen, Rashid, Iqbal, & Khan, 2011). These are some of the strong issues South Asian countries are facing in higher education finance.

Higher education financing austerity is clearly visible in Pakistan as in many other CC/countries. Pakistani government is encouraging cost sharing practices by allowing private universities to charge fee to the students. But the question is how to diversify resources and how to implement cost sharing practices. Cost sharing practice shifts the burden from the government to the students and parents but the government has to decide how much of the burden should be shifted. The percentages of load between the government and the students or the parents need to be clarified and budget must be prepared accordingly.

**Sri Lanka**

Sri Lanka is an island country with a population of 19.5 million. Before the civil war started, Sri Lanka was doing very well with almost 99% literacy rate. It had a well-established education system tailored after the British system. After decades long ethnic violence, Sri Lanka has a unique situation in higher education, as most of the higher education infra-structure were destroyed, and government could not provide serious attention in the development of higher education. Currently, only 3-5% of the students get admitted in the universities as there are very limited seats available.

Many students go abroad for higher education if their parents can pay for it but it effects heavily to the present deficits in the country's balance of payment. Financially, Sri Lanka can't afford to open new universities because of the demand of rejuvenating its infra-structure damaged by the civil war. Financing higher education has been a burden to the government of Sri Lanka. To meet the need of Sri Lankan youth's aspiration for higher education, Sri Lankan government has invited foreign universities to open their schools in Sri Lanka. Sri Lankan government has also proposed a scheme of student loans for university students. This will help students who can't go abroad due to financial constrain. The students who take these loans will have to pay after they get employment. These students, who take these loans, select their courses of study which will provide immediate employment after the completion of the course, which helps decrease the number of unemployable graduates and also decrease deferred payment.

Many private banks in Sri Lanka are offering student loans. They are neither subsidized by the government nor does the government have any stake in these schemes. The banks offer from 50,000 to 250,000 Sri Lankan rupees to study in Sri Lanka or to go abroad (Ravi, 2010).

To help public and private universities in Sri Lanka, the government has to come up with a viable higher education financing mechanism. Revenue supplementation and cost sharing mechanism has to be implemented to meet the need of resources for higher educational institutions. Student loan helps shifting government burden of financing higher education to students. The ratio of shifting burden has to be decided with the economic situation of the country to implement cost sharing mechanism. Aturupane, (2012) suggests different cost sharing mechanism to help flourish both public and private universities in his article “Economic Benefits and Options for Financing Higher Education in Sri Lanka” published in Sri Lanka Journal of Advanced Social Studies.

### **Other Countries**

There are some other countries that will be able to give us good lessons about student friendly higher financing schemes and other countries which tell us about the student loan and bursary system.

#### **The United Kingdom**

Each constituent country of the United Kingdom sets its own rules and regulation about the higher education. These countries decide their own funding mechanism. Each country has their own Funding Council and they are free to decide what mechanism is suitable for their countries. In 2005-6, the enrollment rate in higher education in UK was 44% and the total public expense in higher education was US\$ 10 billion. The higher education act 2004 provides the liberty to all students in UK to apply for income contingent loan which allows every student to defer their loan repayment until they complete their degree. Low income students can also apply for mean tested bursary under National Bursary Scheme (Johnstone & Marucci 2010).

Tuition fee in public higher educational institutions was free in the United Kingdom for citizens and permanent residents till 1997. Private universities run in cost sharing basis. People with permanent residency in UK can obtain student loan. Many private banks offer student loan to students who need money for higher education. Student loan is written off if they could not pay it within twenty five years and they also don't have to pay till they start earning at least £15,000 a year.

Tuition fee was first introduced in the United Kingdom in 1998 to support universities for undergraduate and postgraduate studies, which was £1,000 a year. Before that Public higher education institutions in U.K. did not charge any tuition fee. So, students going to public schools need to worry only for their living expenses. Now, the universities are raising tuition fees to the optimum ceiling provided by the government. Private institutions fees are usually very high and the students going to private institutions have to consider both living expenses and fees while applying for student loan (Government Student Loan, 2009).

Graduate tax has been proposed in the United Kingdom to improve the level of support for students living costs and increase spending on universities by recovering the cost from new students after they graduate. Glennerster (2000) says in his book, "British Social Policy since 1945". But it has not been implemented yet.

A graduate tax operates on the principle that the fairest way of raising additional income for higher education is from the beneficiaries of the system. High earning graduates subsidize lower earning graduates, so the higher the financial returns to your degree the more you pay. Under this specific model, all graduates pay at the same rate whatever degree they study (Glennerster, 2000).

National Students Union strongly supports the graduate tax, but Barr (2009) does not agree with this argument. In his article "A graduate tax is for life, not just for

a few years” published in The Guardian on March 24<sup>th</sup>, 2009, he argues that student loans are a far fairer way of paying for university than graduate tax. If graduate tax system implemented, students who did not take loan will also have to pay.

There have been students unrest in the United Kingdom opposing the fee increased allowed by the government. Many other countries like Canada and Chile also had student unrest against the fee increase.

### **The United States of America**

During the colonial time, the colonial government looked mainly for the taxes they could collect not paying much attention to the establishment of the institutions for higher education. After the formation of the United States of America (USA), USA felt the need of growth in higher education and hence the Morrill Acts of 1862 and 1890 (also known as Land Grant Acts) came into existence which provided certain amount of land to start institution of higher education in every state and territory with the hope of producing graduates in the field of agriculture, engineering, mining, military science, and experts in other field as needed for the state. Taking the benefit of this offer from the government, each state or territory of the United States of America established at least one land grant institution. These institutions supposed to charge low tuition and other fees because of the assistance received from the government (Chambers, 2005). As the time goes on, the government felt the need of more support to these institutions of higher education. Different policies like, enrollment driven funding, the GI bill of 1944, and many other policies to support higher education students were tabled and approved by the congress. The federal student aid programs of 1960s were blamed as supporting mainly the low income group of students neglecting the “Missing Middle Class”. Middle class used to be a broad and stable foundation of American society but the trend of rich and poor is

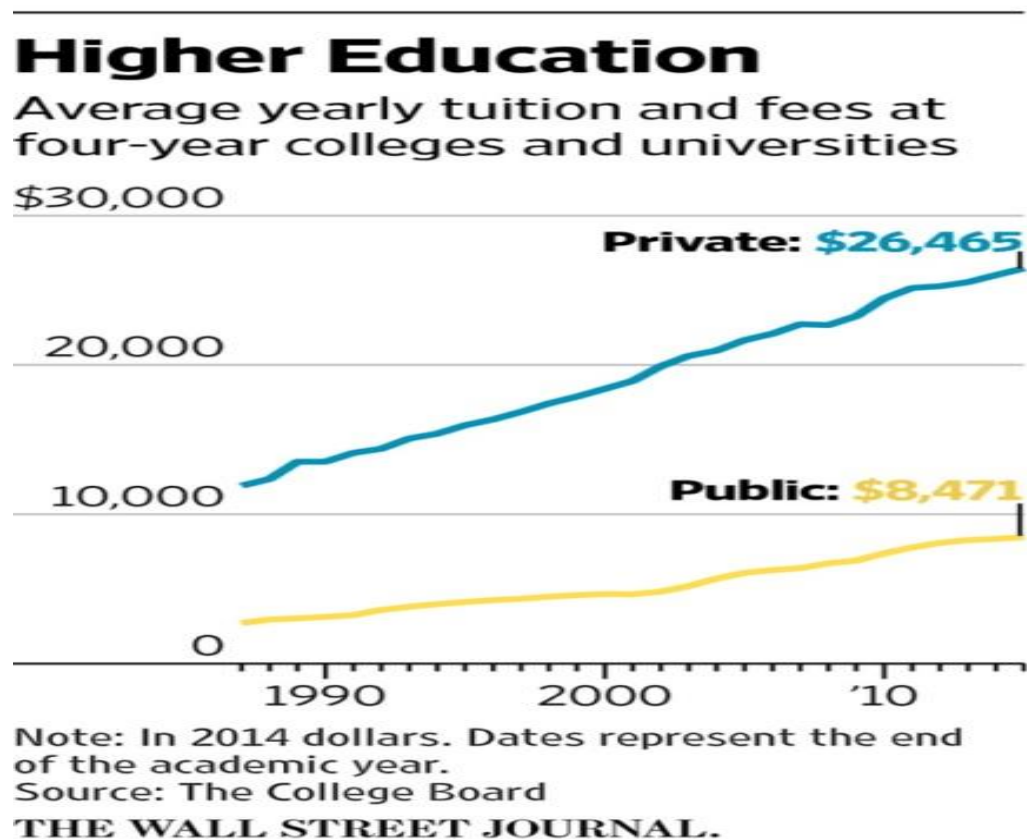
increasing without living much in between in modern USA. Guaranteed Student loan program was introduced to correct this problem. Commercial banks were also brought into partnership and students started getting low interest loans with few restrictions (Thelin, 2004).

Due to the availability of student loan, students have easy access to support their dream education. Tuition and other fees are much higher in private institutions of higher education than state universities in the United States of America. The tuition fee for four year degree course in public universities in 2006-7 ranged from \$4,000/- to \$9,000/- per year (excluding food and lodging) where as in private universities the fee amounted to \$18,000/- to \$ 35,000/- (Johnstone & Marcucci, 2010, p.295). This is expensive in comparison to both developing and industrial countries.

Universities have been raising tuition and other fees drastically since 2001 as the federal and state government started cutting funds for higher education. For example, Johns Hopkins University was getting almost 8 hundred million dollars for research and other projects in 2001, which was almost half of the university's operating budget (Thelin, 2004). But due to the financial crunch in federal budget and other reasons, the federal government cut off all its research funding to Johns Hopkins. It was not only Johns Hopkins who got hit, all other universities also had to face the crunch.

Since then, universities have been looking for different ways of cost sharing and revenue diversification to survive. Tuition and other fees are sky rocketing every year since 2001. Students and parents are facing this severe blow. The following chart shows that tuition fees in Private higher educational institution jumped from \$10,000 to \$ 26,465 from 1987 to 2014 and public institutions at the same period charged from \$0 to \$ 8,471.

Table 2: Average yearly tuition and other fees



Source: The Wall Street Journal, June 18, 2015 CCLXV(141) pp. A1 & A12.

Students were also facing problems with the red tapes, corruption, and hassle going through mediator like Sallie Mae and other lending agencies in obtaining student loan. These problems were very open and presidential candidate Barack Obama took the advantage of the situation by addressing the issue during his campaign in 2008.

During his 2008 presidential campaign, President Barack Obama declared, “We’ve to make sure every young person can afford to go to college” (Thomas, 2012). He promised to lower interest rate on student loan and also promised to cut off red tapes on student loan by cutting lengthy and cumbersome paper work which he did to some extent.



USA is benefiting from its well established student loan system started its educational finance program several decades ago. According to Marples (2008) educational finance came into existence in America with the end of World War II, with the American government's interest to put more of their young population in college. After the Union of Soviet Socialist Republic (USSR) launched Sputnik into space in 1957, there was more pressure on the American government to win the next space race. The tug-of-war between the USSR and the USA continued till the end of the cold war. The US government felt the need to put more students in mathematics and science classes to produce more space scientists and for this matter expanded their educational finance program (Marple, 2008).

In the United States of America, education finance started from the state of Indiana. State of Indiana legislated mandatory fee remission awards to students with the formation of Indiana State Financial Aid Association (ISFAA) in 1935. Many other colleges and universities followed the footsteps of Indiana and started financing their students.

The federal government of America brought legislations to help increase students enrollment in colleges and universities. The following are some of the main student loan programs to support students in their higher education, which are still in practice in the USA (Marples, 2008):

- a) The Health Education Assistance Act, 1963.
- b) The College Work-Study Program, 1964 currently known as Federal Work-Study (FWS) Program.
- c) The Educational Grant Program, 1965 also known as the Pell Grant Program after Senator Claiborne Pell (D-RI).

- d) The Guaranteed Student Loan (GSL) Program, 1965, currently known as Stafford Loan Program.
- e) The Middle Assistance Act 1978: The Middle Income Student Assistance Act is a landmark in the Federal commitment to aid families with college students.
- f) The Parents Loans for Under Graduate Students Programs, 1981. This program is for upper class income families.

Besides above six programs, G.I. bill, and Perkins loan are some other student loan programs serving students in the United States of America. There are also many independent student loan agencies including many banks that provide loans to students. Among the United States Department of Education (USDE) administered loans, Perkins loans, Stafford Loans (includes both Federal Family Educational Loan and Direct Loan), Federal PLUS Loan, Federal Graduate PLUS Loan are the main types of loans (Marples, 2008). A credit check is required to qualify for most of the loans in the United States of America except for Stafford and Perkins loans. Almost all the private banks provide loan to students who need money to pay for their higher education. Stafford and Perkins loans generally provide better terms than PLUS loan and alternative loans. Almost all the schools provide entrance counseling for students and also parents (in case of parent PLUS loan). These counseling help intelligent and also financially poor students to better understand the loan system and the application procedure which guarantee their enrollment in the institutions of higher education of their choice.

Both public and private educational institutions are raising their fees every year. At the same time as the credit companies are tightening their belts, the interest rate is going up. "Tuition costs and other fees are soaring, up 439% since the early 1980s, Private loans carry high interest rates – up to 19% these days" (College on

Credit, 2009, p. 30). So to balance these problems and to give some comfort to students, President Barack Obama proposed in his 2010 budget to eliminate private lenders as the go-between from the student-loan market and have the federal government make all such loans directly (The Obama Budget, 2009).

“President Barack Obama's proposals to significantly reshape the two main federal college-access programs -- Pell Grants for low-income students, and higher education loans -- are generating debate in Congress and in the education community,” (Klein, 2009). There had been big hue and cry among the general public and also in the congress about this budget proposal. (Klein, 2009). According to the proposed budget, students will be solely responsible to USDT for repayment of their loans and interest rate for all the student loans provided by USDT will be below 6% (Chaker, 2009).

The United States of America also needs to deal with corruption and administrative problems in its student loan system. USA is not without problems in this aspect. Counselors and loan administrators of the educational institutions have been caught with illegal relationship with some lending agencies and may prefer some loan institutions over others. This may not give proper opportunity to students to select their loan agencies or they may end up paying higher interest rate (Basken, 2008). The New York attorney general Andrew Cuomo filed a case in 2007 in this respect. This case is just an example ("Student-Loan Controversy Is Drawing Wide Concern," May 2, 2007). There may be more cases of illegalities in the area of educational finance.

The United States of America has gone a long way to support its students by providing financial support for higher education. Every countries education financing system has room for improvement and USA is not an exception to it. Even though it

has a very sophisticated student loan system in practice, it still has plenty of room for improvement.

Besides student loan, endowment, donations by alumni, and donations by philanthropists are the main sources of financing higher education in USA. Both public and private universities charge high tuition fee though private universities charge much higher tuition fee than public universities. Also out of state tuition fee is higher for students who come from other states or does not have the residency of the state.

### **Colombia**

As per the recommendation of the World Bank, Colombia has been going through some changes in its system of funding higher education. World Bank recommends that it look for more cost sharing practices to fund higher education and it is giving more emphasis in student loan.

Gabriel Betancourt started the first student loan system in Colombia. History of student loan in Colombia started in 1940s when Gabriel Betancourt, somehow convinced his supervisor to provide him loan for his higher education. Immediately after he completed his education, he was appointed as a Minister of Education by the then dictator of Colombia Gustavo Rojas Pinilla. Mr. Betancourt started a student loan system in Colombia as soon as he became the minister of education. Since then, Colombia has been continuing to provide student loan to its students. After its successful implementation in Colombia, countries around the world started the system to give access to higher education to their poor and intelligent students (Betancourt, 2002).

Student loan system is very active in Colombia and the government also pays good attention to it. In March 2008, Colombia received a \$300 million loan from

World Bank under the new World Bank policy to support the country's national student loan agency ICETEX to finance access to higher education for low income students. Axel van Trotsenburg, Director of the World Bank for Mexico and Colombia said, in the absence of student loan opportunities open to both public and private institutions, many talented low income students would be unable to enroll in tertiary education. The revolving nature of student credit makes the use of this demand-side mechanism more fiscally attractive for the Government and students alike (Trotsenburg, 2008).

ICETEX aims to offer financing 100,000 new students to enroll in higher education for the first time in 2008-10 and will also finance 432,000 loan renewals for students who are already attending programs. ICETEX will award loans based on a blend of need and academic merit, and loans will target students from the lower end of the socioeconomic range.

### **South Africa**

The idea of cost sharing in higher education has been floating around Sub Saharan Africa. "The assumption behind cost-sharing is that university graduates will eventually get higher-paying jobs, and so will earn back the costs they have paid. Unfortunately, students do not yet have that money at the time they enroll. And in all but a few countries (South Africa, Kenya, Tanzania to a lesser extent), there are no programs to loan it to them" (Higher education finance and cost-sharing in South Africa, 2005).

In South Africa, National Student Financial Aid Scheme (NSFAS) was launched in January of 1996 and the Tertiary Education Fund of South Africa (TEFSA), which was already involved in making educational loans available to students, was asked to manage and administer the program. NSFAS is now a

government agency. The money for NSFAS is provided primarily through National Department of Education Funds and also includes donors, institutional and private contributions (Van Harte, 2003). NSFAS provides loans and bursaries to students. NSFAS is growing because of its good repayment rate. The repayments are reinvested back into the program. Government contribution has been declining as the repayment rate is going up.

Ms. Van Harte puts emphasis on the importance of student loan system in a country like South Africa saying “There is great need for a national government backed student loan program. Annual salaries in the poorest sector of the population are very low in comparison to the expenses for higher education. So, they need support for their higher education (Van Harte, 2003). In South Africa, student loans are provided by NSFAS as well as by commercial banks. NSFAS loan is mainly for higher education in public institutions whereas commercial bank loans are available for private institutions also (South Africa student loan and bursary, 2009). Students are expected to pay interest only during their study period and immediately after graduation, they should start paying the capital also (Higher education finance and cost sharing, 2005).

State Department, provincial legislatures and private companies provide bursary to students. These recipients of bursaries will have to work for those institutions after they graduate. NSFAS is responsible to administer, allocate, and recover loans and bursaries to eligible students.

There has been discussion about supply side funding vs. demand side funding in higher education finance in South Africa. Wangenge-Ouma, and Cloete (2008) suggest for a shift of higher education finance towards redistributive funding model

by changing the current formula for allocating funding for students aid to universities so that resources are distributed in favor of genuinely poor students.

### **Chapter Summary**

All eight SAARC countries have been studied to learn from their experiences as higher education system in these countries have similar education structure including entry qualification for higher education and duration of courses. The failure of SNPL scheme in the Philippines teaches us about the repayment problem and how to deal with such problems. The United Kingdom and the United States of America have been chosen as these countries have highly sophisticated student support system and students highly benefit from this scheme. Colombia started first student loan scheme in the world and South Africa is successfully practicing bursary system which helps financially constrained students.

From the study of the above countries, it is very clear that different countries use different modalities to finance their higher education. The modalities are also changing as the need and resources changes. In South Africa, Wangenge-Ouma, & Cloete (2008) suggest changing the current formula for allocating funding for students aid to universities so that resources are distributed in favor of genuinely poor students.

Many of the above countries are providing student loans. From among the above countries, The United Kingdom provides means tested bursaries and State Department, Provincial Legislature and private companies provide bursaries in South Africa. Student loan is one of the most used schemes to support students in most of these countries. Van Harte, (2003) put emphasis on student loan as the income of the most of the population of lower middle class in South Africa is extremely low in comparison to the expenses of higher education. We have the same situation in our country also. The United States of America is still supporting student loan program in

spite of one trillion dollar outstanding in the program (Weisbaum, 2014). Most of the students in these countries pay only interest (student friendly low interest rate) until they complete their study and get employed.

There are different resources for developing fund for student loan. Nepal Rastra Bank (the Central Bank of Nepal) has made it compulsory to all Bank and Financial Institutions (BFIs) to provide at least 3.5% of their total loan to deprived sector (Ensure direct lending to deprived sector at 1.25 pc by Q1: NRB (2016). Changing certain percentage of this to student loan helps create student loan fund. INGO, WB, ADB can also be a source to create fund. In March 2008, Columbia received \$300 million loan from WB to support ICETEX (A student loan program in Colombia) (Trotsenburg, 2008). Certain percentage of current education tax can also be mobilized to create student loan program. The governments also provide fund to start student loan in many countries. The money collected from education tax is another source to mobilized to create student loan program.



## CHAPTER–IV

### RESEARCH METHODOLOGY

The purpose of this chapter is to explain the methodology I used in this study. This chapter explains the reasons behind using qualitative method to do this study. It covers the process of selection of research participants, data collection, data analysis, and interpretation of collected data.

#### **Qualitative Research**

Currently, qualitative research is gaining momentum as it provides opportunity to the researchers to interpret the collected data according to their understanding. I have chosen to use qualitative method in this study as it gives ample opportunities to have deep study of higher education finance and its management situation in Nepal and abroad. Data collection in qualitative research depend mainly on in-depth or open ended interviews, direct observations, and written documents (Patton, 1990 as cited in Best & Kahn, 2004, Data available on line is another source of data collection in qualitative research. Qualitative research provides the freedom to the researcher to choose the data collection tools appropriate for the study and also the researcher gets the freedom to interpret the data thus collected. Different research authorities have described qualitative research in their own terms and the way they see it.

Confronted with a mountain of impressions, documents, and field notes, the qualitative researcher faces the difficult and challenging task of making sense of what has been learned. I call making sense of what has been learned *the art of interpretation*. This may also be described as moving from the field to the text to the reader. The practice of this art allows *the field-worker-as-bricoleur*

(*Levi-Strauss, 1955, p.17*) to translate what has been learned into a body of textual work that communicates these understandings to the readers (Denzin, 1994, p. 500).

In the above lines, Denzin appropriately explains that qualitative research as the art of interpretation. It does not look for much statistical data rather looks for available data from the natural surroundings. It is a process of research where the researcher use the technique of studying the voluminous data including books, journals, reports, interview notes, personal communication, observation, focus group discussion etc and come to a conclusion for the report. Qualitative research is an interpretation or translation of the data collected from various sources and the researcher use the art of interpretation to make meanings of the collected data.

Qualitative research turn the world into a series of representations, including field notes, interviews, conversations, photographs, recordings, and memos to the self. At this level, qualitative research involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them (Denzin & Lincoln, 2005, p. 3).

As described above, qualitative research is usually employed when large amount of numerical data is not available and the findings have to be drawn from in-depth understanding of the issue from interviews, focus group discussions, observations of the situations, deep relationship of the researcher with the stakeholders and the researcher's ability to find the meaning through his/her own interpretation. In qualitative method small focused samples are used more often than large samples as in quantitative approach. In qualitative method, rather than testing a hypothesis, a dialectic process is used between the question asked and data observed.

Qualitative research takes an interpretive approach and studies the issues in the natural settings.

Qualitative method has been used for advancing this study and different tools have been used for data collection. For this purpose my ontology has been multiple realities and epistemology has been subjectivism and this approach gave me the pleasure of changing and modifying my questions as the interview progressed to draw proper information from the concerned parties. Open ended questions have been asked in all the interviews for collection of data which helped me reform my questions as the situation demanded, and in-depth interviews have been conducted to draw information from all concerned parties. Content related to research focus have been collected from secondary sources such as journals, books and other related printed materials and also the materials from the web-sites. I have used purposive sampling method to identify research participants and to draw data from them. Ethical considerations have been attentively addressed.

I studied literature from many countries to give due consideration to their experiences and also to learn lessons from their practices and mistakes. This helped to learn about the failure and success stories of other countries and draw conclusion from their mistakes about what might work and what might not work in our country.

People say that qualitative research method is easier because it does not involve statistical data and depends mainly upon the researcher's interpretation of available data, but qualitative research is rigorous and involves its own set of data collection and analysis methods that ensure the trustworthiness of the findings.

Qualitative method gives the freedom to the researcher to immensely dig out research participants' perspectives and issues pertaining to the research problem. My study concentrated on financing aspect of higher education in Nepal and there has not

been much work done on this topic before. I involved many participants like policy makers, policy implementers, bankers, professors, government employees and many other high ranking authorities in higher education. Research findings have been developed on the basis of probing the realities. My data interpretation is based upon the data collected and verified by various means and it played the final role in determining research findings. Getting core ideas of the interviewees to have their real feeling and understanding towards the current higher education finance practices in Nepal has been the main theme of the study.

Qualitative research has its own structure and system to carry on the research. It needs a careful planning of a research design. Careful choice of research questions and data analysis through unbiased sample collection are some of the paraphernalia of successful qualitative research. Qualitative method gives enough opportunities for conducting in-depth study of the reality. It permits the researcher to do deep study in the related field and researcher gets the opportunity to generate findings and meanings from the available literatures. For this research in particular, information and data have been collected from different stakeholders in Nepal, national and international journals and internet sources with as much current data as available. This gave me the flexibility to collect and study the materials and derive applicable data to support my thesis. I scrutinized as much literatures as possible to draw vast quantity of information about prevailing practices of financing higher education and its management around the globe which enriched my study. I had to depend on the in-depth interviews as one of the major tools as suggested by MacRoy (n.d.) to derive all needed information about the subject matter under study.

In this study I have used only in-depth interview to collect data as other tools were not appropriate for this study. Observation has been used in rare cases to study

body language of the participants and also the way they present themselves expressing their feeling about my questions. Research participants have been purposively selected to get required reliable data. Qualitative research uses detailed descriptions from the perspective of the research participants themselves as a means of examining specific issues and problems under study (McRoy, n.d.) which helped me derived quality data for my study.

### **Why Qualitative Methodology?**

Qualitative research is about understanding different aspect of social life, and its methods generate words, rather than numbers for analysis. Qualitative research is based upon different data collection methodologies including field activities, which provides in-depth knowledge of the issue (Joshee, 2014). Qualitative research is all about collecting, analyzing and proper use of data (Patton, 2002). Qualitative research is concerned with the social aspects of our world and seeks to understand the process of developing cultures in society and, how opinions and attitudes are formed (Hancock, 2002). Qualitative research expects the researchers to remain self-aware, reflexive and self-monitoring in order to maintain the rigor and credibility of findings (Frerswater, Cahill, Walsh, & Muncey, 2010). Thus, this methodology have been keeping me alert to remain in my own domain and build strong relationship with the field because whole outcome of my research will be based mainly upon what I learn from the field. Vast knowledge have been derived from my research participants and I have tried to interpret them without any biases of my own as much as possible.

### **Philosophical Foundations**

Crotty (1998) as cited by Creswell (2003) in Research Design points to four questions that must be considered while designing research proposal. What epistemology or the theory of knowledge will be used that is objectivism or

subjectivism? What theoretical perspective or philosophical stance lies behind the methodologies in questions: positivism or post positivism or interpretivism? What methodology or strategy or plan of action will be used that is experimental research, survey research or ethnography? and What methods or techniques or procedures to be used, that is questionnaire, interview, focus group etc?

With reflection on these four questions, I have developed my research focusing on the following components.

### **Ontology and Epistemology**

Denzin and Lincoln talking about ontology, question “What is the form and nature of reality and, therefore, what is there that can be known about it? For example, if a “real” world is assumed, then what can be known about it is “how things really are” and “how things really work?” (Denzin & Lincoln, 1994, p. 108). Jacquette (2002) explores questions of pure philosophical ontology: what is meant by the concept of being, why does something exist rather than nothing. He explains that logic provides the only possible answers to these questions.

Kincheloe and McLaren (2005) explain that in social research, the relationship between individual and their contexts is a central dynamic to be investigated. This relationship is a key ontological and epistemological concern of the bricolage. It is a connection that shapes the identities of human beings and phenomenological paradigm plays a vital role in making this connection a true path to produce unbiased, reliable and trustworthy findings.

Similarly in the real world of “higher education finance” we need to find out the norms and practices that work in the real world. Therefore, my ontology in this study will get deep into the subject matter by grazing in multiple or diverse realities.

In this study, I have dealt separately with each university as they have their own rules and regulations. Each university has been established under their own acts.

Not much research works have been carried out in this topic. So, it was difficult to find much data in this field from Nepali perspective. In Objectivism, inquiry happens through one way traffic. Values and biases are not considered and do not influence the findings as long as prescribed procedures are strictly followed. For this reason, as it is not possible to use objectivism in my study, I have been using subjectivism throughout my study.

Ideas have been solicited from authorities and experts involved in this field in Nepal. I have obtained as much information as possible from all different stakeholders qualitatively. Therefore, my epistemology has been subjectivism rather than objectivism. Subjectivism approach gives me the flexibility of drawing information from the stakeholders with open mind and open ended questions. I had the luxury of being able to change my questions as needed with the progress of the interviews. Interpretivism use more open ended questions and the questions become broad and general so that the participants will be allowed to form the meaning according to the situation. This research has focused on the specific contexts to understand the cultural settings of the people involved.

Qualitative approach requires that the researcher spend utmost possible time with the concerned parties and the communities to collect data. I visited UGC/Nepal many times, which plays the vital role in higher education finance in Nepal. I met with World Bank (WB) official which has been providing substantial support to higher education. Since last decade, WB has been playing instrumental role in quality improvement activities with very visible financial aid. Data have been collected from the selected stakeholders using in-depth interviews, and informal conversations. Even

though in-depth interviews are mostly long and time consuming, this method of data collection provides enough information to make sense about the current situation and future trend of the subject matter in Nepal. I have interviewed top-notch policy makers and implementers of policy in this study. Data reduction has been done to filter unnecessary information collected through these methods. All these visits and interviews gave me good chance to see the effect of higher education and its financing constraints on the perspective from different stakeholders. Based upon the data collected from these difference sources, I interpreted these data without biases as much as possible to make sense based upon the current situation of Nepal. Qualitative study encourages the researcher to use his/her own unbiased judgment based upon the situation and after collecting deep knowledge of the topic researched.

Raw qualitative data usually get voluminous. I filtered out unneeded information from my raw data which is known as data reduction. Data reduction transforms the thick and voluminous data into easily understandable format with reader's friendly language.

### **Interpretive Paradigm**

Qualitative research tends to work with text rather than numbers. Interpretive research assumes that knowledge is gained and filtered through social constructions such as language, consciousness, and shared meanings. In addition to the emphasis on the socially constructed nature of reality, interpretive research acknowledges the intimate relationship between the researcher and what is being researched, and the situational constraints shape this intimate relationship (Rowlands, 2005).

Although, interviews and observations are commonly used approaches by the interpretive researchers for data collection but because of the nature the study, observation components of financing in relation to higher education was not feasible



for me. So I have adopted interview as major source of primary data collection. In addition to interviews, available documents like, journals, bulletins, acts, bylaws and Web pages of the concerned institutions were reviewed to get deep knowledge to support interviews. Moreover, national and international journals, books, conference papers and other printed and electronically available materials were reviewed as secondary sources for strengthening primary information.

As De Villers (2005) focused on the linkage of investigator and the object of investigation as a central tenet of interpretivism and to uncover who we are, how we understand ourselves, others and the world, in this study I have built deep relationship with all the research participants to uncover the facts about the higher education financing and management aspects. After reviewing available materials, I prepared thematic guidelines for interview based on the objectives of the study. Although the Interviews were guided by the thematic guidelines, during the discussions based upon the knowledge and expertise of the participants, national and international issues and lesson learned were discussed. It helped to ensure an adequate dialog with participants in order to collaboratively construct a meaningful relationship.

Differing from positivists who often accept only one correct answer, interpretivism is much more inclusive, because it accepts multiple viewpoints of different individuals from different groups (Thanh & Thanh, 2015). In this study, I had to listen to people with different opinions and ideas about financing higher education and how it can be managed properly. Research participants with different background in higher education finance, including policy formation, policy implementation, financial management and supervision were interviewed and collected different opinion and ideas from these participants. I have interpreted these opinions to make meaningful representation without losing their core values.

Research results should be reliable and consistent, free from perceptions and biases of the researcher. Interpretivism aims to find new interpretations or underlying meanings and adheres to the ontological assumption of multiple realities. Interpretive research emanated from the social sciences and is also used in educational research. Inquiry is value-related as interpretivism leads to subjective findings which may differ between researchers. It is an appropriate view for studies of complex human behaviour and social phenomena. It investigates research questions by using verbal data. Qualitative data collection and analysis produce findings related to intricate details where values and human experiences are relevant. In such contexts, the ability to interpret data is important and, in fact, 'the researcher is an instrument' (Leedy & Ormrod, 2001, p. 147 as quoted by De Villers, 2005). As the interpretive paradigm assumes, the result of this study is the finding of my research which may not stand appropriate or may need some changes in long run and different researchers may come up with different sets of finding.

### **Data Collection and Data Analysis**

This section of the study deals mainly with the data collection process and data analysis. It explains the process of respondent selection and data collection. Further, in this section I also explain the linkage between data and the research questions of the study. It also quotes data from different sources including personal communication with different concerned stakeholders and content analysis. I have taken each and every theme under my research questions and tried to narrate them, interpret them and make meaning of the raw data that I have collected. To represent my participants, I have used the interpretive paradigm and have tried to avoid my biases as much I could. Interpretive paradigm relies heavily on naturalistic methods or interviewing and observation and analysis of existing texts. My data collection is

based mainly on interview and content analysis and very little on observation. I have chosen to use observation except noting the body language of the participants telling me something or when I find him/her hesitant to talk about particular topic. To represent the correct views of the participants I have tried to bracket my pre-conceived notions as much as possible.

I have used data collection as a process of gathering information from different sources to get complete and accurate information about the subject to be researched. Data collection and analysis is considered as a process of gathering, and transforming data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. It has multiple facets and approaches, using diverse techniques under a variety of names. Certain questions must be raised before accepting the data to get the clear picture of the situation. The questions to be raised are (Niles n.d.): a. where did the data come from? b. Has the data been reviewed? and c. How was the data collected?

The above three questions help the researcher to make sure that the data is correct, unbiased, related to the research work, and coming from reliable sources. To answer these three questions mentioned above, I interviewed only those people who are directly related to my study. Data from these interviews have been reviewed, reduced, edited and interpreted correctly not to have any bias influences. Data gathered from other sources like content analysis has been reviewed, reduced and used only related to my study.

Knowledge and availability are two main criteria of my research participant selection. I have also used heterogeneous selection to include expertise from higher education policy makers, policy implementers, financiers and experts in the field of my study. Capacity and willingness to participate in the research is another criterion

for the selection of participants (Oliver, 2013) which I have implied in my research participants selection process.

Along with knowledge comes experience as another important criteria as research participants are not always created equal – one well-placed articulate informant will often advance the research far better than any randomly chosen sample of fifty (Palys, 2008). Therefore, I chose only those people as my research participants who have vast knowledge about the subject matter and firsthand experience of my research topic. The general principle, however, remains, think of the person or place or situation that has the largest potential for advancing your understanding and look there (Palys, 2008).

As Kathmandu is the hub of higher education in Nepal and all decisions are made in Kathmandu, I selected all my research participants from Kathmandu. All my research participants were/are involved in higher education finance policy and also in implementation level, and all of them are stationed in Kathmandu, and were/are the authorities in their field of expertise.

Selecting research participants was not an easy job. I discussed with various authorities of higher education before finalizing on the research participants. The selection was made with all my research questions in mind and also based on the issues described above.

My interaction with Ministry of Education Officials, VCs, University Professors, NPC Members, Administrators and Financial Managers of higher educational institutions, UGC Officials and other dignitaries in this field gave me solid idea about the current practices of financing higher education and higher education finance management in Nepal. I collected ideas and opinions through in-depth interviews and discussions with various stakeholders related to higher education

finance in Nepal, based upon their vast knowledge and firsthand experience in the subject matter.

I am still in contact with all my research participants. I have very good rapport with all of them and I have told them that I may get in touch with them any time in future if I need more information on the subject matter. The doors are open and I can visit them again if I need more information or I need to talk to them again.

Data collection is one of the very important parts of the research work. In order to come up with good strategies for financing higher education, viability of cost sharing scheme in Nepal, and management of higher education finance I listened to all the stakeholders and gave due consideration to their voices. In addition, I also gave due consideration to all other issues mentioned above while collecting and analyzing data.

As part of my data collection process, I interviewed various personnel representing different aspects of higher education in Nepal, and each of the participants expressed concern about the financial management of higher education. Some participants were very open and discussed their concerns in great detail, while others were more reserved and introvert and did not believe it was appropriate for them to discuss as they were not personally involved in some of the issues that I raised. This may have to do something with our culture. Respect for the seniors, not wanting to bad mouth or criticize colleagues or not having proper information may be the reason for it. Even some participants who were not directly involved in budget management had strong opinions on the topic based on what they had heard or read in papers about the problems.

All the people that I interviewed were /are authorities in the field of their expertise. They are the vibrant leaders in the field of higher education in Nepal

responsible to form policies and guide to implement the policies. These people are the top-notch authorities in higher education finance and many of them ran higher education institutions for many years. They have more than a hundred years' of cumulative experiences in planning, policy forming, and implementing higher education policies in the country. All my respondents were very open to my questions and they have expressed their views very openly and frankly. While the interviews were long, tedious and often time consuming, all the interviewees were very cordial, productive and informative. In spite of their busy schedule, they provided me enough time to discuss the different aspects of higher education financing in Nepal. I spent at least two to three hours with each participant and with some of them I spent more four or five hours. With one participant I spent about eight hours in two seating.

I began with a primary list of people for interview. As the interview progressed I had to amend the list and add new interviewees in my list as I did not obtain sufficient data from the people in my primary list.

Schematic Chart or research outline, table including themes of the study and qualitative data analysis framework have been used to process and analyze data. (Appendix III, IV and V). This study was not a tightly prefigured study. The study has been done in a more open ended way. Research questions for information collection have been posed in different forms depending upon the situation.

This study looked into different issues of financing higher education in theory and in practices, studied the practices and experiences of different countries and looked into how other countries are managing their higher education finances. Similarly, I gathered information from various sources about the financing of higher education in Nepal and abroad. In the course of data collection from my conversation

with my research participants various issues emerged out as the basics of trends and practices of financing higher education in Nepal and issues on management of higher education finance. Many of those points have been repeatedly surfaced during our conversation and became apparent that these are the issues in trends and practices and management of higher education finance.

Most of my research participants are still involved in formation and implementation of higher education policies; they delved into the center of the issue and make the information flow very natural and genuine. Some issues were repeatedly brought up by the participants where as some other participants had individual and different concerns. So, I got a mixed bag of participants with different ideas on higher education finance and its management in Nepal.

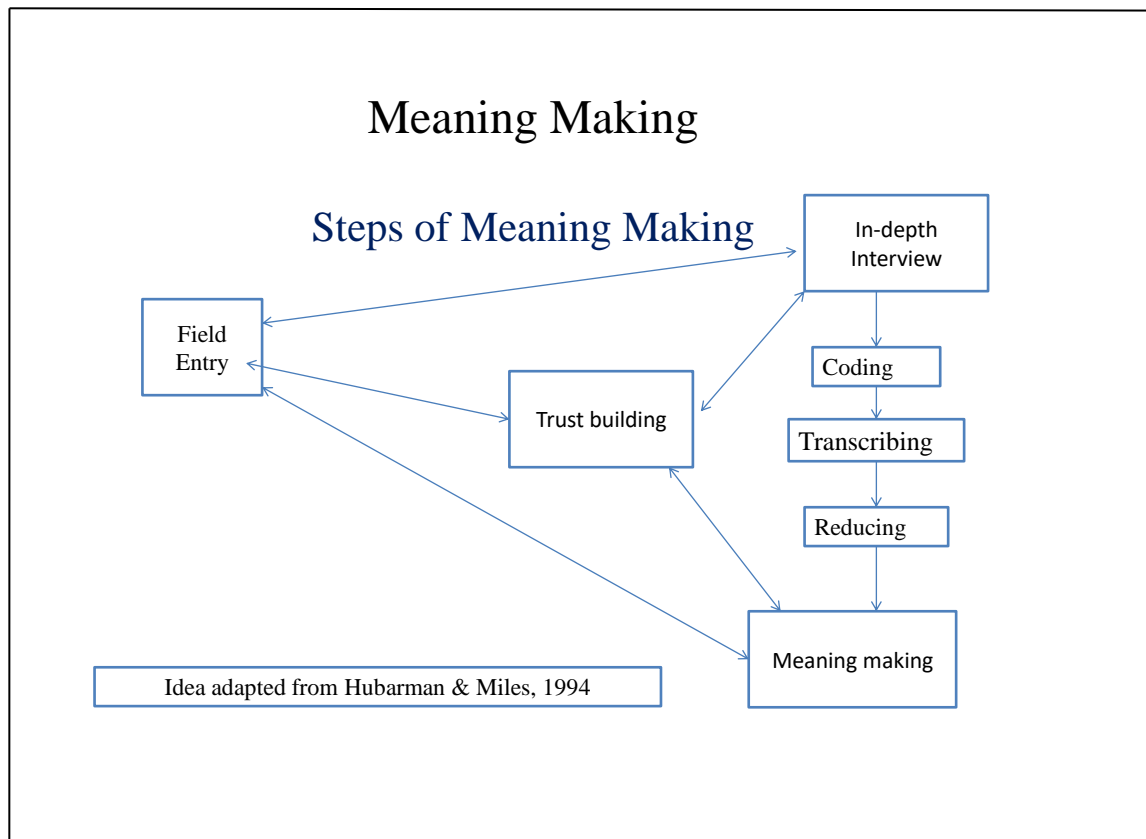
### **Data Analysis**

A total of twenty six research participants were interviewed. The following is a categorized list of my research participants:

- Policy makers : NPC-2, MOE-1 and UGC-2
- Policy Implementers: TU-3, KU-6, and PU-1 (VC, Registrar and Finance Chiefs of Constituent and Affiliated Campuses)
- Experts: Professors-4, UGC-1, WB-1
- Financing Agencies-2, CEO-1, and member of the board of Directors-1
- BPKIHS 1

I used the following simple steps to analysis the data.

*Figure 5. Data collection and data analysis*



I changed interview notes into simple write up immediately after interviews because I did not want to lose or forget any of their points. I developed coding based upon interview write ups and my observation of participants during interviews (Huberman & Miles, 1994). After write up I summarized all the information collected. I separated these entire summaries according to the category of my respondents. I prepared three sets of findings according to the category of my research participants: category one: policy makers, category two: policy implementers and category three: experts and financiers. Then I merged all these findings into one group, putting all the similar finding together. I also divided all the data according to the themes. Doing this I came up with different findings for current trends and practices and findings on financial management based on major themes. Then the data was reduced to the size to be used in the report. I verified these data many times going



back and forth to my original interview notes and write ups just to make sure that the data have been properly used and correct. Data gathered from different published materials like books, journals, brochures, newspapers, internet etc. have also been thematically categorized for content analysis.

Data analysis is a practice in which raw data is ordered and organized so that useful information can be extracted. The process of organizing the data is a key to understanding what the data does and does not contain. Data analysis can be approached in various different ways, and it is notoriously easy to manipulate data during the analysis phase to come up with wrong conclusions. Therefore, I have been very careful in analyzing data without bringing my biases and conception that I had before I started this study.

Wilkinson (2004) says, “ to appreciate the underlying theoretical similarities between most analysis of focus group data, it is necessary to appreciate that content analysis need not employ a formal coding scheme, nor need it be a precursor to any kind of quantification” (p. 184). Content analysis is simply inspection of the data and getting the gist from the available materials. In qualitative content analysis, the available materials basically talk about the related issue and the researcher has to draw the theme from it. Content analysis is the most preferred way of collecting and analyzing data in qualitative method.

Qualitative content analysis typically does not transform the content into numeric patterns. Instead, recurrent themes, and typologies and illustrations of particular issues, are used (McRoy, n.d.). As professor Emerita McRoy explains no data is transformed into numerical pattern in qualitative content analysis. It is mainly obtaining the ideas and gist of related available printed materials and materials from websites.

Thematic analysis help sort the data in different categories. The decision has been made about the process of identifying themes, and specific categories have been chosen. After carefully analyzing the data, the findings have been properly disseminated. I analyzed data based upon the standards prescribed for qualitative data analysis. The study of different countries' history and current status of financing higher education have been studied to gain knowledge on how they have been doing, the problems they have been facing, and the remedial methods they have been using to resolve the problems that they are facing. All these issues have been studied deeply and presents the reflection in this study.

Overall data collection and data analysis process have been a tedious process, spending long hours and trying to get their got feelings about the subject matter. Some of my research participants were wearing several hats so I had to pose questions from different angles to get their views. A higher education policy maker when s/he wears a hat of the Member of the Board of Director of a Commercial Bank must think about the interest of the investors of the bank. As a board member of a commercial bank, s/he will have to be cautious while fixing the interest rate on student loan and setting policy on collateral. It was a tricky situation when I had to ask him/her to answer my question as a policy maker and/or as a bank board member. On the other hand, it was good to see the different facets of the coin from one participant, how s/he deals in different situation with different perspectives.

### **Quality Standards**

There are several points we need to consider when considering the quality standard of a document. The following are the main components of quality standard:

#### **Credibility**

Authenticity and credibility of the data have been assured by raising the issue with the participants several times. I have checked the data with different stakeholders to know their view about the collected data.

Reliability in qualitative research can be considered as fit between the findings recorded and occurrences in the natural setting. Research methods are frequently triangulated by multiple data collection methods (De Villers, 2005).

For crisis of representation, I interviewed at least a few members from every group of stakeholders. For crisis of praxis and legitimization, I held long and deep discussion with all the members that I interviewed to ensure that the data I have been getting are legitimate and practicable in Nepali context. Many of my questions circled around the practicability and legitimacy of the data that I had been getting from them.

The main points that need to be considered in qualitative analysis of data are recording of experiences, interpretation of interviews, case studies, observation and content analysis (studying the message contained in books, journals, media, communications, and internet). Available materials from websites are also retrieved and studied in content analysis. Berg (2007) explains content analysis as, "In content analysis, researchers examine artifacts of social communication. Typically, these are written documents or transcriptions of recorded verbal communication." Data gathered from different materials like books, journals, brochures, newspapers, etc. and also from in-depth interviews are thematically categorized for content analysis. I have given due consideration to all these points.

### **Accuracy**

For accuracy, with every research participants, I repeated the questions whenever I had concerns about their points. I repeatedly check for meaning with them for clarity. Whenever I had doubt about their version or conflict between different

research participants, I didn't hesitate to repeat my questions just for clarity. I accepted the data only after being clear about what they are pointing at.

### **Personal Biases**

Whenever I went for the interview, I left my baggage at home. I didn't carry any of my biases about the subject matter while going for the interview. I didn't want to interfere my research participants with my ideas about the subject matter under discussion. I always maintained distance between the field and myself. I neither played the role of insider nor the role of the outsider.

### **Ethical Consideration**

In this study, I have not used any real name of any person that I collected data from. I have mentioned them only with nicknames. Strict measures have been applied to maintain confidentiality of the interviewees.

Consent, confidentiality, and accuracy have been maintained through out the study and proper acknowledgements have been made of those people who helped me in this study. To derail personal biases, I entered the field with open mind and made interpretation without effecting the finding with my prior or concieved knowledge about the subject under study.

### **Anonymity**

To maintain the anonymity of the participants, I used pseudonyms names(Appendix VIII). For my own convenience I have made a list of these nick names with actual names which has not been included here. This is just to make sure that I am quoting right person when I am writing their nick names in this paper.

## **Chapter Summary**

Qualitative method with interpretive paradigm has been used in this study to draw in depth knowledge and understandings of the issues from research participants.

I interviewed a total of twenty six top-notch authorities with vast experiences in the field of higher education. Printed and online local and international journals, bulletins, books and web pages have been studied to support my study. I studied about all eight SAARC countries and several other countries to learn their history and current practices and at the same time learn from their experiences. Data analyses have been done with credibility, accuracy, and ethical consideration in mind and without any personal biases. Anonymity of all research participants has been strictly observed.

## CHAPTER V

### HIGHER EDUCATION POLICY

Higher education policy is an important tool for the qualitative and quantitative development of higher education of a country. It helps prepare proper human capital needed for the country. In this chapter, the need of higher education policy with an emphasis to finance has been highlighted along with the components of higher education policy.

#### **Background**

Findings of this study have been divided into four different themes that is, higher education policy, higher education revenue, student support and financial management. This chapter deals mainly with the policy makers' and policy implementers' perception about the higher education policy of Nepal and also analyzes the findings of the study. Literatures and theories have been used to the possible extent to analyze the findings. This chapter has been divided into seven different sub-themes and those themes are: components of higher education policy, basis of higher education finance policy, absence of higher education policy in the country, roles of universities, need of higher education policy, market survey and human resource development plan in higher education policy. This chapter revolves mainly around higher education finance policy focusing the demand of the study.

We see the problems in higher education mainly in two areas that is finance and delivery. Both of these issues carry heavy weight and needs an elaborated study. Finance is crucial but at the same time delivery plays an important role in providing quality education to produce technically knowledgeable citizens to meet the need of

well-groomed technical manpower for the all-around development of the country. Higher education policy provides proper guidelines for both of these issues i.e. finance and delivery. But in this study, we are concentrating our focus only on finance part leaving delivery issues for some other people to study.

Technological development and economic achievement is the main attraction for brain drain. Influenced by Bologna process, and international movement of higher education students, ASEAN countries are working to encourage domestic students to study in Asia rather than heading to western universities (International trends....2015). Quality education can stop this movement which requires proper higher education policy.

While developing higher education policy, we also need to keep our eyes on international trend in higher education. Students are looking for universities providing degrees that are more palatable to international market and countries where they presume to have good working environment. This trend has brought big change in higher education worldwide. Technological development and economic achievement have been putting deep impression in higher education. Including these issues in policy guidelines while developing higher education policy helps keep higher education in right track in this competitive world. Influenced by Bologna process, and international movement of higher education students, ASEAN countries are working to encourage domestic students to study in Asia rather than heading to western universities (*International Trends in Higher Education Part One: New Developments in International Higher Education* (2015)). Students going abroad for higher education have become a fashion in Nepal. This trend has become a practice and growing every

year. USA, UK and Australia have been the dream land for many Nepali students. It is important that we also address this issue in our higher education policy.

Due to the lack of higher education policy in the country, and also due to the lack of concrete regulations and requirements to start a new university, universities are cropping up without strong financial evidence and infra-structure needed to run. The financial constraints some of our universities are facing now are the result of not having strong parameters to open new university. For example: Far-Western University, Mid-Western University, Lumbini Bauddha University and The Agriculture and Forestry University are still having physical facility as well as financial problems. All these universities are struggling with their infra-structure development.

Financial capital and human capital are two basic pillars that hold the

The fundamental questions that direct us towards higher education policy are: What is education for? Who is education for? Who pays for it? Who decides and on what basis?

university tight. High lighting the need of these requirements in higher education policy guideline will help visualize the need of financial capital to open a university and strengthens the function and quality of our higher education institutions. These needs have been clearly visualized in regulations prescribed by the government in different times. The issue under discussion here is, “Either the concern body is negligent or they are not following the regulations

under pressure to open universities”. Whatever is the case, it is the contradiction in policy (if there is one?) and the implementation of the policy.

Higher education policy is drafted in such a way that it provides clear guidelines for operating higher education institutions including organization’s administration, management, financial activities and student support system to



achieve stated missions, goals and objectives. The fundamental questions that direct us towards higher education policy are: What is education for? Who is education for? Who pays for it? Who decides and on what basis? Debates about these issues continue to influence higher education policy to the present day, revealing conflicting sets of values and different views about the very nature and purpose of higher education (Stevenson & Bell, 2009, p.2). Guiding principles to reveal and resolve these conflicting sets of values and views that appear while asking those above questions are the pre-requisites for the formation of higher education policy. The above questions clarify the value and the need of higher education and these questions also guide us to the role of higher education in the society. Who pays for the higher education in the country is the major question and the answer of this question will guide us towards the resources for financing our universities and other institutions. There is no question about the need of higher education policy in a country. But, why it is taking so long to have it in Nepal? The expression of feelings of needs make real sense of understandings if these expressions are carried out in timely fashion.

There are certain rules and regulations prescribed by the government of Nepal about the functioning of higher education in Nepal (Ved Byas, File folder # 14). Many research participants agree with the above statement. Even then, a sound home work to prepare a practical and student friendly higher education finance policy with equal importance on the monitoring, management and administrative aspect is what we are lacking (Harish, File folder # 5). Our higher education leaders need to lobby and have the members of the parliament discuss on the policy framework and approve it. Or have the members of the parliament discuss over the present frame work and come up with a more appropriate “Higher Education Policy.” To incorporate strong financial aspect in the current higher education policy framework tabled in the parliament,

inputs from different theories like demand side theory, supply side theory, Human capital theory, Bennett's hypothesis and other theories may come very handy to come with a first-rate policy on higher education and higher education finance.

### **Components of Higher Education Policy**

Developing higher education plan and policy plays a big role in country's development as we face daunting pressure for the rapid development of higher education system which produces graduates equipped with market relevant knowledge to enter the job market. Higher education finance plays a vital role in preparing and adapting the policy to produce graduates equipped with needed knowledge economy based skills. Higher education has its benefits in every possible ways. It develops human resources necessary for economic and social transformation. Technical education plays an instrumental role in improving the production capacity of a nation.

Higher education policy among many other issues mainly encapsulates the organizational patterns, funding schemes and operational process (Ansell, 2006). The policy is developed based upon the resources of the country, growing demand of higher education due to demographical growth and human capital needs. The policy also includes college affordability, productivity, student success and quality standard of education and many other pertinent issues.

Many of these components have been discussed in various higher education commission reports submitted to the Government of Nepal in previous dates. Some of these components recommended by these commissions may have become invalid and may not carry any significance like house leader tax and taxes on minerals of Nepal (Ministry of Education, 1984) which may not produce much revenue. But there are many other recommendations which are still very valid and can be implemented like

percentage of government contribution versus student contribution in higher education, tax holiday and tenant rights (Ministry of Education, 1984) Higher education policy is based on various aspects of the situation of the country like resources available, human capital need of the country, demographic growth of the country mainly within 18-24 years age group etc.

Sustainable use of resources is a strong component of higher education policy. Determining the sustainable teacher student ratio is important. Resources (both financial and human) are rare and must be used properly. Uncontrolled management of resources hikes tuition fee which creates burden on students and parents. In most countries, students demand and interest guides the opening, expanding, and closing of departments. There is no reason keeping department open if there is no interest of students in that subject.

*Resources have not been properly utilized by the universities. Departments often remain open even when they have no students enrolled (Bashistha, File folder # 1).*

Practice of sharing resources among institutions will facilitate financial control and better management. Uncontrolled expenses and waste of resources hikes price which put unnecessary burden on students and parents and other stakeholders. Proper use of resources helps improve educational standard of the country.

Human resources development is another problem seen in some universities. Human resource capital is an important and essential component of any educational institutions. Proper faculty member is essential for running a department. These faculty members can be shared among outlying institutions based upon the need to share financial burden.

*Some universities also have problem in human resources development and don't have capable human resources. The whole faculty may have just one MA degree holder faculty (Bishwombar, file folder # 2) in some institutions.*

Even though Registrar is responsible for finance management, team work is

Ingredients for higher education policy: a). Funding mechanism should contribute to society and the economy, (b). Cost sharing between the state and students should be used, (c). National subsidy in higher education should be considered to benefit the society and (d). A comprehensive student support system

very essential. In most Nepali universities, VCs and Registrars are weak and do not exercise their authority properly (Jamadagni, File folder # 3). Higher educational institutions should be free to prepare their own curriculum and departments should be closed if there is not enough enrollment. However there is a lack of creativeness and vision demonstrated while preparing budget and financial administrators tend to just increase the amount in ratio while preparing financial plan (budget) to submit to the senate (Jamadagni, File folder # 3). Monitoring and supervision plays an important role in smooth functioning of any entities.

*There is a lack of supervision and is often unknown who is responsible for supervision (Bishwombar, file folder #2).*

### **Basis of Higher Education Finance Policy**

The policy planners have to consider many issues while preparing higher education policy. Student support system is one of the important issues among them. High liquidity in the market may encourage the institutions to raise tuition fee as students will be able to afford the cost (Bennett, 1987). If this system produces graduates who are not marketable then it may affect the scheme by one way traffic and not having loan available to other students in coming years.

The Organization for Economic Co-operation and Development (OECD) has developed certain criteria for developing higher education funding policy (Funding Tertiary Education, Pointers for policy development, 2008). The criteria are; (a). Funding mechanism should contribute to society and the economy, (b). Cost sharing between the state and students should be used, (c). National subsidy in higher education should be considered to benefit the society and (d). A comprehensive student support system should be developed. These criteria are very relevant also in our case and clearly sums up the major issues that need to be considered while developing higher education financing policy. These factors as discussed above and other factors that come to mind when we think about developing higher education finance policy are, (a), the society, because it is the most important stakeholder, (Jamadagni, File folder # 3), (b), Cost sharing and national subsidy, which is the international phenomena in the finance of higher education (Bashistha, File folder # 1), and (c), Last and the most important factor is a comprehensive student support system which will help students to procure financial support to pay their share of the expenses (Ved Byas, File folder # 4), such as a well-designed cost sharing practices and well planned student loan scheme or some other way to support the student to help them pay their share of the cost.

Beside those four OECD pointers described above, philanthropists and other donors also cropped up many times in my discussion with the research participants. The arguments from these stakeholders are equally important to keep in mind while preparing financing policy. Though it will need tactful dealing and a broad knowledge of the society and possible donors, this could be one of the major sources of financing.

It is very clear that a sound home work to prepare a practical and student friendly higher education finance policy with equal importance on the monitoring, management and administrative aspect is what we are lacking (Harish, File folder # 5). Ramesh (File folder # 7) emphasized more on monitoring while agreeing what Harish (File folder # 5) has said above. Financial health of the country and sustainability are kept at the core of the planning. Supply side funding and demand side funding plays a key role in higher education financing policy (Ved Byas, File folder # 4). Along with it, there are human capital theory and other important theories that need to be considered while formulating policy. Long term human capital need also dictates the higher education financing policy of the country.

### **Absence of Higher Education Policy**

Nepal has been running higher education institutions without a set higher education policy. Jamadagni (File folder # 3), one of the policy implementer (a VC) says that there is no higher education policy in Nepal. He further argues that there are certain rules and regulations that Government of Nepal has issued from time to time that have been binding Nepali higher education institutions but there is no policy as such. Another policy implementer, Bashistha (File folder # 1) supports Jamadagni (File folder # 3) and further says that the policy should clearly state the vision and the mission of higher education and how these vision and missions can be achieved. Another policy implementers, Bishwombar (file folder #2), a VC of a university claims that there is no written higher education finance policy in the country. All of the policy implementers say that Nepal not only does not have finance policy but there is no higher education policy at all. As said above, there are rules and regulations about how to govern higher education institutions but there is no higher education policy.

Various previous education commissions recommended various policy points to the government but most of the commission reports were shelved immediately after they were handed over and no actions were taken. For example: Royal Commission for Higher Education (1984) recommended increase in higher education budget, tax holidays for fund donated to education, no tenant right on real estate property of educational institutions etc. but there have been no action on these recommendations.

This commission also pointed out various issues for higher education policy like: organizational patterns and management, public and private colleges, financial situation and physical property of higher educational institutions, production of educated human resources, educational environment and educational standard, evaluation process, and research works (Ministry of Education, 1984).

Another report recommended that student tuition fees should cover one fifth or one tenth of higher education expenses and the rest of the expenses should come from the government (Ministry of Education, 1955). The same report (p. 166) also recommended government to levy taxes on property, natural resources like forest, minerals etc., house leaders' tax and luxurious goods tax. The report says that these taxes will increase government revenues which will help increase higher education budget.

There have been many ongoing changes in higher education and there have been many rules and regulations issued by the government to address these changes, but no higher education policy has been published as of this date.

Many research participants talk about the vacuum of higher education policy in Nepal which causes some problem. Almost all higher education institutions have budgetary problems. The public institutions' financial support that they get from the government is not enough even though they get more than ninety percent of their

budget from the government. The only way for them to meet their need is to raise tuition fee but the government does not support public institutions raising tuition and other fees. This is what they mean by “double standard”. There are two choices: full autonomy to universities with freedom to plan and prepare their own budget to handle their financial crisis or total financing from the government. The following are some of the verbatim quotes from the research participants (mainly policy implementers) about not having clear higher education policy in Nepal.

*Double standard hampers the functioning of the institutions. Clear arrangements about support and autonomy provide good administrative health to these institutions (Jamadagni, File folder # 3).*

*There is double standard in government operation (Bishwombar, file folder #2).*

*Government should either give total freedom to the institutions or provide adequate financial support (Bashistha, File folder # 1).*

*Providing autonomy phase-wise along with financial support (Bhuban, File folder # 8) will help maintain the quality of education.*

The above quotes are from my discussion with them while we were talking about higher education tuition in public institutes and how government supports the student while institutes try to raise minimum of tuition fee. Public institutes in Nepal have very low tuition fee as they get heavy government financial support. But this heavy support from the government is also not adequate to run the institutes. Therefore, the only way out for the institutes is to raise tuition fee. Students always revolts when there is a talk about raising tuition fee and then get government support which makes the institutes face the budget crunch.



Khaniya (2015) says that either government should bear all pension expenses of Tribhuvan University retired employees or give autonomy so that they will be free to have their own financial plan and budget.

### **Role of Universities**

It is visible that the institutes are not playing active and responsible role to drive fund raising programs. This problem can be resolved through good dialogue among the financial planners of the country and also having good visionary leaders to lead these institutions. Government's support is essential to both public and private institutions. If government does not provide full financial support to these institutions, government's support is essential to these institutes when they try to raise reasonable tuition fee. At the same time, exploring and tapping new resources has become the general phenomena and day to day practice in the world of higher education finance.

People are getting more aware of the benefits of higher education. Demographical growth, mainly in developing countries are putting strong pressure on the demand of higher education. These issues put strong pressure for more budget for higher education but government contribution is declining every year. This causes the austerity in higher education finance.

*Due to the pressure of higher number of student enrollment, need of investment in technical education and proper human resources and the financial inflation, the austerity in higher education finance has been growing every year (Bishwombar, file folder #2).*

*The unresolved equation is not being clear how much government should support and where the remaining support should come from (Jamadagni, File folder # 3).*

As Barr (2005) suggests, students should be made liable to pay certain percentage of the expenses with student friendly financial schemes as they are primary beneficiary of higher education. Bennett's hypothesis also support that student will be eager to pay high tuition fee if they can access the resources which helps the institutions.

Public universities are not playing responsible role to raise fund. As they get big chunk of their budget from the government, they don't even think about other sources of finance. Tapping other sources certainly takes time and effort but it certainly helps. There are several different sources that have not been tapped yet. Periodic drive of fund raising program helps patch some of the holes in their budget sheet. General public's feeling of ownership of these universities makes the drive of fund raising program successful.

There are various methods of financing higher education. Aturupane (2012) provides seven alternative models of higher education financing. His seven alternative models are: total funding by the government, cost sharing between the government and the students, Dual-track system, free and fee levying institutions, subsidized private higher education like education vouchers stipends, scholarships etc., deferred tuition fees and up-front tuition fees. We have to pick and choose which models fit our financial environment. Or we may have to mix some of his models to make one that fits our needs. Barr (2005) recommends cost sharing between the government and the students as students benefit most from higher education. To implement his recommendation, the government has to be willing to support students by making student loans available in a student friendly environment.

*Universities are not playing responsible role to drive fund raising programs  
(Bashistha, File folder # 1).*

Government subsidy to public universities of Nepal has been helping poor and intelligent students to go for higher education. This is what is called the theory of

The higher education policy  
Framework lacks the detail financial

supply side financing. Student fees in these universities and their constituent campuses are very nominal making it affordable to all. Tables 4 and 5 in

chapter VI show the percentage and real amount these universities get from the government every year. But the question is, “is it helping the real needy and poor students?”

“Yes, the fee is nominal, but the poor students from remote parts of the country and also poor students even from urban area have been facing problem accessing their dream education.” First, there are no campuses in these remote areas. Second, the poor student from the urban cities can’t afford it as they have no means of paying even these nominal fees. There is no government support for their living expenses and food for them to attend their dream education. Scholarship is very rare. These students without family background of higher education have very slim idea or no idea at all to tap the resources for their education. This issue points to the accessibility and equity parts of higher education finance policy.

### **Need of Higher Education Policy**

Nepal government has realized this vacuum of not having higher education policy. A need of the policy was felt to address the ongoing changes in higher education sector of the country and formed a higher education policy formation team under the chairmanship of the then Chairperson of UGC Dr. Ganesh Man Gurung in 2013 and the team submitted the report

to the Ministry of Education in 2014. The proposed higher education policy prepared by this team recommended that higher education budget be increased from 8% to 10% from total education budget over the course of four years. Higher education had received only 8.33% of the education budget in fiscal year 2013/014 and 7.93% in fiscal year 2014/015 respectively. A revised draft of higher education policy known as Higher Education Policy Framework was submitted to the cabinet and then to the parliament. This framework did not have detailed financial policy. The framework did not have a clear policy on public private partnership either. The framework is not clear how the government will support the mushrooming private institutions of higher education. This higher education policy framework is silent on how the investments necessary to enhance the physical infrastructure of the new public universities (like Mid-Western University and Far-Western University) will be found. The exact manner how support will be extended to private institutions is also left unstated (Proposed Higher Education Policy, 2015). The question is, why have reports been prepared and then not approved and not implemented? Why financial policy was missing from the Higher Education Policy Framework? Policy implementation is very painful; some will win and some will lose. National leadership is critical to force policy decisions. Strong national higher education leadership only can influence the authorities to have the policy approved and implemented.

From my discussion with my research participants, it is very clear that a sound home work to prepare a practical and student friendly higher education finance policy with equal importance on the monitoring, management and administrative aspect is what we are lacking. Financial health of the country and sustainability are kept at the core of the planning. Supply side funding and demand side funding plays a key role in higher education financing policy. Along with it human capital theory and other

important theories that need considering while formulating policy. Long term human capital need also dictates the higher education financing policy of the country.

In house businesses like book stores, transportation, cafeteria, proper sharing of income from research like activities, different kind of fund raising schemes are also mentioned by many authorities as some ways of securing more capital for higher education finance. Crowd funding (as explained above in chapter II, page 62) is also very popular among students now a days. It would be beneficial for the students in Nepal to try this new approach. Innovative finance and impact investment are also gaining momentum in financial world. Both investor and the higher education institutions will certainly benefit from these different approaches if used properly.

### **Market Survey**

Many of our institutions are still working through old teaching learning practices (*Harish, File folder # 5*) and teaching learning practices have not changed according to the demand of the modern day market (*Bishwombar, file folder #2*). Investors hesitate to invest in human capital development as there happens to be no good collateral. If institutes produce quality graduates according to the demand of the market, graduates will have no problem finding well paid job which means ability to pay back their loan installments. Skilled graduates are in demand for the economic development of the country. Thus production of high quality graduates will encourage the investors and try to solve the austerity problem in higher education finance (*Olaniyan & Okemakinde, 2008*).

Market survey is the necessity of the day to find out what the market demands from the graduates. Changing their curriculum according to the demand of the market is needed to avoid unemployment problems of our graduates (*Bishwombar, file folder #2*). Higher education institutes need demand driven curricula to stay in this

competitive market (Chemboi, 2008) for these aspirant students and financial resource is one of the most vital tool to provide this demand driven curricula. Financial resources play an important role in hiring qualified faculty and administrative human capital, preparing needed infra-structure and also accumulating teaching-learning materials. Thus, demand driven curriculum along with well-planned financing policy are the backbones of the whole process of delivering high quality higher education which helps make the institutions meet their targeted goals and objectives.

In many industries, the theory of creative destruction plays a major role. New product displaces old product. It can happen in education also if the old teachers don't equip themselves with new ideas and techniques. Teachers refreshing themselves with the new trends of market help preserve quality of education. Information technology revolution is making new demands of the new graduates in the world of knowledge economy. It is changing every day and the demand of new technical skill is growing in the market. More investment is needed to produce graduates skilled with new technical know-how. Also students will need access to resources to pay their part of the expenses for their education. So, proper financing mechanism of higher education is of utmost important to produce well trained and technically capable graduates for all round development of the country. Proper market survey is the only way of finding out the need of the market.

Higher education budget, higher education finance policy, revenue diversification, cost sharing, scholarship, accessibility, Government role in management of higher education finance, and market survey are all in practice only to some extent in Nepal but in some universities the curriculum has not changed for decades (Bishwombar, file folder #2). Proper use of all these pointers makes a vast

difference in the development of higher education and production of quality graduates to meet the need of the country.

Need based curriculum developed according to the demand of modern corporate world attract students from all around the world. Australia has been playing the role of role-model about attracting foreign students. Foreign students comprised 24% of total higher education students in 2004, which brings significant amount of foreign exchange in country's economy (Johnstone & Marcucci, 2010, p.287). Attracting foreign students improve financial situation of the institutions as well as of the country. University in non-government sector in Nepal has attracted some foreign students but more can be done by both public universities and non-government universities.

Market survey is the key process to achieve what have been discussed above. Market survey can begin to force policy changes and provides data to support the policy. Policy cannot be written in a vacuum. Market survey plays an important role in overall development of higher education of a country.

### **Human Resource Development Plan**

Human resources play a critical role in the all-round development of a country. Therefore human resources development plan is an important part of higher education policy. Lack of trained man power is distinct in many of our projects. Due to the lack of trained man power we have been depending on foreign experts for many of our projects. Addressing these human resources need in our curriculum attracts our university age cohort with the hope that they will not have any problem landing in job with good financial package immediately after they complete their education.

Government of Nepal does not have any data for need of human capital even for few years down the road. It is very important that we have a list of numbers of

doctors, engineers, planners, bankers etc. at least for five to ten years down the road. There is no plan. There is no vision. The institutions guided with these visionary plans can adjust their departments according to the need of the country.

*Government of Nepal does not have any vision of need of well-trained human capital for a foreseeable future (Bishwombar, file folder #2).*

Investment in human capital will be fruitless if institutes fail to produce skilled human capital, to meet the growing needs according to the changing pattern of the economy of the country (Olaniyan & Okemakinde, 2008). This is more important in knowledge based economy because quality education brings positive social change which helps all round development of the country. This is possible only if the government comes up with a plan and policy of making resources available to both institutions and students according to human capital theory so that institutes will be able to produce quality graduates to meet the changing human capital need of the country.

The economic analysis of financing educational investment is often based on the concept of human capital, that is, education is an economic investment and that the main objective of allocating resources to education is to gain the pure economic benefits that can be measured and valued in monetary terms (Al-Hajry, 2002). This investment should be based on the human capital requirement of the country. In this case Nepal still lags behind by not being able to produce the real need of proper human capital stock for the country for foreseeable future. The research participants, who are the higher education authorities, expressed the feelings that higher education is going forward without any proper aim (almost all participants from the group of policy implementers).



## **Issues and Contradictions**

### **Higher Education Policy**

Nepal government seems to realize a need of higher education policy for the country keeping in view of all the changes coming in higher education and formed a Higher Education Policy Formation Team in 2013 under the leadership Dr. Ganesh Man Gurung. The team submitted its report in 2014. Since then, the report has been through several workshops, conferences, the cabinet and even to the parliament but it has not been approved by the parliament yet. This higher education policy framework has faced many changes on the course of travel but it never got a chance to be implemented. This is a contradiction to the government's ideology. In one hand the government seems to realize the need of the policy but on the other hand, the prepared policy can't be implemented. The contradicting question and the paradoxes is that the need has been realized but no action has been taken to get the fruit of these studies. All reports submitted by various commissions and committees have been collecting dust, shelved in one corner of the ministry or the department of education. It looks like the commissions were formed just for show. Implementation of those recommendations would have taken higher education of Nepal to a higher standard than where we are now. . The vision is there. The need is there. The realization is there. But implementation is lacking. That is the contradiction between realization and implementation.

### **Education Commissions**

There has been several education commissions (including higher education) formed in Nepal since the middle of the twentieth century. All these commissions were formed under the capable and competent educational leaders of the time with several competent educators as members of the commissions. These visionary leaders

of education (higher education as well) did serious study and came up with strong and constructive recommendations, if implemented well, would have brought sparkling results in the development of higher education.

First education commission, “Nepal National Education Commission” started its work in Singha Durbar, Gallery Baithuk (a historic big hall in secretariat palace called Singh Durbar) on March 22, 1955. This commission recommended a full-fledged university by 1965 (Education in Nepal, p.73) and provided several other recommendations which included various aspects of financial management of envisioned university like, student support system, tuition fee (with percentage of cost sharing between the government and the students), and student loan etc. (Ministry of Education, 1955). We must appreciate the recommendation of cost sharing percentage by these visionary leaders in nineteen fifties. Most of the recommendations are still valid and can be applied even in present situation with some alterations like cost sharing percentage.

Royal Higher Education Commission (1982) also provided many recommendations like tax holiday for donations to educational institutions, no tenant right on real estate property of educational institutions, and national budget appropriating at least 10% for education and out of total education budget earmarking at least 30% for higher education. Most of these recommendations remained unattended.

The paradoxes are government forms commissions for higher education expecting clear guidelines for future endeavors but most of the recommendation papers go to waste baskets and do not get implemented. This is a waste of money, time and energy. Implementing applicable recommendations would have brought higher education of Nepal to a higher standard. If there are contradictions among the

recommendations, then that could have been discussed and negotiated for a better result. Almost all of these issues brought up by these commissions are viewed as important issues even at present time. It would have been easier to set certain rules and implement the rules while the institutions were just opening rather than undo some of the things already in practice, not enforcing the regulations while providing approval letter for opening. “Nip in the bud” as the saying goes.

### **Chapter Summary**

With all the discussions above, we can say that there are definitely some rules and criteria to distribute funds for higher education institutions in Nepal but there is no policy on higher education finance or on higher education itself as a matter of fact. Some of the guidelines provided by the various commissions could be the milestone to form higher education policy. The formation of higher education policy team under the chairmanship of Dr. Gurung further clarifies the need of higher education policy as stated above.

Higher education policy document is the real backbone of higher education. It includes all the features to develop higher education institutes as the providers of quality education. Accessibility and equity are two of these features which help fare distribution of economic return and improve economic status of general public of the country. The policy document guides and support institutions. Clear rules, regulations and guidelines come from this policy documents. As has been discussed above there have been many higher education commissions which recommended many important points to develop higher education policy but it has not come to fruition yet. Government of Nepal had realized the need of it and formed a team to prepare higher education policy. Report was submitted and higher education policy framework was tabled in the parliament but has not been passed yet. This frame work lacks detail

financial outline and need more work to include proper policy on financing of higher education. From the above discussion we can conclude that policy is the key, but policy must be related to market surveys, will of those who implement it, practical enough for possible implementation and also policy can be revised from time to time according to the result of market survey.

## CHAPTER VI

### FINANCING PRACTICES OF HIGHER EDUCATION

#### **Background**

This chapter starts with budget preparation and goes along with current practices and trends of higher education finance in Nepal. It explains how higher education has been funded, and who provides funding. It discusses the trends of budget allotment by the government and resources available in Nepal and abroad including different theories used to disburse government fund and various methods used by institutions to collect revenue. All possible sources of revenue generation have also been included in this chapter. While discussing about higher education financing policy in chapter V, it also shades some light on the importance of revenue aspects while forming policy.

An effective budget manager, at all levels, must follow institutional fiscal policies, meet deadlines, and solve problems before they become major concerns to the institution or the unit. Sound and consistent fiscal management is an essential first step toward effectiveness of general management (Barr & McClellan, 2011). A sound fiscal management system is the necessity to keep financial activities transparent and maintain smooth operation of an institution. Since the budget managers tend to be under pressure to release budget in timely fashion, and the recipients tend to be always in a hurry to receive funds, the fiscal managers have a critical role to play in order to make sure they abide by the fiscal policies and meet the deadlines. Understanding and managing budget are essential skills for all administrators, and even more so in the current scenario in Nepal, when all the higher education

institutions (public or private) are facing budget constraints and financial austerity. As such, budget managers have a difficult and important role to play in planning, organizing, controlling and monitoring financial resources in order to achieve organizational objectives.

### **Trend of Financing Higher Education in Nepal**

The trend in higher education finance has been changing worldwide. There are several issues that affect higher education finance. Increasing per unit or per student cost, increasing enrollment, faltering government revenue, the increasing knowledge economy, increasing globalization and decentralization are the main agents to bring this massive change in the trend of financing higher education (Johnstone & Marcucci, 2007). These points are equally important in our case also.

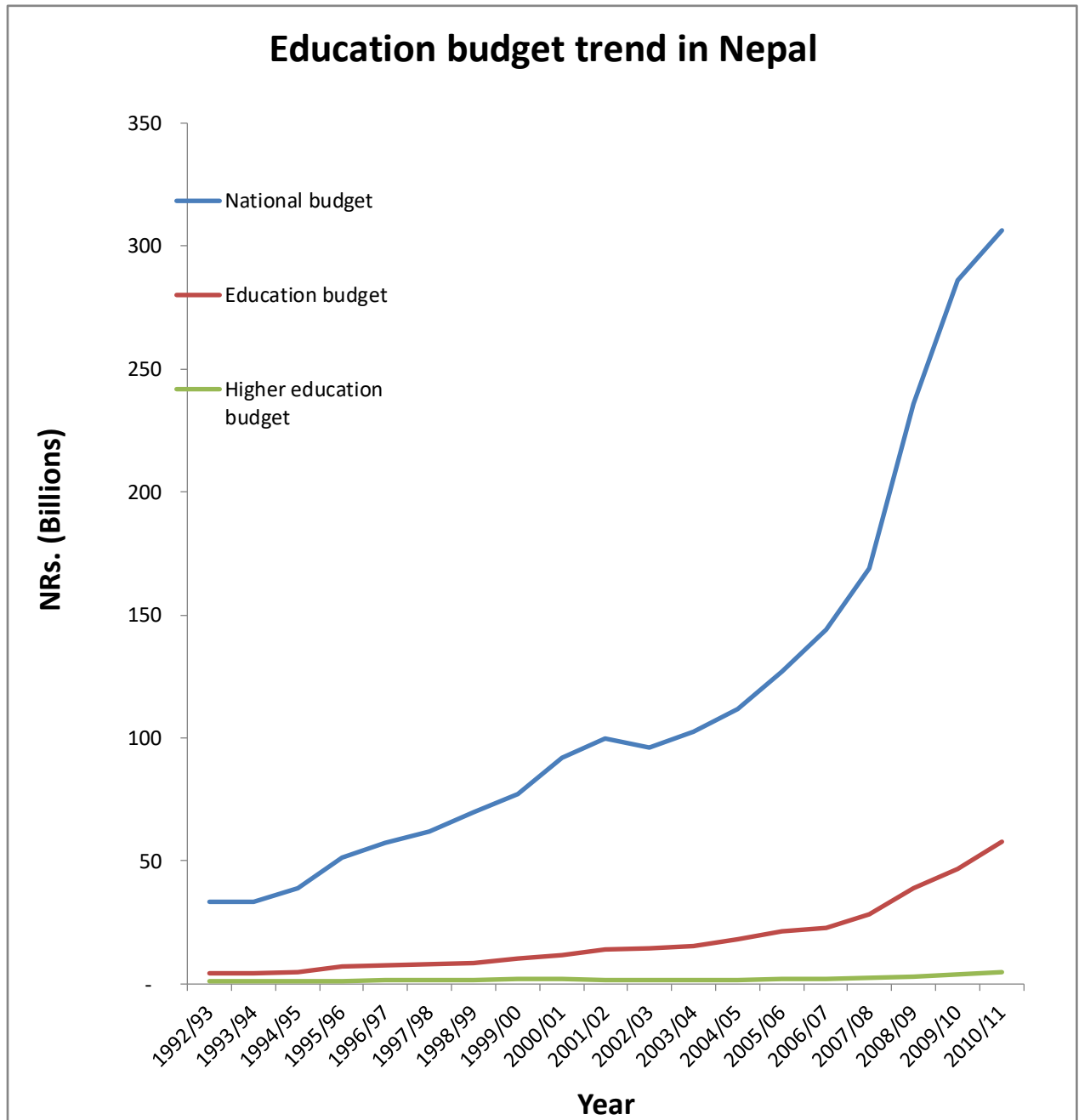
Government funding is one of the most prevalent ways of financing higher education in Nepal. But secular stagnation of Nepali economy has obstructed provision of enough funding for higher education. Higher education budget has been hovering in between seven percent and eight percent of the national education budget for last several years.

Until the opening of other private and community universities, government of Nepal used to subsidize all the higher education institutions of the country. After the introduction of multi-university system, the private universities started managing their own resources. The subsidies, that TU, NSU and other higher educational institutes get from the government each year has increased number-wise but it is decreasing percent wise. The data shows the downward trend in financing higher education in Nepal. Higher education received 29.29% of education budget in fiscal year 1992/1993 and it ended up at 8.1% in the fiscal year 2010/2011. (See Annex III for

year wise the numerical figures of national budget distribution.) The following chart shows the downward trend of higher education finance in Nepal.

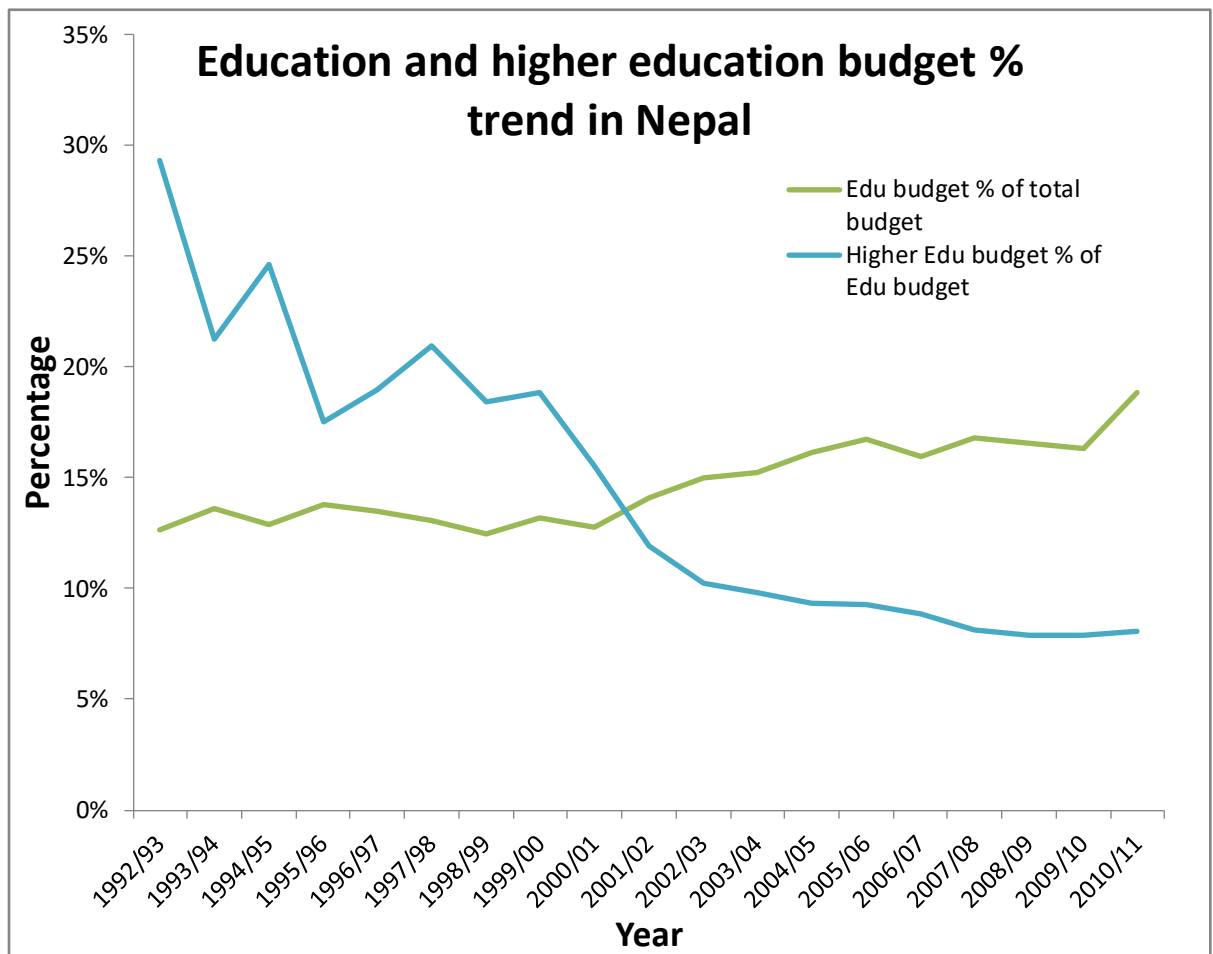
*Graph 1: Government expenses for higher education in Nepal*

*Source: Joshee (2015).*



The above charts show that education budget is increasing according to the increment of GDP but the ratio of higher education budget has been decreasing percentage wise every year. This trend has been continuing for last several decades.

Graph 2: Education budget and higher education government spending



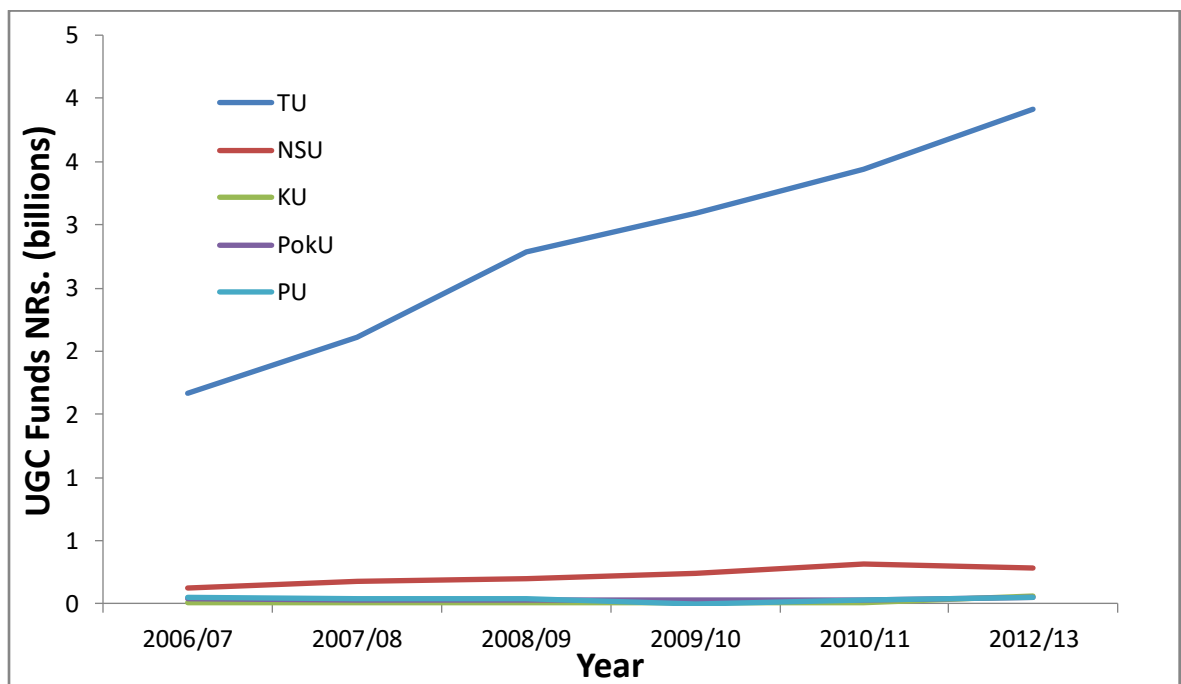
Source: Joshee (2015).

The above chart shows that the amount of rupees has been increased by more than three fold in 2010/2011 in comparison to the amount allotted in 1992/1993, but this increase is mainly due to the increase in the size of budget. Percentage-wise it has been decreasing every year. High school graduates are increasing every year putting more pressure on higher educational institutions for more seats for enrollment which demands more investment in higher education. Nepal government's priority has been basic and primary education resulting in a smaller fraction of the budget allocated to higher education.



TU and NSU are the two universities that get a big chunk of financial assistance from the government. Universities other than TU and NSU, have to charge high tuition and other fees to sustain themselves as they get very small percentage of their budget from the government.. The following chart shows the financial distribution to universities by UGC in fiscal years 2006/07 to 2012/013.

*Graph 3: Allocation of fund by UGC*



*Source: Joshee (2015).*

The above graph shows that TU gets the highest amount of budget every year and NSU comes second. Other universities like KU, PoKU and PU get very small amount from the government coffer.

### **Budget Preparation**

Higher education budget preparation for public institutions starts from the constituent campuses. All constituent campuses send their estimated budget to their universities. Universities prepare their budget based upon their estimate and estimated budget received from the constituent campuses and forward their budget to National

Planning Commission (NPC) through Ministry of Education (MOE) and Ministry of Finance (MOF) (Ramesh, File folder # 7).

NPC has members looking after different ministries for preparing budget, like different member for health, education, rural development etc. These members are experts in their field of work. It also has a high level resource committee that decides on allotment of funding. This committee works closely with concerned member and also with the concerned ministries in consultation with the ministry of finance. This committee has an important role on deciding which headings get how much fund even though it is decided in consultation with the concern ministry and Ministry of Finance.

*NPC has a high level Resource Committee which works on deciding allotment of fund for each sector. This committee works closely with different ministries of government of Nepal. (Ramesh, File folder # 7).*

NPC prepares the red book which includes allotments of fund for the whole fiscal year. This includes all branches of the government including all projects. There is no set formula for appropriating fund for higher education in Nepal. Mainly, it is done on historical basis. MOE gets inputs from all institutions and prepares budget and sends it to NPC through MOF. The proposed budget is prepared looking at how much each institution got last year and the size of available fund for the current fiscal year.

*NPC earmarks budget for higher education. NPC decides the amount of money for higher education, secondary education or elementary education in consultation with MOF and MOE (Parashara, File folder # 9).*

Higher education gets least priority among different branches of education in budget preparation. Literacy and numeracy, elementary education and high school

education get priority over higher education. The reason behind it is that literacy rate is very low in Nepal and therefore many donor agencies put pressure on government to earmark a big chunk of budget for literacy programs. At the same time less than ten percent of college age cohorts go for higher education (Harish, File folder # 5). Due to the lack of awareness of the benefit of higher education and also due to poverty, enrollment in higher education is still very low in Nepal. Therefore higher education gets least priority while preparing budget.

*NPC has been allotting up to 17% of total national budget to education. More focused on elementary and secondary education (Harish, File folder # 5)*

NPC's four pillars of higher education: Access, Quality, Equity and Good Governance
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NPC's goals of higher education rest on the four pillars of education. They give equal importance to access, quality, equity and good governance (Ramesh, File folder # 7). Nepal government is more focused on elementary and secondary education but involvement of private entrepreneurs in higher education has brought some positive changes in quality of education. Government's effort on access, quality, equity and good governance has been debatable. There is plenty of room for improvement in all four of these areas. Many communities, especially financially poor groups of people suffer due to unawareness and poverty. Almost all policy makers and policy implementers are political employees. The political situation of Nepal has left a very negative impact on the good governance of higher education management of Nepal.

Many students from poor economic back ground and from remote villages do not have chance to get enrolled in higher education. First, they can't afford even the minimum tuition fee. Second, these students must forgo whatever they might have

been earning and on top of that they need financial support for their food and lodging in a new city. Also, most of them are not aware about the benefits of higher education.

No government in the world can fully support all the higher education institutions in totality. There are many other needy areas which demands financial support from the government. Especially in case of Nepal, there are districts which do not produce enough food to last for more than few months of a year. Nepal government has to make food available in subsidized price to these districts, which takes a good chunk of government budget. Besides that health, social welfare, infrastructure development, poverty alleviation, fertilizers, insecticides and seeds for improved agriculture development are some of other aspects of government responsibility to take care of. The financial planners have to keep all these sectors in mind while preparing budget. Therefore, education gets a very small chunk of the pie of the government budget of Nepal. As discussed above, higher education gets only 7 to 8 percentage of national education budget.

*Health, food, social welfare and several other sectors get priority over education in budget formation in Nepal (Bishwombar, File folder # 2).*

*Even from the national education budget, higher education gets a small slice of the pie (Jamadagni, File folder #3).*

From all the data we have and from what we have heard from all of our research participants, it is obvious that a scientific way of budget preparation can make the system smooth and run properly. Many research participants have voiced that current level of higher education budget is not enough and need increment.

### **Lobbying for Increment in Higher Education Budget**

Policy implementer, Bashistha (File folder # 1), a VC of an university argues that higher education produces the needed human capital which is most essential for all round development of the country. Therefore, to meet the human capital need of the country, higher education demands more investment. Likewise, other two VCs, Bishwambar (File folder # 2) and Jamdagni (File folder #3) agree with Bashistha (file folder # 1) and express their feeling about the need of raising higher education budget. They say that higher education plays the role of a back bone in the all-round development of the country. They argue that higher education needs a sizeable budget to be able to stand on equal footing with foreign universities to produce graduates equipped with skills that knowledge based economy demands.

Higher education can't absorb all students coming out of secondary schools because of the lack of infrastructure and needed faculty. So, more money is needed to develop infra-structure to accommodate students coming out of secondary schools.

Royal Commission for Higher Education Report (1982) recommended for government to provide more money for new programs and private campuses (Royal Commission for Higher Education Report, 1984). The problem we have is that commissions submit their report but do not get implemented. NNEPC report very appropriately said that higher education needs more money to produce relevant human capital for the development of the country but unfortunately higher education budget started decreasing after Royal Commission for Higher Education report period or since late 1980s or early 1990s. Another recommendation of Royal Commission, tax holiday for money donated to educational institutions could have attracted financial assistance from big corporations under Corporate Social Responsibility (CSR). But this recommendation also just remained in paper.

There have been very good appraisal for higher education demanding more financial support in these reports but instead of increasing the budget, the trend has been going downward. Without increment in higher education budget, there is no possibility of providing chance to all intelligent and financially poor students who inspire for higher education. Also at the same time more students are going abroad for higher education putting big dent on foreign exchange of the country as our higher educational institutions can't absorb all the students coming out of secondary education institutions.

Finance managers role is also very crucial in education institutes. They are responsible from resource identification to proper management of available resources. Only a well-trained and experience financial manager can put the institute in right track.

*Financial managers should be properly trained and encouraged to take initiatives in fund raising activities (Jamadagni, File folder #3).*

Our fiscal managers lack the knowledge of financial management. Higher education leaders also must have knowledge of identifying and tapping available resources. Leakage and improper use of resources is another problem in higher education finance. Nepali higher education leaders should go for observation visits to other countries to see how they manage their resources.

*The higher education leaders do not show the willingness to learn from others (Jamadagni, File folder #3).*

### **Political Pressure/Influence/Interference**

All the Vice Chancellors of Nepali universities are political appointees and often the political pressure is insurmountable making them more loyal to their party bosses than proper administration and improvement of the universities.

There have always been big hassles when there is time to appoint high ranking university officials like VC, Rector, and Dean. The appointment is made based on the party loyalty of the person rather than his/her ability to run the institution properly. So, these appointees are always loyal to the party bosses (except in rare cases) rather than their job. Miss-management of budget also happens as these officials mostly worry about saving their job rather than working for the betterment of the institutions.

*Political appointment in educational institutions does not work. It does more harm than betterment of the institutes. It is important for them to just save their posts (Jamadagni, File folder #3).*

*Hiring of faculty members is not always transparent and academic and non-academic staffs are hired not as per need and ability to work but according to who has connections with people in higher places (Bishwombar, File folder # 2).*

*Banning political activities of different politically colored unions will certainly improve the environment (Bashistha, File folder # 1).*

Political activities are one of the main reasons for not having very conducive environment in campuses. People are not hired because they are competent, but they are hired due to the political pressure. So, their loyalty goes to the political party or the political party bosses rather than their job. They spend time enhancing political agenda rather than assigned job. They are always there to put pressure on administration for political demands.

Political influence in the universities does not produce positive result. This is the main cause of dis-function and low quality of graduate production. We can just hope that new political changes will bring the needed changes to improve the institutions. Close the programs if there is not much interest among students. Market survey is essential. Teaching one or two student is a waste of valuable financial

resources. Somebody may lose the job if the program is closed. This would be job losing person may have heavy political connection. This system needs to be changed but these kinds of changes do not happen due to political pressure. These above concerns were voiced by many of the research participants.

In some campuses, there are staff who does not have any job. They just come, sign their name and at the end of the month they get their pay check. This is waste of rare resources. The budget and also the expenses must be transparent. At the end of the fiscal year, the auditor may point out to these mismanagements, which do not help much as nothing can be done at that point of time.

*There are professors teaching only one or two students in some cases. In some faculties, there are more faculty members than the number of students (Jamadagni, File folder #3).*

Having a university-wide policy of number of students per class might be helpful to solve this problem. This kind of policy creates fairness when courses have to be cancelled for lack of students.

*Often without looking at the budget, new staff are hired just because of political pressure. This kinds of activities happen in almost all universities and campuses (Bashistha, File folder # 1).*

As discussed above, educational budget are not maintained properly. This is a big issue in almost all of the institutions in Nepal. May be there are a few institutions without these problems, but they are rare. Let us hope that political stability may bring some positive change and higher education financial management will improve.

*Overall, educational budgets are not properly used in Nepal and budget management is a big issue that needs overhauled. Political stability in the country*



*may bring some positive changes in higher education in Nepal (Bashistha, File folder # 1).*

Political influence in Nepali higher education management and finance produces most negative result (Parashara, File folder # 9). This kind of political interferences produce debilitating results. Another political interference is through unionization of faculty, students and admin staff. These unions are more involved in their party line activities, dilapidating the quality of education (Jamadagni, File folder #3). Non-productive works and irresponsibility are the bye-product of this system (Bishwombar, File folder # 2). These political interferences are the main cause of the degradation of higher education in Nepal (Jamdagni, File folder # 3).

Once in a blue moon, these political interferences could have positive result too (Shanta, File folder # 10). These leaders can have good connection to the Ministry of finance, District Development Office, and UGC, and they can use their influence to get budget ear marked to a specific institutions. Political leaders are often found haggling to get funds to their constituencies as it affects their future electability from that constituency.

Higher educational leaders are not playing as strong a role as they should be playing to allocate funds for higher educational institutions and educational programs in Nepal (Jamadagni, File folder #3). In Nepal, political affiliation or attachment is needed even for lobbying for improvement of higher education.

The political instability and lack of adequate funds make budget allocation especially complicated in Nepal and a clear role of government is also equally important to earmark adequate fund for higher education. Higher education finance faces problems throughout the world: universities are underfunded, raising worries about quality; student support is inadequate; the proportion of students from

disadvantaged backgrounds is lamentably small; and the financing of universities in many countries is regressive, since the money comes from general taxation but the major beneficiaries are from better-off backgrounds. This is the general phenomena of the situation of higher education finance and in Nepal, the political interference makes our situation worse.

### **Trends and Practices of Higher Education Finance**

This section covers the trends and practices of higher education financing in Nepal from mid-nineties to current decade. Higher education budget in Nepal has been slowly changing from total government support to cost sharing. In early days, students were not charged any fee at all but instead all students from vocational schools and Sanskrit schools used to get from Rs. 5 to Rs. 30 scholarship per month (Ministry of Education, 1955). As financial states of campuses were not very sound during early sixties, government provided financial assistance under many headings besides annual grants such as: sports equipment, campus improvement, library expansion and building construction (Multipurpose National Education Committee Report, 1962). In the decade of 1973/74 to 1982/83, higher education got 31.3% of education budget (Higher education got Rs. 840 million including foreign aid, out of the education budget of 2.68 billions). Before the formation of Nepal National Education Planning Commission (NNEPC), education was looked as social work and only a small amount of fund used to get allocated but after the formation of NNEPC education was considered as producer of human resources and budget in education got increased (Ministry of Education, 1955). As number of higher education institutions increased, government resources started getting tight. Slowly, revenue supplementation replaced total government support.

As more educational institutions cropped up, and as government diversified its resources towards many other sectors, education sector started feeling the heat of budget crunch. Nepali education budget is more focused on Elementary and Secondary education appropriating a bare minimum of around 7% to 8% for higher education (Joshee, 2015). Policy maker Harish (File folder # 5) says, “From late 1990s, higher education budget got slashed down and elementary and secondary education budget has been raised.” Therefore, higher education finance has been facing austerity in Nepal. Harish (File folder # 5) further says, “There are many other resources to tap besides government fund, like students’ tuition and other fees for private higher education institutions.” He further says that private higher education institutions are dependent mainly on student fee and affiliation charges from campuses. Expanding their horizon of resources may relieve them from budget crunch. He argues that government has many other sectors in their plate to consider while preparing budget and can’t put a large amount of money only into higher education basket.

Hearing the crucial financial situations of higher education institutions from almost all policy implementers, the need of increased budget for higher education is understandable and increase in higher education budget will help produce needed human capital for the country. Professionals of human capital theory demand more investment in higher education to meet the need of skilled workforce of the country. NNEPC report 1955 also emphasizes that higher education budget should be increased as it produces skilled manpower needed for the country. The decreasing trend of higher education budget is not helping improve quality of higher education in Nepal.

The percentage of higher education budget is hovering around 10 percentage of total education budget from fiscal year 2004/05. The maximum was 11.02 percentages in fiscal year 2007/08 and the minimum was 7.93 in fiscal year 2014/15. The following table shows the percentage of higher education budget from national education budget from fiscal year 2004/05 to fiscal year 2015/16.

*Table 3: Percentage of education budget*

Year	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Percent	9.36	9.29	10.60	11.02	10.96	10.65	10.04	9.02	10.17	8.33	7.93	8.19

Source; Different Redbooks

From fiscal 2013/14 higher education budget has not gone up above 8.33 percent. More investment in higher education means more production of skilled human capital needed for the development of the country.

National budget has increased in many folds during the first and second decades of this century but higher education did not get proper attention. Number wise we see the increase in the budget but in ratio to the increment of national budget amount, the percentage of higher education budget is decreasing. Low budget for higher education deprives many residents of the districts where there are no constituent campuses, which is in contrary to NPC's policy of accessibility and equity.

*Government of Nepal funding policy is not helping higher education. This system can't remain for long time. The current system of distribution of funding is not fair as more than 40 districts don't have constituent campuses which deprive the local people from higher education (Parashara, File folder # 9).*

The need to broaden revenue streams requires new thinking on the part of public higher education (Pelletier, 2012).

Decreasing government financial support to higher education world wide is the current trend. Higher education institutions have to broaden their horizon and become more resourceful and aggressive to secure more revenue outside of government coffer. Public universities as well as non-governmental universities need to broaden their horizon for tapping resources outside of government support. Birendra (File folder # 13) says that public and non-governmental universities need to broaden their thinking and activities to collect revenue from different sources.

### **Sources of Higher Education Budget/Revenue Diversification**

There are various sources of funding for higher education. Revenue diversification include government funding as well as other sources like student fee, parents contributions, national and international donors, alumnae contributions, philanthropists, endowment, in-house practices of the institutions and many more.

Different methods of revenue generation have been implied in higher education finance in Nepal. NNEPC report says that resources for higher education budget can come from different sources like: government donation, student fee, foreign aid and land and other properties. Royal Education Commission, (1984) recommended that education budget should get at least 10% of total national budget and higher education should get at least 30% of education budget of the country. This commission also recommended long term plan for revenue subsidization, such as: students fees must be used on proper headings, identification of possible sources of foreign aids, income from properties, university products, seminars and research activities as sources of funding. It also mentions that local participation is an important source of financing.

Revenue diversification is one way of tapping the stretched resources. Government intervention in public and private universities with carefully planned guidelines is another way of helping the cost sharing practices or revenue diversification to further enhance the development of higher education. Economic theory also shows the importance of competition between public and private universities. Demand side funding provides opportunity to students to choose their courses from among universities and select the course they wish to attend. This kind of competition support the cost sharing practices as well as encourage universities to have proper planning of their products where students will have a chance to choose and pick what they want to study. This helps promote the quality of education in the country.

With this shift or because of revenue supplementation, a big chunk of cost of higher education is being borne by students and other stakeholders, which used to be shouldered primarily by taxpayers. This practice started in Nepal mainly after the opening of private institutions. As the government subsidy is decreasing, higher education institutions are in great pressure to look for resources outside of the government coffer for the improvement of quality education. There are several factors leading to this issue; such as demographical change and massification in higher education, which demands extended facilities. Expanding higher education facilities means more investment in higher education.

Demands for fund for other services force the government to curtail funds in higher education. The fact, that individual benefits more than the society from higher education, make government shift their attention to other services (Heller, 2013) and compel students to pay their share of the cost of their education. It is understandable if the students can tap the resources they need to pay for their share of cost.

In the name of revenue diversification, private universities charge very high tuition and other fees which are necessary for them to survive in this competitive market. In some cases, the theory of the firm comes to play where the profit motive of the investors put pressure on the institutions to raise fee. In our case, most non-public universities charges high tuition fees as that is the most prominent way for them to survive (Bashistha, File folder # 1).

There are various different ways of diversifying revenue in practice around the world. Prof. Johnstone in his address at the International conference on higher education in Luxemburg said that philanthropy, gifts from university alumni, “friends,” corporations, or foundations—becomes an enormously attractive alternative. It is attractive mainly, of course, because it is not taxes and it is not tuition fees (Johnstone, 2004). In the name of revenue diversification, our institutions are focusing mainly on student tuition fee whereas there are many other avenues as Prof. Johnstone pointed out.

Tertiary Education Council of Botswana provides bigger menu for revenue diversification for tertiary education. Consultancies, research, cost recovery, short courses for the industry and community, alumni, foundation, development strategic partnerships, renting facilities, fund raising events, financial endowments, entrepreneurial activities and internationalization have been considered as means of diversification of revenue for higher education (Institutional Funding: Revenue Diversification, nd.). This is an expanded list of what Prof. Johnstone has provided above.

Education voucher is another way of subsidizing students from poor families to pay for their education. The government provides a voucher of certain amount and the beneficiary can cash it in educational institution of their choice (Friedman, 2009).

It is applicable to any kind of services provided by the institution. Education voucher has been applied till now for only up to secondary level. It can be applied for higher education but identifying recipients could be a Herculean task. This may not solve the problem of accessibility as it does not pay the full expenses. Education voucher is also a way of cost subsidization even though it comes from government coffer.

A university in the non-government sector has been applying various avenues successfully. Keshav (File folder # 11), a policy implementer in the university prescribed us a list of sources they have been using. This university tapped various universities from around the world for technical support. It also got support from many INGOs/NGOs. Local and international philanthropists have supported it in infra-structure development. An out-going visionary leader plays an important role in tapping available resources from around the world.

*Fund for public institutions comes from Nepal government, student fees, WB, Philanthropists and other individual donors (Ramesh, File folder # 7).*

Almost all higher education institutions have budgetary problems. The public institutions do not get enough budgets from the government and also they are not allowed to raise fee. This is a catchy issue. Government considers universities as autonomous body, which means, they should be able to prepare their own financial plan. At the same time, the institutions' more active and creative role helps tap different sources for funding. Their active and responsible role to drive fund raising programs may attract many donors. Good dialogue among the financial planners of the country and having good visionary leaders to lead these institutions helps bring all stakeholders together makes financial planning easier.

A careful planning and identification of proper stakeholders provides a list of possible sources to tap according to the situation of the country. Feasibility study



helps to find out what will work and what will not. Universities in western world tap huge amount of funding from alumni, corporations and other philanthropists which has not been in practice in Nepal.

### **Financing of Public Institutions**

All public institutions of Nepal are heavily funded by the government. These institutions charge minimum fee to the students making higher education available to all interested and intelligent students with reasonable tuition and other fees. Revenue from student fee is a small portion of the budget of these public institutions.

Government support covers about ninety five percent of the budgets and the remaining five percent comes from student fees and other sources. The main sources of fund for higher education finance in Nepal are government funding, student fee, WB, Individuals, Corporate Social Responsibilities (to some extent) and other philanthropists.

Besides government funding, public institutions and their constituent campuses raise small amount of money through student fees, interest from fixed deposits, real estate rents and other miscellaneous incomes. Even though tuition fee rate is very reasonable, as they have huge number of enrollee, they raise significant amount of money from student fee. Most of the high level authorities of these institutions said that austerity in higher education finance is growing every year. In one hand, the institutions do not get sufficient budget from the government and on the other hand, they can't hike student fee even in a small percentage due to government support to the students when they raise havoc against fee hike. The other issue is pension of retired employees. Retired employees of public universities do not get their pension from the government. The universities manage on their own (Khaniya, 2015). If universities are considered full autonomous entities, they preparing their own

budget may make more sense and help them fight the austerity in higher education finance. This problem can be resolved through good dialogue among the financial planners of the country.

*The main sources of income of most of the public higher education institutions are donation from the government through UGC, student fees, interest from fixed deposits, real estate rents and other miscellaneous incomes (Keshav, File folder # 11).*

*Public institutions get very small percentage of fund from other sources besides government support and student tuition fee (Ved Byas, File folder # 4).*

*Student fee has been stagnant for decades. Reasonable tuition fee raise can help these public institutions.(Bhuban, File folder # 8).*

Government may tell the public universities that it can't provide all the needed expenses, and that they have to look for other ways to collect revenues. This is a contradiction in government policy. Making universities self-sustainable is important which requires autonomy to work independently. A phase-wise plan to make these institutions independent based upon their financial independency and to provide autonomy may improve the all-round development of these universities.

*Government exhibits double standard in financial management of higher education institutions (Bishwombar, File folder # 2).*

*It is time to revise tuition fee to the reasonable level with government facilitation (Tika, File folder # 12).*

In Nepal, demand for higher education is increasing putting more pressure on the institutions to make more seats available in each and every discipline or courses, while the trend in higher education finance has been declining in government support. The expenditure of these institutions have been rising due to increasing number of

high school graduates, and increasing demand of more qualified professionals in the job market. This is a “catch twenty two”. Government has many other responsibilities besides higher education but well qualified human resource plays an important role in all round development of the country. So, higher education finance can't be neglected.

Investment in human capital will be fruitful only if the institutes produce high quality graduates to meet the skilled human resources demand for the development of the economy of the country. Graduates must be seen as doing well, making a contribution, getting good jobs. If not, people will not put resources into higher education. Our institutions produce graduates who remain unemployed for many years due to the low quality of their education (Harish, File folder # 5). These institutions will be able to turn themselves as a high quality research university with the freedom of being able to plan their own curriculum and charge students' fee to be able to maintain the standard of the institutions. Beside increased demand for higher education, the government finance to higher education has been decreasing every year in ratio to the increased GDP and increased number of student which causes austerity in higher education finance. A fine tuning in financial planning to prepare appropriate budget to include the need of higher education helps improve quality of education of the country and meet the need of trained human resources for all round development of the country. Being able to tap proper resources by the institutions may help achieve these needs.

People are getting more aware of the benefits of higher education. Demographical growth, mainly in developing countries are putting strong pressure for the demand of higher education. These issues put strong pressure for more budgets for

higher education but government contribution is declining every year. This causes the austerity in higher education finance.

*Due to the pressure of higher number of student enrollment, need of investment in technical education and proper human resources and the financial inflation, the austerity in higher education finance has been growing every year (Jamadagni, File folder # 3).*

Public universities are not playing responsible role to raise fund. As they get big chunk of their budget from the government, they don't even think about other sources of finance. Tapping other sources certainly takes time and effort but may provide fruitful outcome. There are several different sources that have not been tapped yet. Driving fund raising programs periodically may help these universities generate more resources. General public's feeling of ownership of the universities and support from them is another essential component of successful financial management.

*Government of Nepal provides strong support to public institutes of higher education making it affordable also to interested and intelligent but poor students. Non- governmental institutions get some support but the amount is negligible (Bashistha, File folder # 1).*

*Non-governmental community institutions need more financial support from the government (Birendra, File folder # 13).*

Government donation for public institutions is barely enough for salary and allowances. Therefore, they have to manage all other expenses from their own resources. Some public universities have big valuable real estate property in the center of the city and they receive a sizeable amount of money from rent. They also have money in fixed bank account and receive some money as interest. The income

from student fee, real estate rent, income from fixed deposit interest and private campus donations are their main sources to pay pension to their retired staff and also some other expenses which are not covered from the donation money received from UGC. A small amount of money also comes from HEP II project funded by World Bank. These campuses also get money from UGC for research activities for both faculty members and students.

*TU manages pension and retirement benefits from the income from other sources as student fees, donations, rent, interest and others (Keshab, File folder # 11).*

UGC provides two types of block grants to universities - operational and developmental. The operational funds or recurrent grant for public universities are estimated on the basis of previous year's expenses and covers salaries and allowances. Development grants are mainly for infra-structure development and quality improvement

These public universities must meet the requirements set forward by UGC to qualify for formula based funding, performance based funding and matching grants. UGC asks all the public campuses to submit their budget clearly showing their need and requirement. All the constituent campuses submit their budget to UGC through central office of their respective universities. UGC goes over the requests and makes decision on the distribution of funds.

*Public Universities get funds based on previous year's budget (history based funding), Formula Based Funding, Performance Based Funding, and Matching Grants (Ved Byas, File folder # 4 & UGC annual report, 2011/012).*

Public universities' budget fluctuates every year. This fluctuation creates problem to the university. Some time they have to transfer money from one heading

to another to meet their dire needs. After student fee, affiliation charges from private campuses are other major source of revenue for these universities.

TU, one of the public university's total budget for fiscal year 2069/070 was 5,032,633,330.00 and for fiscal year 2070/071 was 5,798,338,034.00. It gets lump sum amount from UGC according to the budget presented and then distributes to different campuses according to their budget.

*The budget amount of public universities and their constituent campuses are increasing every year, but it is not sufficient as expenses increase due to increment in student enrollment, staff pension and other increasing expenses (Bhuban, File folder # 8).*

*Public Universities get funds based on previous year's budget (history based funding), Formula Based Funding, Performance Based Funding, and Matching Grants (Tika, File folder # 12 & UGC annual report, 2011/012).*

*Public institutions main source of revenue is UGC (Keshab, File folder # 11).*

The following charts show two years (2069/070 and 2070/071) major break down of income resources wise of TU.

Table 4: TU's Budget received from UGC and other sources

<b>Fiscal year</b>	<b>2069/70</b>	<b>% Total</b>	<b>2070/71</b>	<b>% Total</b>
<b>UGC Budget</b>				
Regular budget	3,590,500,000	71%	4,041,205,034	70%
Development Budget	325,000,000	6%	340,000,000	6%
<b>Sub Total UGC</b>	<b>3,915,500,000</b>	<b>78%</b>	<b>4,381,205,034</b>	<b>76%</b>
<b>Other Sources</b>				
Student Fees	894,913,000	18%	1,172,753,000	20%
Private Campus Donation	140,650,000	3%	222,625,000	4%
Rebt from Real Estate	4,000,000	0.1%	2,110,000	0.04%
Interest from Fixed Deposits	77,570,330	2%	19,645,000	0.3%
<b>Sub_Total Other Sources</b>	<b>1,117,133,330</b>	<b>22%</b>	<b>1,417,133,000</b>	<b>24%</b>
<b>Total</b>	<b>5,032,633,330</b>	<b>100%</b>	<b>5,798,338,034</b>	<b>100%</b>

Sources: UGC annual reports 2069/070 and 2070/071, TU's 2068/2069 and

2069/2070 proposed income and expenditures and TU's 2070/2071 and 2071/2072

*budgets*

Above table shows that TU gets major portion of its budget from UGC and only a small portion comes from other sources.

As publicly funded university, NSU also depends upon UGC donation for its regular expenses. The following charts show two years (2069/070 and 2070/071) major break down of income resources wise of NSU.

Table 5: NSU's Budget received from UGC

<b>Fiscal Year</b>	<b>2069/070</b>	<b>% Total</b>	<b>2070/071</b>	<b>% Total</b>
Regular Budget	266,000,000	93%	321,857,000	72%
Development Budget	20,000,000	7%	127,655,000	28%
<b>Total</b>	<b>286,000,000</b>	<b>100%</b>	<b>449,512,000</b>	<b>100%</b>

Source: UGC annual report 2069/070 and 2070/071

NSU's budget goes more towards regular budget which is salary and allowances and very small percentage of budget goes on development activities as improvement of physical facilities and teaching learning activities.

Public institutes depend mainly on the government donation for their regular budget as shown in the tables above. Revenues from student fees and also income

from real estate (in case of some campuses located in big cities and if they have huge real estate property) are the only cost sharing practices which covers about 25% of campus budget. For example, Patan Campus owns about 20 ropanies of land in the heart of the city. This campus collects about 2.8 million rupees a year as rent from this real estate property.

*The campuses have to submit annual budget to UGC through TU central office and UGC provides money according to the submitted budget but the fund received has been decreasing percentage wise every year (Keshab, File folder # 11).*

There are limited sources of income for constituent campuses. These constituent campuses are not allowed to receive any direct donations from philanthropists. For any donations, they must get approval from their universities executive committee. This takes long time and also a lot of hassles to process donations. Donors do not want to get involved in this kind of situation where they have to face red tape and politics in every step. Therefore, there revenue has limited sources and income is also limited. Flexibility in accepting donations will certainly help these public institutions spread their revenue collection mechanism.

*Almost all the money generated by public institutions (other than government support) goes into Paying pension and other campus improvement projects like renovation but they save a small amount of money from internally generated fund for infra-structure development (Ratna, File folder # 14).*

Proper identification and tapping of resources is not a concern of many higher education policy planners of Nepal. They don't take any initiatives (Shanta, File folder # 10). Also the regulations of universities requiring them to get approval for all donations (Red tape), discourage them from spreading their revenue collection



activities. They just run their institutions with whatever they get from the government and the students. Similarly, we lack trained financial managers in our universities.

**Financing Non-Government, Community/Private Universities:**

Big chunk of revenue of these non-governmental, community/private institutions come from the students fee. An account chief of one of the private college that I visited for data collection said that only four percent of his budget that is eight hundred thousand rupees came from the government out of a budget of eighty million rupees in a certain fiscal year (Bidur, File folder # 15). He also re-enforced that student fee is the main source of their revenue. Private gifts and grants are not very popular in Nepal. Sales and services has not been introduced here strongly yet. Some private institutions get funding from big corporate houses if they have talented financial managers (Ratna, File folder # 14).

*In case of Nepal, most private universities are supported by tuition fees, affiliation charges and donations from individual philanthropists and corporate donors from their Corporate Social Responsibility (CSR) budget (Jamadagni, File folder #3).*

*There are various new resources that have not been tapped by these community institutions (Keshab, File folder # 11).*

*Exploration of new sources is the need for these institutions (Birendra, File folder # 13).*

KU has centrally controlled budget system. All different schools deposit their income in the university's central account. The central office disburses money to all the school as per their need and availability of fund. Every school of Kathmandu university raises enough money for their operation through student fee. In case they

need extra money for their operation or to launch a new program, university supports them.

*All different schools under KU deposit their income (mainly student fee) in KU central fund and central office disburses all the needed expenses to different schools as per their needs and availability of budget. (Keshav, File folder # 11).*

*Most of the schools of KU raise enough money for their expenses (Birendra, File folder # 13).*

UGC contribution to KU for fiscal year (2069/070 and 2070/071). This is a small amount of money in comparison to their budget.

Table 6 KU's Budget received from UGC

Fiscal Year	2069/070	%total	2070/071	% Total
Regular Budget	25,000,000	38%	20,000,000	40%
Development Budget	40,000,000	62%	30,000,000	60%
Total	65,000,000	100%	50,000,000	100%

KU's income from other sources in fiscal year (2069/070 and 2070/071).

Table 7 KU's Funding from other sources

Fiscal Year	2069/070	% Total	2070/071	% Total
Student fee	350,883,381	62%	442,517,074	49%
Private campus Donations	--	0%	--	0%
Real Estate Rent and Interest	--	0%	--	0%
Others	216,818,605	38%	454,495,493	51%
Total	567,701,986	100%	897,012,567	100%

There is a vast difference of revenue sources between public and private universities. For example, KU's main source of income is tuition and other fees from the students whereas TU's and NSU's main source of revenue is UGC.

Private/Community universities do not get even five percent of their budget from the government whereas public universities get around ninety five percent of their total budget.

The following is a break-down of revenue of KU for past five years.

Table 8 KU's revenue for past five years

Fiscal Year	2065/066	%Total	2066/067	%Total	2067/068	%Total	2068/069	%Total	2069/070	%Total
UGC grant	26,910,000	8%	8,712,000	2%	17,265,798	3%	79,708,872	12%	85,791,128	9%
Student Fee	229,913,148	71%	261,583,195	73%	303,985,483	60%	350,883,381	54%	442,517,074	45%
Other Fee	65,050,754	20%	88,724,020	25%	187,298,888	37%	216,818,605	33%	454,495,493	46%
Total	321,873,902	100%	359,019,215	100%	508,550,169	10%	647,410,858	100%	982,803,695	100%

KU don't depend on one particular donor for its operation. It does not expect more than certain percentage of its budget from the government. KU got big help in establishment of different department and infra-structure development from outside donors. For regular budget, its main sources are student fee and affiliation charge from the private campuses.

*KU believes on the theory that, "financial donation brings interference". So, the university agreed from the beginning not to depend on government source only for their financial needs (Keshab, File folder # 11).*

Tuition and other fee are the main sources of income for KU. Donation from UGC differs from year to year. It has fluctuated from 2% to 12% (Keshav, File folder # 11). KU got land from the government to start with, like the land grant universities and colleges in US. They also said that Nepal government helped KU in infra-structure development. For financial resources they had to tap national and international philanthropists. NORAD, Government of Norway, Danish Embassy, Japanese Embassy, Indian Embassy, World Bank through UGC are some of the examples of international donors and Mohan Gopal Khetan, Ran Bahadur Shah and UMN (one of the development partner) are some of the examples of national donors

of KU. For technical support they got many experienced faculty members from internationally well-known higher educational institutions like Birla Institute of Technology, Ranchi, Bihar, Indian Institute of Technology, Madras, Indian Institute of Management, Kolkata, Indian Institute of Science, Bangalore, Norwegian Universities, Fulbright, Harvard Medical School, and many others (Birendra, File folder # 13). Many of these institutions helped start and improve existing schools in KU which would have otherwise been impossible for KU to have such technical experts on their own financial resources.

The justification why higher education in Nepal gets small percentage of budget in comparison to primary and secondary education may not be valid looking at the current scenario of higher education. The overall dilapidated financial situation of Nepal is one strong reason for it but at the same time government's appropriate attention to higher education helps improve standard of education.

As government support dwindled in education, educational institutions started looking for financial support from different sources. Beside TU and NSU, all other universities have to look for different sources of funding. Even TU has problem meeting its financial needs.

*Many non-governmental higher education institutions have not explored and tapped available revenue sources (Bishwombar, File folder # 2).*

*Our educational leaders should see how other countries are working and learn lessons from them. Our people do not want to take initiative to explore new ideas and possibilities (Bashistha, File folder # 1).*

*Finance officers need to get out and explore resources (Jamadagni, File folder #3).*

Very few institutions have tried to approach the philanthropists inside or outside of the countries. Our financial managers can learn from other countries about how they manage their financial needs. There are a lot of private educational institutions which are self-sustained. We may not have big donors but exploration may bring different result.

*Whatever they can raise from private donors and other sources can help towards improving a running project or start a new project (Bashistha, File folder # 1).*

Hirsch (1999) says that mega dollar campaign has been the main source of private giving in first generation funding source in the United States of America. Universities have been targeting more than billion dollars in their fund raising campaign. Harvard University and University of California are some of the universities to fall in this category in America. Private funds raised by American Universities and Colleges increased by 30 percent to \$12.7 billion from 1990 to 1995. Alumni contributions increased 42 percent during this period. Though gifts have grown, it did not meet the rising budget needs of Universities and Colleges. In response institutions are pursuing funding sources from different areas which have been foreign up to now. Corporate research support, patents, licensing and commercialization are some of these new sources (Hirsch, 1999). He further elaborates that non-academic activities like renting the facilities for private use, transportation and cafeteria services are some other sources of revenues in some of the educational institutions.

On June 3rd, John Paulson, a billionaire and a Harvard alumnus, donated \$400m to Harvard University, already the world's wealthiest university (as measured by its \$36.4bn overall endowment in 2014). It was the largest donation in the

university's 379 year history. Large donations to well-funded universities, which come primarily from foundations and former students, are becoming increasingly common. According to The Chronicle of Higher Education, American universities have received over 100 private gifts of \$100m or more over the last decade. Data from the Council for Aid to Education show that Stanford University tapped its donors for nearly \$1bn in 2014, or \$50,000 for each of its 18,000 students. Berkeley, meanwhile, raised just \$10,000 per student (A wealth of knowledge from Daily Chart). This shows that wealthier American universities are getting richer from donations from their alumnae. These are some of the examples that have been taking places in the United States of America in the area of collecting contributions from private donors. These grants are dependent on a US tax structure that allows the donations be deducted from their overall taxable income. If they didn't give it to the universities, they would have to give it to the government (Dougherty, K. (2004). This is a relatively unique tax system, not seen in many other countries. Nepal can learn lesson from these kinds of activities in other country and benefit

The following table shows the main Sources of Finance of US Post-secondary Institutions during 1996 to 2001.

Table 9 US post-secondary institutions sources of finance

Revenue Sources	Public Institutions	Private Nonprofit	Private for Profit
	Current Fund	Institutions	Institutions
	Revenues	Total Revenues	Total Revenues,
	5yr avg - 1996-2001	5 yr avg - 1996-2001	4 yr avg - 1997-2001
Tuition & Fees (incl. Student Aid)	19%	30%	85%
Federal Govt. (excl. Student Aid)	11%	10%	6%
State Govt. (excl. student aid)	36%	1%	2%
Local Govt.	4%	1%	NA
Private Gifts, Grants, Contracts	5%	15%	0%
Endowment Income	1%	NA	NA
Investment Return	NA	19%	0%
Sales and Services	22%	17%	5%
Other	4%	8%	2%

Source: Dougherty, K. (2004).

According to above table, main revenue source of private for profit institutions is students' fees. 85% of their revenue comes from students and very little from federal and state governments. Public institutions get a much larger share from State government (36%) and federal government (11%) and also a sizeable amount from students (19%). These institutions also raise a good amount of money (22%) from sales and services. Private not for profit universities and colleges depend mainly on students (30%), federal government (10%), private gifts, grants and contracts (15%), investment returns (19%) and sales and services (17%). Thus, the revenue sources are very much diversified in U.S. Diversification of revenues mainly depends upon the types of institutions. The above table shows that federal and state government donations even for public institutions are bare minimum in most of the cases in US. They got only 11% of their budget from federal government and 36% from state government whereas in Nepal, TU and NSU (public universities) get about 95% of their revenue from the government.

Trying these ideas may not be that easy and they may not be able to raise a significant amount of money to start with, but in the long run, it may prove to be one of the successful and satisfying methods of raising fund.

Quality of education matters when applying for a job in the market. The name of the good institutions gives good and satisfying feeling to the employer. In this case, some Nepali private institutions have earned good name. The business students from Kathmandu University are still the hot cakes in the corporate market. This market trend attracts more students raising the revenue from student fee. Even with high tuition fee private institutions get more students because of their demand in the market.

*Private campus students are more disciplined and more into study as they have to pay high tuition fees but students from constituent campuses are more into politics. This makes the quality of education better in private campuses which attract more students in private campuses helping them to raise more money from tuition fee (Bidur, File folder # 15).*

Private investors also worry about their investments. Even though profit is their main concern, they know that if they don't deliver quality education, enrollment will start decreasing (Bidur, File folder # 15). Low enrollment means low revenue. Therefore, they try to ensure that students are happy with what they are delivering. That means quality of education.

*Private investors' concern to provide quality education in private campuses also helps get more students which generate more revenues (Ratna, File folder # 14).*

*The students from public campuses are more into political activities (Bidur, File folder # 15).*



Depending upon campuses relations with the political big wigs, sometime they can tap some funding from District Development Committee and also from MOF. If needed, sometimes the founder members also donate some money (Bidur, File folder # 15). Political big-wigs also influence NPC and Ministry of Finance and get fund allotted specifically to their campuses.

Sometime, the relationship of the educational leaders related to the institutions makes a big difference. Especially in Nepal, to get jobs done, it depends upon who you know at the high level. The influential leader may facilitate to receive more money from the ministry of finance or UGC.

*Depending upon campuses relations with the political big wigs, sometimes they can tap some funding from District Development Committee and also from MOF. If needed, sometimes the founder members also donate some money. They also agree that government funding is increasing to some extent every year but in insignificant percentage. Political big-wigs also influence NPC and Ministry of Finance and get fund allotted specifically to their campuses (Jamadagni, File folder #3).*

*Influential education leaders may help get money from different sources (Bidur, File folder # 15).*

### **Issues and Contradictions**

As in other previous chapters, there are many issues and contradictions in financing practices of higher education in Nepal. There are various issues that the government of Nepal has realized as important issues but they never come to realization.

Various commissions and Higher Education Policy Formation as well as other higher education experts have been saying that the earmarking of higher education

budget has been low and needs to be increased to improve the higher education situation of Nepal but it has been decreasing instead of increasing.

Similarly, there has been strong voice from all corners of life that politicization of education system is wrong and all the educational institutions must be apolitical institutions. But every time when the time comes to appoint the leaders in higher education institutions like VC, Dean, Registrar etc., the political leaders appoint people in these positions from their political parties. Sometimes the position remains vacant for months hampering day to day activities of institutions because they could not agree on the name of the people due to political pressure from different parties.

As discussed above, our financial managers need to be creative and outgoing to identify and tap new sources of finance. There are many virgin sources that our system has not tapped yet. Everybody agree that higher education does not get enough budgets but there is no effort to tap available resources.

Public universities have to manage on their own for the pension fund for their retired employees. As government do not provide sufficient funding for these universities, they should be allowed to run independently giving them phase-wise autonomy based upon their financial status.

These are some of the paradoxes and contradictions on the part of government, policy makers and policy implementers. Visionary leaders with creative thinking and outgoing activities can resolve our problem in higher education to some extent.

## Chapter Summary

Higher education budget has been decreasing every year in spite of increasing number of students. This brings austerity in higher education finance. There is strong recommendation from various research participants to increase government donation to higher education institutions.

Different thoughts, ideas, and suggestions have cropped up talking to these visionary leaders of higher education. The need of fundamental policy of budget preparation has been highlighted by most of these leaders. Higher educational institutions demands more budget to improve current situation to produce technically well trained human resources.. If government can't fully fund these institutes, providing autonomy will open the door for them to be self-sustainable.

Appropriate attention to causes and issues of different stakeholders while preparing budget will keep them happy. Students are the prime beneficiary of higher education so they must bear certain percentage of the burden. But at the same time we should also think about where they are going to get money to pay for their share.

Our financial managers can take more responsibility. Exploration of new areas for tapping resources might bring good result. There are a lot of virgin areas that have not been tapped yet. It may take time to pull people to make the habit of giving but it has to start somewhere. If properly distributed among different stakeholders, revenue diversification takes some load off from the government. Cost sharing among students, parents and other stakeholders is equally important practice.

From the discussion above, it is visible that there is no scientific budget preparation process implied yet in our country. Mostly it is based on historical funding and UGC has introduced formula based funding, performance based funding and matching grants. The trend of financing higher education is decreasing and

community or private university get small amount from funding from the government. Meetings with different stakeholders about revenue diversification and discussing with them about different resources to tap can produce fruitful result. Learning from other countries failures and successes may help establish a sound system of our own. Opening new avenues of resources may take time and effort but may produce a good result at the end.

## CHAPTER VII

### STUDENT SUPPORT

The inability of low income families to finance investment in higher education (not being able to finance their off springs) impacts the higher education finance of the country and it also impact on equity as low income people are underrepresented. To remedy this problem, government support is sought to public higher education institutions by providing financial subsidization to include people from low income bracket. Beside that the government support to students from low income group will bring up equity in higher education. There are various different schemes in practice in different countries, which will be discussed in this chapter.

#### Background

This chapter delves around how financing system of higher education have been financially helping students and how can it be stretched to provide more support to students. As we have discussed before, government can't support higher education in totality. This doesn't happen anywhere in the world. Even in the Welfare states, where government provides free higher education, students have to manage their own food and lodging while they are at the school. As discussed in chapter VI, Nepal government provides maximum support to public universities through supply side financing policy and to some extent through demand side financing policy like scholarship that supports students directly. Student friendly higher education financing system is crucial in helping students. Therefore, in this chapter, we will be discussing mainly about the different methods of cost sharing practices like student

loans, dual track tuition fee, and other ways of supporting students in helping them pay for their higher education to achieve their goals of dream education.

Higher education price tags are increasing in many folds every decades but the demand for it is also increasing rather than decreasing. Economic theory says that demand decreases when the price of the product increases but the number of college students is increasing every year despite of increasing tuition fee. In contrary to economic theory, theory of Giffen Goods applies here. Demand for higher education is growing every year in-spite of rise in tuition and other costs. To meet this growing demand of higher education, more facilities, more infra-structure as well as more faculty members need to be aligned. This demands more investment in higher education to adjust the growing number of students coming out of high schools. These students need support to pay for the cost of their higher education.

The school of Keynesian economists say that government should increase expenses in higher education to produce more graduates (Murphy, 1996). According to this theory, more public funding in education means more graduates on government expenses. This theory is driven by the demand of the market. But government can't continue this process as there is more demand for funding from other sectors. This is also not feasible in developing countries like ours as governments do not have enough resources and can't increase funding in higher education only neglecting other sectors. A student friendly support system is what needed to resolve this problem.

The aspirant students, who are first in the family to go for higher education, are in most cases from financially poor background and also those who do not have much idea about future market of their courses, and therefore, they accept whatever is available. This creates a huge pull of unemployed graduates. Nepal is already facing this unemployable graduate problem (Harish, File folder # 5). Demand of well skilled

properly trained graduates did not decline even after high number of graduates rolling out of higher education mills. Violating the law of demand in consumer theory, the demand for higher education has been increasing in spite of high rise in tuition fee and other expenses. Also the financial problem remained intact as a huge percentage of these aspirant students come from lower middle class families who could not afford to pay as the price tags of many private institutes are very high and keeps rising.

Nepal is limping slowly towards knowledge based economy demanding more skilled manpower. Providing accessibility to higher education to poor and intelligent students provides more opportunity and helps leap-frog towards knowledge based economy. Many Nepali blue color workers go to foreign countries. If Nepali higher education institutions can turn these labor forces into skilled and trained human capital, Nepali economy may have big remittance helping the growth of foreign exchange of the country.

Supply side funding means making resources available to the suppliers (in case of higher education, universities and colleges). Supply side financing encourages institutions to enroll students without any charges or minimum or very low level of tuition fee. Ramesh (File folder # 7) says, “Nepal government is supporting students through public universities through supply side financing making higher education available in fair price to financially poor students or by providing scholarship (demand side financing) at least to some students.”

Government is channeling most of the assistance to the institution directly except scholarship program (Jamadagni, File folder # 3). . These funds are not big enough to support students. Bishwombar (File folder # 2), says whatever budget is getting earmarked by the government is not sufficient and also the percentage of the budget is decreasing rather than increasing every year. The international phenomena

is that institutes are being creative and harnessing new schemes (such as; philanthropists, fund raising programs, impact investment, innovative finance etc.) or applying techniques to solicit funds from other sources. The following are some of the methods that can be applied to support students to achieve their dream of higher education.

### **Cost Sharing**

Cost sharing means sharing the cost of higher education between the government and the students and/or their parents. Cost sharing is a way of financing higher education which is playing an important role all around the world and it is also in practice in Nepal to some extent from the beginning of opening of higher education institutions. Cost sharing is a touchy issue and a clear guidance from the government helps control the situation. Lack of proper monitoring and lack of implementation of recommended guidelines provides rooms for institutions to charge high and unacceptable tuition and other fees. There are areas that need government's intervention such as cost sharing practices in health education in Nepal. Government of Nepal has formed committees to establish regulations and control mechanism in this sector of higher education without any success (Bishwombar, File folder # 2). Different cost sharing modalities like scholarship, dual track tuition system, and work study program can keep higher education financing practices student friendly.

Among different cost sharing practices in Nepal, government support to public institutions is the major one, where ninety five percent of the expenses of these public institutions are paid by the government and five percent comes from the students. On the contrary, private institutions do not get even five percent from the government. They get a big chunk of their funding from students and another portion comes from campus affiliation charges and philanthropists (Jamadagni, File folder # 3).



Cost sharing may be difficult if 18 to 26 year old cohorts decline in population as happened in Japan in the last decade of the last century. Japan faced a decline in the number of students in higher education as consequence of the diminishing size of the population of eighteen years old cohort. The size of the eighteen year old cohort, after reaching the two million level, shrank to about 1.5 million by 2000 (Kaneko, 2011, page 131). This created problem to higher education institutions as number of student dwindled but other costs of operation remained same. This is a concern only in some of the industrial countries where population has been either decreasing or remaining stagnant but this is not a problem for a developing country like ours. We have the opposite problem as our population is always in increasing trend.

Tuition fee is, certainly a way of cost sharing, but charging high tuition fee will keep many intelligent students away from higher education. Many Nepali students are first in their family to attend higher education which also says that they are from financially deprived families. Therefore, putting the burden of high tuition fee on them or on their family is indirectly telling them to stay away from higher education.

The Graduate tax is an idea United Kingdom wanted to introduce but have not been introduced yet due to students and other authorities standing against it (Glennerster, 2000). The authorities from one school of thought says that it is not fair as graduates who did not take any loan will also have to pay their graduate tax ( Barr, 2009) whereas others say that it is the best way to support higher education.

Almost all of my research participants stood strongly against applying graduate tax in Nepal. They labeled it as an unfair practice as even those students who did not take loan will have to pay their share of graduate tax. These students who do

not take student loan will certainly revolt against it. Also, this graduate tax remains for life, not as student loan which stops after paying their installment (Barr, 2009). Their other reason was our tax system. We don't have a proper tax system to force everybody to pay this tax. They also said that it is not practical as a big percentage of our graduates are unemployed as their degrees are not saleable in the market. They

Outcomes based funding means supporting institutions according to their success. One way of implementing it is by rewarding institutions according to the percentage of students getting appropriate employment immediately after graduating.

will not have to pay tax for many years as these unemployed graduates will not have any income to pay tax.

Bursary, education voucher, scholarship, student loan, dual track tuition, and means tested tuition are some of the practices in use for cost sharing around the world. Some of these are already in practice in Nepal and some other can be used to facilitate our students.

### **Outcomes Based Funding**

The current talk of the town has been "Outcomes Based Funding". Aisha Labi (2015) quotes Laurence D. Richards, "We put resources into those things that help students be successful, because that's what we're rewarded

on". Outcomes based funding is based on institutions getting incentives for their better job of educating students. It is mainly looking and helping students who are making insufficient progress completing their degrees. Institutions also provide assistance to students choosing their courses. Especially students from ethnic minorities and low income families may have problem choosing what they want to study as they are the first in the family to go for higher education.

Labi (2015) further insists that outcomes based funding is based on access, progression and completion or what proportion of students complete degree, cost and

price, post college outcomes such as employment and admission to graduate program. This scheme helps improve students' academic progress, increase in graduation rate and increase the achievement percentage of minorities and financially poor students. This scheme is not in practice in Nepal yet. This is one of the best ways of getting maximum benefit from government support which also enhances the image of the institutions and the needy students get maximum benefit. The attraction for the students is that they know they will get all the support they will need in the course of their time in school.

### **Pay it Forward, Pay it Back**

College affordability has become a major issue all around the world today. Decreasing government financial assistance world-wise has shifted the burden from government to student. A radical proposal floating around the world today is to provide college accessibility to students from minority groups, low income families and students from under-represented groups making higher education accessible to all these students. . The idea is that students' don't pay any tuition and other fees while in the college up front. Government takes care of all these fees with the understanding that government will deduct this cost from their earning after they graduate and get a good paying job.

This scheme is known as "Pay it Forward, Pay it back", or Pay it forward (PIF) in short. In this scheme, government pays tuition fee of the student for public higher education which will be deducted through tax from students' future earnings. This scheme has been catching significant attention of students and also the attention of law makers of the United States of America (Harnisch, 2014). This scheme is also looked as a pathway to the privatization of public higher education. This concept is

still new in Nepal. It will need a lot of homework to come into effect in Nepal.

Students will tremendously benefit from this scheme.

There are different schools of thoughts about this scheme. Right-leaning PIF supporters believe the policy change could introduce market dynamics into college financing and ultimately eliminate taxpayer subsidies to public colleges—essentially privatizing public higher education (Harnisch, 2014). At the same time other group thinks that it opens the doors of college opportunity for low-income students by eliminating a major economic barrier. Over all, it is a good scheme for those who do not have resources to pay for their education.

### **Scholarship**

Scholarship is one way of supporting students through demand side financing policy. Scholarship money either goes directly to the students or goes to the institutions in lieu of students' tuitions and other fees. Universities have their own scholarship program governed by the regulations provided by the Government of Nepal. Different schools of KU provide scholarship to meritorious and economically weak students. For example: KU, School of Science provides one scholarship for every thirty fee paying students enrolled (Birendra, File folder # 13). TU and PU also provide scholarship to some extent. All private campus must provide at least 5% scholarship. Campuses have their own scholarship committee to decide on scholarship recipients (Bidur, File folder # 15).

All technical schools must provide scholarship every year according to government regulations. For example: B.P. Koirala Institute of Health Sciences (BPKIHS), Dharan, announced its scholarship seats for 2015 admission session. For 150 students it is allowed to intake this year, it will provide 17 to 20 full scholarship and 27 to 40 partial scholarship (Gyan, File folder # 16).

Nepal government has allotted a big amount of money for scholarship (Harish, File folder # 5). But there has not been any visible result. Many students can benefit from this program if implemented properly. Both government policy makers and policy implementers expressed their feelings that the scholarship program is not implemented properly.

The following table shows the allotment of budget for scholarship for this fiscal year and last two fiscal years;

Table 10: Scholarship budget

Fiscal year	Budget amount
2013/014	1,773,929,000.00
2014/015	1,643,315,000.00
2015/016	2,583,813,000.00

Source: Budget speech 2015/016

It has also made compulsory to the private institutions to provide scholarship to certain groups of people representing remote areas, deprived groups and financially poor students etc. All these rules and regulations are high sounding government proposal but they are very weakly implemented (Harish, File folder # 5). Government has not been able to administer its scholarship fund properly (Parashara, File folder # 9, a policy maker).

There are also a lot of international scholarships available to meritorious Nepali students. Some international scholarships come through government channel and some are arranged by students themselves.

Scholarship is one way of supporting students. The institutions select students mainly on merit basis. Academic excellence and need based selection provides poor and academically excellent students opportunity for higher education.

There is a government regulation that dictates 20% of the students enrolled in higher education institutions must get scholarship, but it is not implemented properly.

Most of the campuses constitute a committee to determine who gets scholarship. The committee includes Assist. Campus Chief, Student Representative, Department Heads and some other members. Poor and intelligent students are selected based upon the VDC recommendation and their transcripts (Ratna, file folder # 14).

Currently, 7% of the total enrolled students get scholarship in KU. KU plans to raise this to 10 % (Keshab, File folder # 11). Scholarship is the major government support to students but it is not properly administered. Bona fide and needy students should be identified for scholarship.

*A big chunk of education budget money goes to scholarship. Nepal government spends about one hundred million rupees in scholarship (Keshab, File folder # 11).*

*Scholarship money is not distributed properly. Those students who do not need help also get scholarship whereas needy students are left out (Ratna, File folder # 14).*

It is interesting to get this kind of comments from the high ranking officials from MOE and other institutions. The official from MOE was non-committal to talk about what has been done to improve it. This is a good example of utilizing demand side theory to support students but proper management is needed. Due to the lack of financial opportunity, many interested and intelligent higher education age students have not been able to enroll to advance their education. Proper use of scholarship program will give an opportunity to them.

Sometime the cases of misuse of fund surface in newspapers. I remember a news clipping saying that the scholarship budgeted for students from disadvantaged group getting into the hands of the students from rich and advantaged groups. Again, proper supervision and monitoring will make this program a fruitful one.

*Despite of a huge amount of money put aside for scholarship, a high school female student gets only four hundred rupees a year (Parashara, File folder # 9, File folder # 9).*

*Students who can afford are getting scholarship whereas talented and needy students don't have access to it (Harish, File folder # 5).*

Scholarship is one way of supporting poor and intelligent students. It needs proper management in identifying students and distributing money.

### **Student Loan**

Nepali banks claim that they provide student loan but they demand one hundred percent collateral and charge regular interest rate as in commercial loan. Rajendra (File folder # 6), one of the financer, a board member of a commercial bank says that since there is no government support, banks can't take risk providing loan without collateral. In case of default, banks will have to suffer. He further says that in other countries government pays interest on student loan. Krishnahari (File folder # 17), a CEO of a finance company, says that finance companies should have government backing to launch student loan scheme. In current scenario, finance company has to be totally responsible for their loan, that is why they charge regular interest rate and demand full collateral. Higher Education Project II, funded by WB started a project with student loan, work study program and scholarship. Both student loan and work study program failed and has been discontinued.

NNEPC had recommended scholarship program in their report in 1955. This commission recommended appropriate tuition fee and also said that student need support for their food and lodging either in a hostel or renting a place in a town. Universities should support students with; a. full or partial scholarship for intelligent

students b. work study program and c. fund for student loan (Ministry of Education, 1955).

Most students cannot afford to pay for higher education as the price is skyrocketing, and this leads to the third set of lessons from economic theory. These students should have access to resources so that they would not mind paying even a bit high price for their education (Barr, 2004). Bennett's Hypothesis goes together with Prof. Barr and agrees that students will not mind to pay high tuition fee and institutions will benefit from it and increase their revenue if student loans are made available.

The financing of higher education is undergoing great change in countries around the world. A central theme in this change is the shift from government subsidization of the real costs of higher education to a greater emphasis on bearing these costs by students. Growth in enrollment, broad economic downturns, competing demands for government funding, and questions about private versus public returns to government investment in education have all combined to fuel this shift from government to individual (Heller 2013). Students need to have resources accessible to make this change successful.

There are many ways of cost diversification but as the main beneficiaries, students should be willing to shoulder a heavy chunk of this burden (Barr, 2008). Students will be willing to share these costs but the problem is finding the resources. Commercial banks will not be interested in general in providing loans to finance human-capital investments as there is no saleable collateral in these kinds of investment. In the event of default, there is no guarantee of repayment. Countries like United States, Canada and the Netherlands address these problems by acting as a guarantor for student loans. These governments try to address these problems also by



paying the interest on the loan for the period before the students graduate (Chapman, 2011, p. 86-87). The problem with this system is that the defaults cause additional burden on the government on managing the rare resources mainly in the developing countries as the low interest rate loan may be misused for other purposes. In Thailand, students family used the loan money in jewelry and small business as the interest rate was very low (Tangkitvanich & Manaaboonphempool, 2011, p. 205). Thailand provides student loan in one percent interest rate for 15 years with no interest charged in the first year and very reasonable percentage of installment as shown in the table below (ibid, pp. 204-205).

Table # 11. Installment repayment rate of the Student Loans Fund in Thailand

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
Repayment (% of loan)	1.5	2	3	3.5	4	4.5	5	6	7	8	9	10	11	12	13	100

Source: Tangkitvanich & Manasboonphempool, 2011, p. 205

Student loan scheme has been one of the most recommended schemes from the research participants but with much reservation (Jamadagni, File folder # 3). Policy implementer Jamadagni (File folder # 3) questions, “Why it would not work in Nepal if it works in other countries?” Another policy implementer Birendra (file folder # 13), agrees with them but with very cautious tone. All of them agreed that the scheme can give relief to students if managed properly. The Philippines and Thailand failed because their student loan programs were not launched properly and repayment was the main problem in both of these countries (Kitaev et al, 2003 & Polsiri, Sarachitti, & Sittchipongpanich, 2011). Experts on higher education, Acharya (File folder # 18) also agreed with other participants and added that creating loan fund, identifying proper loan recipients, and establishing carefully prepared student friendly

repayment system will certainly take care of the problems. Student friendly and well administered plan works well if funds are not miss-used and repayment happens in time (Shanta, File folder # 10). Proper and timely repayment can stretch the fund and many more students can benefit from it in future. Identifying needy students and timely repayment could be two major issues in student loan program as pointed out by many of the participants. Ved Byas (File folder # 4) expressed his concern about the culture of not willing to make repayment in time in our society.

This is not only a problem in Nepal, but all the countries around the world including industrial and transitional countries are surrounded with this issue. Industrial countries even used the third party called “debt collector” to collect loan. Thai student Loan Fund delegated the authority to collect student loan to government owned Krung Thai Bank of Thailand (Armstrong, & Batten, 2011).

Selection of students for loan, deferral policy, interest rate and repayment schedule are some important areas that help a smoothly running student loan scheme. Bad repayment will make the scheme fail whereas high interest rate will make the student suffer. Students who are in bad financial situation must get deferral option. A well planned repayment scheme helps run the scheme well by abolishing the one way traffic. As repayment happens in time, the fund will not shrink and more students will benefit from the program. Thus, appropriate intervention at the appropriate time will make all the concerned stakeholders happy and also make the scheme run smoothly.

Many research participants (Jamadagni, File folder # 3, Arjun, File folder # 20 and Harish, File folder # 5) voiced the same concern saying that we are not ready for this program. They said that our culture avoids paying back if at all possible. They also said that there is no strong loan collection system. If it goes to the court, it may take years to get the verdict from the court. Other research participants (Rajendra, File

folder # 6 and Krishnahari, File folder # 17) cast their doubt on successful implementation of student loan scheme in Nepal. Jamadagni (File folder # 3) and Tika (File folder # 12) said that it can be implemented if planned with careful attention to details. A strong support from the government is essential for the success of a student loan program in a country like ours.

Funding could be a problem to start with. Government itself or international financial organizations like WB or International Financial Commission (IFC, a subsidiary of WB) or ADB could be a source of funding to start with. WB has financed many student loan programs in Latin American countries. Therefore, Nepal can also get support from WB to start the scheme. In Nepal, Banks and Financial Institutions (BFIs) are supposed to provide at least 3.5% of their total loan to deprived sector. This kind of arrangement also for student loan helps formulate capital for the scheme.

As tuition fees go sky rocketing with mushrooming private institutions and low availability of government funding even for public institutions, students have started looking for available resources to pay their education expenses. With only 2 percent of potential university students having access to student loans (in case of Mexico) as opposed to 71 percent in the United States, few can afford higher education in developing countries (Financing Private Education, 2008). Student loan program works where government and/or the financier invest only once if the program is launched with careful planning and good monitoring system. The fund will rotate and many students will benefit from it.

Nepal government support agriculture by making loans available under deprived loan scheme. This scheme facilitates farmers to get low interest rate loan. This kind of facility can also be extended to students through student loan scheme. A

small percentage of deprived loan schemes can be allotted to education loan to start with.

*Student loan can be a strong scheme to help financially deprived students go for higher education. Education loan can be categorized under deprived sector loan but careful homework needs to be done for it. Creative and innovative mechanism has to be applied to run student loan scheme (Rajendra, File folder # 6).*

*Nepal is one of these under developed countries where student loan facility is almost non-existent (Birendra, file folder # 13).*

World Bank has provided soft loan or grants in many Latin American countries to run student loan program. If we can convince WB about the success of the program, Nepal can certainly benefit from such opportunity. WB supported with \$300 million to Colombia to improve existing student loan program in the country. ICETEX (The Colombian Student Loan Institute) aimed to offer financing to 100,000 new students to enroll in higher education for the first time in 2008-10 and also aimed to finance 432,000 loan renewals for students who are already attending programs. (Trotsenburg, 2008). With proper student loan program, student will be able to pay even higher tuition fee in private institutions.

*Student loan scheme could solve some problems of higher education finance of Nepal. Proper plan needs to be developed learning lessons from other countries as repayment could be a problem with poor repayment culture of our country (Jamadagni, File folder # 3).*

*Student loan scheme can work in Nepal if implemented properly (Ved Byas, File folder # 4).*

KU provided loan to students in case of natural calamities or death of parents of the students and other difficult circumstances. Due to repayment problem, this

program has to be discontinued. In Thailand, by the end of two year grace period, the borrowers are required to contact Kung Thai Bank to arrange for repayment (Polsiri, Sarachitti, & Sittchipongpanich, 2011 p. 224). Student loan program, during the starting years, may not be able to provide loan to programs like medical program as these programs need big amount of money. But slowly, it can be stretched to all disciplines of study.

The other side of the coin is that student loan can start from medical, engineering and management students, if the scheme has big enough fund, as they will have job guarantee as soon as they come out of school and they will not have any repayment problem. Slowly it can be expanded to other faculties. If government is interested in establishing a student loan program, a very clear guidelines and an apolitical board with necessary power invested on them, is an essential tool to begin with.

Government announced “Certificate loan” in this year’s budget speech. Budget speech said that graduates should get loan having their certificate as collateral for loan. This will be another facility for the student if they can get loan on their future certificate, or if the certificate loan can be stretched to cover the current students.

### **Work-Study Program**

Nepali culture is still affected with classification of works. People from certain caste do certain work. Under work study program, students may have to do whatever work they can find to support their study. But due to our culture, students don’t want to do any low level work. Therefore, they would like to depend upon their family for financial support. This is true even with the students in M. Phil or PhD program. Work study program can be one way of supporting poor Nepali students to go for higher education but most Nepali students feel humiliated to do manual or low level

works. Even those students, whose parents can't afford to support them financially, are hesitant to work while they are studying. The other side of the coin is that these kinds of job do not pay enough to pay their tuition and also arrange food and lodging. This kind of program does not play any significant role in higher education finance of the country as it has already failed.

*Most Nepali students feel humiliated to do manual works. Also the manual work is not well paid and it is usually looked down in Nepali society (Ved Byas, File folder # 4).*

*Even those students, whose parents can't afford to support them financially, are afraid that they will be looked down by the peers if they do low level work under "work study program" (Krishnahari, File folder # 17).*

### **Income Contingent Student Loans**

Unlike conventional loans, which have equal periodic payments, income-contingent loans are repaid as a proportion of annual income of the borrower; the payment in any period will vary with income, so the periodic payments will not be fixed (Thomas, 1994). Repayment scheme changes as the borrower's income changes and usually the interest rate is also set lower than the conventional loan. The borrowers don't need to worry about payment till s/he lands into a well-paying job exceeding the threshold. Repayment starts only after the income of the student reaches to a certain threshold.

The possibilities of introducing income contingent loan in Nepal was brought up with different research participants, but all of them out-right said no as the tax system is very lax and there is no other appropriate method that can be applied to recover this type of loan (Harish, File folder # 5). They also think that determining

and selecting students for this program may be a difficult process (Krishnahari, File folder # 17).

A well planned income contingent loan system supports students to procure loan for their study. A very well planned program is needed to execute this system in Nepal, but it could be a problem in repayment as we don't have good tax system. Lack of proper tax system may cause problem to recover the loan from the students. The other issue with income contingent loan is how to assess people's property. How to determine who is illegible for this type of loan? The student's or the family's monthly or annual income, their real state property, their live stocks and other sources of income play a vital role in determining eligible candidates for income contingent loan. People may not report properly about their financial status. It will also be difficult to determine people's income without proper tax system.

*Income contingent tuition fees and loans are difficult to justify who gets and who don't (Krishnahari, File folder # 17).*

*It is not that easy to figure out people's income (Bishwombar, File folder # 2).*

*After the graduation, recovery of the loan could be a problem as we don't have a proper tax system and also it will be difficult to keep track of students (Bashistha, File folder # 1).*

### **Dual Track Tuition Fees**

Dual fee system is a very appropriate system for Nepal but a campus chief with visionary leadership is needed to successfully implement this system. Dual track tuition policies are characterized by a highly restricted, "merit-based" entry to free or very low cost higher education, with other applicants not so admitted permitted entry on a fee paying basis (Marcucci, Johnstone, & Ngolovoi, 2008). There are different

reasons for using dual track tuition fee system, but in most of the country it is used in favor of talented and poor students.

If implemented properly poor and intelligent students will benefit from this system. Certainly, it will be difficult to charge high tuition fee to those students who do not qualify because of their low grade ranking and also due to their financial position. It will take time to implement but once implemented students will benefit from the system.

This is another way of sharing cost with students. Those who can afford will pay full cost whereas poor and intelligent students pay minimum amount. This system is in practice in a few institutions of higher education in Nepal (Tika, File folder # 12). He said that students who had to pay high tuition fee revolted against it. He expressed his feeling that this is a good system but a visionary campus chief is needed to implement this scheme. Currently, low tuition fee is charged only to those students who have scored high in previous examinations and the entrance examination (Tika, File folder # 12). Their ability to pay or their financial status is not looked at. Both of these issues (Merit and need based) are important to consider while making the decision of who pay low tuition fee and who pay full cost.

Dual track tuition fee needs thorough preparation and thorough investigation to implement it. A scheme is needed to define the category of students who should benefit from it. There happens to be a vast difference between the amount of fee between subsidized and full tuition. Therefore, the full tuition paying students may have grievances. This is a good scheme if implemented properly.

*Dual fee system was first introduced in Nepal in IOE. Those top fifty percent of students, who secured highest marks in their entrance exam paid only government fee which was about 200 rupees and the rest had to pay about Rs. 5000. There was a*



*big struggle. No glasses of the windows of the Institute of Engineering left unbroken (Tika, File folder # 12).*

*Certain percent of dual fee should go to poor students but how to categorize poor. Everybody sees themselves poor. Also TU Business School has dual system.*

*Everybody pays 3 lakh for BBA but BBS students pay only minimum fee (Tika, File folder # 12).*

Institute of Engineering uses a performance based dual track tuition fee system. Top fifty percent of the students are charged very little tuition fees and the remaining fifty percent have to pay high tuition fees. There is no check on financial status of the students (Tika, File folder # 12) and this creates unfair situation. But other problem with financial check is that a student may very easily get a recommendation letter from the village committee even though s/he may not be as needy as some other students. So, the concerned party should make a very clear and strong criterion for financial check.

Like IOE, other institutes could also use dual track tuition fee system. Students may not like it to start with. The campus chief or the dean of the institutions must be visionary leader to deal with students and parents. Like in Maldives, the students did not like it when the government changed pocket money system into student loan scheme (Merrett, 2011). Nobody wants to give away the free facilities they were receiving. It takes time to practice the proper system.

### **Bursary**

Government departments and/or certain corporate entities pay full expenses of certain students' higher education assuming that the student will work for them after completing her/his study. Bursaries and scholarships were identified where students receive financial aid from an organization, often a community organization, that fund

all or part of their degree and in return students spend a set amount of time in a rural area (Rural Health West, 2014)). So, bursaries are developed according to the need of the provider of financial assistance, agreed upon by both parties (financer and the student) before entering into the agreement.

This system is very common in South Africa and Australia. This system is not in practice in Nepal but can be of benefit to both parties if implemented properly. Student will have job guarantee and will be able to start working immediately after getting out of school whereas the employer will have an employee immediately after s/he completes his/her education.

### **Issues and Contradictions**

Nepal government provides scholarship to poor and intelligent students. This provides good opportunity to students who can't afford to go for higher education due to their financial situation. But high ranking government officials themselves agree that it has not been implemented properly. Because of the lack of proper financial management a huge part of this scholarship money is wasted as it ends up on the hands of those who do not need it and needy students do not get it.

Another issue is student loan. Many of my research participants expressed their feelings that student loan is important and can be implemented in Nepal with strong support from the government. Student loan system would have been a great support for students from poor financial background. But government has not paid any attention to it.

As in many other fields, the government is not very strong in implementing suggestions and recommendations from various commissions and committees formed by the government itself as well as implementing its own decisions. Government of Nepal has fixed tuition and other fees for medical students but almost all private

medical schools charge way high than the prescribed fees. There are also seats allocated to all medical schools according to their physical infra-structure, number of patients and other requirements prescribed by the universities and medical council but almost all these private medical schools admit higher number of students than they are allowed to jeopardizing the quality of education they provide. These are some of the paradoxes all Nepali medical students are facing in Nepal.

Some other support systems have been already implemented by some of the institutions like double track tuition fee. The institutions implementing this system only pay attention to intelligent students but not to students from poor financial background.

There are many virgin fields to support higher education students in Nepal like education voucher, bursaries etc. that have not been implemented. Many poor and intelligent students will benefit from the government's proper attention to these areas.

### **Chapter Summary**

Modern world has realized that higher education produces more benefit and gets better financial package than those who has only high school degree. The prime beneficiaries of higher education are the students; therefore, they should be made accountable for the expenses as well. There are many intelligent but poor students who dream for higher education but their financial status does not allow them. These students need help and support. Helping these students means preparing talented work force for the country.

It is agreed that government can't shoulder all the burden of sending these students to higher education. Therefore, a middle path is the answer of this problem. There are several ways of supporting these students as discussed in this chapter above. Cost sharing, scholarship, student loans, dual track tuition fee are some of them. A

collaborative effort from all the stakeholders can facilitate this situation to bring fruitful result.

## CHAPTER VIII

### FINANCIAL MANAGEMENT

Financial management is an efficient and effective management of fund to achieve and accomplish the goals and targets of an institution. There are various different types of issues related to financial management in Nepali higher education.

#### Background

This chapter highlights the current condition of higher education finance management in Nepal. There are several issues that pop-ups when we think about higher education financial management of Nepal like, transparency, the role of UGC, income from university research work, and management system to name a few. The budget managers and administrative officials of these higher education institutions, who are usually working with limited resources, have to struggle to identify and tap resources and release the budget to all concerned parties in time. There have been complaints from various sources about the management of budget in higher educational institutions of Nepal. Their main complaints are: transparency, timing, inadequacy of fund, profit motives of investors and political pressure to hire unneeded faculty and admin staff and attitude of some of the responsible officials. Another factor is lack of trained human resources, which creates problem in finance management. All these issues came up front during my discussion with my research participants. We will look into all these issues in this chapter.

#### **Transparency**

There have been a lot of complains about not having our financial system transparent. Transparency implies to openness, communication and accountability.

Transparency is the key ingredient for reform. When everyone has the same information, sees the same information, then improper decisions are reduced. Also transparency leads to trust, the most important element to changing the systems. People have to believe each other, have to know that each is giving up something to get something, and that all know what each other is giving and getting. When we talk about transparency in finance, it means meaningful disclosure of account when and wherever it is necessary. The problem of transparency is not only seen in Nepal, but is prevalent all over South East Asia. Welch (2011) says that while most university staff, both administrative and academic (sometimes they are the same individuals) throughout South East Asia work hard under challenging conditions, including poor remuneration and limited resources, there are some who perform less honorably. Up to 30 percent of government procurement budgets could be lost due to corrupt practices in Thailand (Westcott's 2001 as quoted by Welch 2011). He further quotes Westcott (2001, p.252) and says that data from Vietnam report shows that nearly one-third of Vietnam's public investment expenditure in 1998-equivalent to 5 percent of GDP-was lost to fraud and corruption and the situation has not improved since then. Nepal is not an exception to this South East Asian drama. In fact financial mal-practices in education system are a common topic of discussion in Nepal. The Commission for Investigation of Abuse of Authority (CIAA) has been investigating and filing cases in courts against many higher education personnel in Nepal, similar to the issues highlighted by the studies in Vietnam and Thailand. Mathema, et.al (2015) raises similar concerns about health education in Nepal. The following are some of the excerpt from the above mentioned Mathema report.

*The report on the financial aspects of Health Education, page 50-51, clause 10-2-2 says that it is a well-known fact that many health education institutions in Nepal*

*are charging outrageous tuition fees on their own whim which is onerous and beyond the capacity of Nepali nationals. It further says that another big issue is ignoring entrance examination and setting aside seats for students who can pay very high tuition fees and not giving chance to intelligent and capable students who may instead need more financial support (Mathema Report, 2015).*

It has been a big issue in Nepal. Till 28<sup>th</sup> September, 2015, a senior Orthopedic Surgeon of Tribhuwan University Teaching Hospital was in hunger strike for the seventh time, demanding transparency in budget, no political appointment in important positions in educational institutions, admitting only authorized number of students in medical schools, reasonable tuition fee etc. Seats on MBBS course are for sale to highest bidders in medical schools of Nepal (Bishwombar, File folder # 2). It may cost from 3.5 million to 10 million. Mostly Indian students and students from rich families of Nepal are admitted in these seats. The authorities even waive entrance exam for Indian students who pay these onerous fees. The hunger strike for the improvement of Nepali medical schools has also opened people's eyes about how the medical schools operate and how corruption and mismanagement of funds have been happening in Nepal.

Each time, when he goes on hunger strike, Nepal government assures him that all these issues will be taken care of, but it never gets resolved. Several study groups have been formed and reports have been submitted but most of the recommendations have never been implemented (Bishwombar, File folder # 2).

There is a craze in Nepal about medical education. Even though it is very expensive, most Nepali parents desire to send their off-springs to medical school. Certainly, there is prestige, social status and money on this profession, but the cost of medical school is so high that many parents can't dare to think about it. Even if they get

chance to admit their children in medical school, return of financial investment is questionable as it cost millions of rupees to complete the course. The medical schools charge heavier fee than prescribed by the government but the students or their parents can't complain in fear of losing their seat in the school.

The theory of firm does not apply properly to higher education finance but it applies in these medical schools. In most of the cases, these medical schools look like purely for profit institutions which will end up producing sub-standard unemployable graduates.

*The medical institutes continue charging high fee but the students can't complain in fear of losing their chance to study (Janardan, File folder # 19).*

Nepali medical institutions charge millions of rupees for the specialist course. These medical doctors provide several hours of services a day to the hospitals but do not get paid for their services. On top of that they have to pay high price for their courses. These medical institutes in Nepal run in totally profit motives. There is no hope that poor and intelligent students will get any chances to further their study.

*Mathema report further says that specialist medical students are charged very high tuition fees on top of their services to institutions where as in many other countries, the institutions not only not charge any tuition fees but instead they provide a special allowances to the students for their services. These specialist students provide several hours a day service to the hospitals but do not get any remuneration for their services in Nepal (Mathema Report).*

Similarly, CIAA filed a case against the Mid-Western University official (Including VC and Rector) for illegal expenses like alcohol and other items from the university budget and a case was also filed against Purbanchal University (PU). Special Court convicted seven of the mid-western University staff for corruption including jail



term for two of them (The Himalayan Times, January 12, 2016). Some cases are still in the court waiting for the verdict. The research participants don't want to talk much about it. Either they don't want to back-bite their co-workers or because they have not seen anything with their own eyes.

*"The rumor is that money changes hands but can't talk much about it because I don't have any proof" (Bishwombar, File folder # 2).*

Most of these irregularities happen because the officials are appointed on party line with political influences. These officials don't care much about the improvement of the system but just think about how they can keep the people happy who helped them get the job.

*The problem is not having appropriate people in appropriate job (Bashistha, File folder # 1).*

Private investment in higher education is growing day by day in Nepal. This is more so in health education. These private investors will be more interested in profit than in quality of education. Welch (2011) quotes some examples of such happenings. A Higher Education Institution (HEI) faculty in Indonesia, knowing that their level of engineering infrastructure was inadequate as per the national regulation designed a strategy to circumvent the possible low grading from the upcoming evaluation team, borrowed numerous items from a local engineering firms and yielded a satisfactory B rating. All the equipment was returned the next day leaving the students just as bereft of much necessary equipment as before.

In Nepal, there has been no records seen of this nature but it has been repeatedly mentioned by many research participants that temporary hiring of Indian retired professors for a day or two while the institutions were being evaluated by the medical council or the university. The institutions know when the evaluation team

will be coming, so they hire temporary professors known as “Khadebaba” just for a day or two. Institutions save money at the cost of quality and students suffer.

The students are suffering because of overcrowded classroom, not having experts to teach the subject matter and also in some cases not having enough patients for the students to practice. The more students the management gets, the more income they will have. Rather than having professors for specific subject matter, bringing “Khadebabas’ from India on the day of inspection for a day or two, could be one of the root causes of low standard of our medical graduates.

*Private institutions trying to maximize their profit is rampant among most of medical schools in Nepal (Bashistha, File folder # 1).*

Medical schools are accepting more students than their capacity and also they are not having enough patients for medical students for their practice. All these practices are the prime factors for producing low grade graduates. These medical students graduated from medical schools get flunked several times in simple licensing tests conducted by medical council.

*“Medical schools must adhere by the regulations provided by the universities or the medical council about the number of students they can have in their classes (Bishwombar, File folder # 2).*

### **The Role of UGC**

Financial management has been a problem in Nepali educational institutions. In some countries government regulation and reporting requirements also cause onerous problems (Hirsch, 1999 p. 75). However, this does not seem to be a problem in Nepal and no one complained about excessive government requirements or regulations.

One of my research participants complained that universities don't submit their financial report to UGC. The hierarchy and the role of UGC are not explained very clearly. Is UGC just responsible to distribute money or they have supervisory role also (Om, File folder # 18)?

Another participant contradicted to the above claim. Harish (File folder # 5), says that the Prime Minister is the Chancellor of all the universities of Nepal. Annual report including audit report is always distributed in the senate. Senate approves the report. So, these papers are public document. It is available to everybody.

Listening to these two research participants, it sounds like the issue is more like taking initiation. Om (File folder # 18) said that they don't get report but Harish (File folder # 5) says it is available. That means the report is available as it is public document but not forwarded officially to UGC. It may also be the question of hierarchy. Om (File folder # 18) also expressed the concern about the need of "Ministry of Higher Education" or a "Higher Education Financial Commission".

*The role of UGC is not very clear. Does UGC have authority to supervise all higher educational institutes? Financial supports for medical school go directly from Ministry of Finance not through UGC. Do we need a Ministry of Higher Education or Higher Education Financial Commission (Om, File folder # 18)?*

Universities are autonomous body. Universities are established under their own act. University account is audited by the Office of the Auditor General of Nepal (Tribhuvan University Act, 1992). Also, there is CIAA to check on the malfunction if they smell something wrong.

However it was easier said than done and I had hard time to access the financial report from some of these institutions. Some officials even wanted to get approval from their immediate supervisor when I asked them for an appointment for interview for my

thesis. Almost all the campuses complained about having financial discipline problem in their campuses but most of them did not want to talk about it in detail.

*UGC Nepal does not have much authority to monitor higher educational institutions. UGC just gets check from Ministry of Finance and distributes to universities and other higher education institutions (Ved Byas, File folder # 4).*

*UGC mainly distributes money on historical trends. The funds received under HEP II program is distributed under formula funding. Development budget goes only for certain projects whereas regular budget goes mainly for salary and recurring expenses to all public universities (TU & NSU) and constituent campuses (Om, File folder # 18).*

Contradicting with Om (File folder # 18), Ved Byas (File folder # 4), said that UGC applies different mechanisms to distribute funds to universities and campuses. Besides historical funding, it implies formula funding, performance based funding, and provides matching grants.

Some of the main functions of UGC as described in its web page are: advise the Government of Nepal on the establishment of new universities, formulate policy for the allocation of government grants to the universities and higher education institutions, disburse grants to universities and make recommendations to the concerned bodies for additional grant. So, UGC mainly formulate policy for distribution of government grants and disburse grants. It also advises the government on the requirement to establishment of new universities.

*UGC has applied different methods to disburse fund to higher educational institutions. UGC is still exploring different avenues to improve the system. They accept that there are rooms for improvement and trying to improve the system (Ved Byas, File folder # 4).*

## Student Enrollment

There is a set guideline for student enrollment for all educational institutions. The question is whether the guidelines are followed or not. As tuition fee is the main source of revenue for these private institutions, it is difficult for them to reject many students. Rejecting big number of students means lowering their income. Accepting everybody means accepting to provide low quality education. This is a catch twenty two. A clear guideline makes it easy to maintain quality standard as well as flow of resources. If the institute maintains quality, there will always be more students than they can accept. Some institutions have strong requirements for admission but they have no problem finding students. The number of applicants for admission depends upon the goodwill of the institutes as well. But in medical schools, there are always more applicants than they can accept whereas some departments of some universities get much less students than they can accommodate.

There is a regulation that compels every student must take entrance examination to get admitted into medical school but there are rumor that some Indian citizens get admitted without entrance exam in lieu of hefty entrance fee. This kind of situation provides very slim chances to poor but intelligent Nepali students. Only those who can pay get admitted. Students admitted without entrance exam brings poor result at the examination conducted by medical council where students fail for more than once. Currently, the Central Investigation Bureau of Nepal Police has arrested about thirty six medical doctors who have used fake certificates to get into medical school. Money plays a strong role behind all these scandals. Money changes hands in almost all medical schools of Nepal to harbor these mal-practices.

*Some Nepali medical institutes even enroll Indian citizens without entrance exams accepting a lump sum of high tuition fee (Janardan, File folder # 19).*

Mathema report has expressed their feelings very strongly that all MBBS entrance seeking students must pass the entrance examination including all non-Nepali students seeking admission in Nepali medical schools or Nepali students going abroad for medical studies. This will set the standard for admission and schools will not have to compromise with their quality standard.

*There must be a set of rules to accept students without compromising the quality. Extra classes may need to be provided (Bishwombar, File folder # 2) to accommodate weak students.*

*New regulations have been prescribed regarding not admitting any students without entrance examination. According to this new regulation, students going abroad for medical education must also pass this entrance examination (Mathema Report).*

Foreign students are one of the good sources of revenue for universities. So universities must have good image and must offer interesting courses depending upon the demand of the market. Quality control is very important to retain the flow of students. Universities should have programs tied up to well-known universities of the world which will give good image of the university and attract foreign students. But Nepali medical schools have tarnished their image by accepting non-Nepali students without taking entrance examination for huge amount of publicly un-declared sum of tuition and other fees (Bishwombar, File folder # 2).

Enrolling more than their prescribed quotas in technical schools is rampant in South -East Asian countries. Dong Do university in Vietnam was found by Ministry of Education and Training (MOET) to have over enrolled to the tune of 2.8 times its MOET quota. They had enrolled 4,205 students, rather than its allocated 1,500 students. He further says that the officials of Dong Do University had been routinely

accepting bribes from students or their families in order to secure entry to the institution (Welch, 2011, pp. 69-70).

This sounds very familiar to our situation. Nepali medical schools play many tactics to enroll students more than their prescribed quota and also not having enough patients for medical students for their practice. All these practices are the prime factors for producing low grade graduates. These medical students graduated from medical schools get flunked several times in simple licensing tests conducted by medical council.

*“Medical schools must adhere by the regulations provided by the universities or the medical council about the number of students they can have in their classes (Bishwombar, File folder # 2).*

*Medical schools enroll high number of students which is much higher than their capacity (Janardan, File folder # 19).*

Australia can be an example for attracting foreign students. In the year 2004, 24% of their total student body were foreign students in higher education in Australia, (Johnstone & Marcucci, 2010, p.287), which brings significant amount of foreign exchange in country's economy. Attracting foreign students improve financial situation of the institutions as well as of the country.

Student enrollment is also a part of financial management as it involve a big amount of undocumented money. To keep the transparent financial transaction in medical schools is possible only if the schools adhere by the regulation provided by the universities and medical council.

### **Income from University Research Works**

University academics are increasingly being expected to develop links with businesses to boost their institution's income. The pressure to create alternative

commercial funding streams is expected to minimize the hit the sector faces especially from cut in government donation (Beath, Owen, Poyago-Theotoky, & Ulph, 2000). Universities may have incentives to allow their staff to spend some of their time on income-generating activities such as applied research or consultancy. This will supplement the academics income so that university will not have to pay high salary. They can effectively tax the income that academics raise through applied research or consultancy – for example through the imposition of “overhead charges” (Beath, et al. 2000). This is one way of standing high among the flag-ship universities by doing applied research.

The income from research must be shared among the research participants (that is faculty members who were involved in research work) and the university. Doing such research, the faculty members are taking time off from student teaching and helping students in their research works. This will be a side income for the professors which will boost their morale by providing them to work out of university periphery. This is a good way of providing financial support for their hard work.

*Certain percentage of research income must go to university (Jamadagni, File folder # 3).*

Many university academics in Nepal are also involved in research work in one way or the other. They get research work from Nepal government, INGOs and NGOs. Donors must ensure that they have the approval of the university before they engage the university employees.

*At one point, donors were informed that they should not receive any services from the academics from the university without prior approval (Bishwombar, File folder # 2).*



Universities should be research oriented but the income from the research should be transparent and universities must get certain percentage of the research fee. Professors are university employees so they must get clearance from the university to get involved outside the periphery of the university.

By easing their budget constraint, universities may be able to take on sufficient extra staff that they increase the amount of fundamental research that they can achieve with the given public budget (Beath, et al. 2000). This kind of income, support the institutions to hire more academics which will provide enough time for the students with their professors in their research and other academic works.

*Due to the professors' involvement in outside works, students suffer and universities do not get benefit (Bishwombar, File folder # 2).*

If the faculty member has been directed within the scope of their employment to produce specific work subject to copyright, the University shall have ownership of such work and has the right to publish such work without copyright or to copyright it in its own name. In some cases, the university will have prior agreement with the staff about the distribution of royalty. Of course, the contributing academics will get the reasonable share of the income, but even then institutions will have some financial relief.

The following are some of the examples in practices in American universities:

Michigan State University clearly states that faculty members may request approval to engage in outside work for pay during duty periods if the work in question will enhance the faculty member's expertise as a teacher and scholar in his/her discipline (Outside Work for Pay-Faculty Handbook: Academic Human Resources Policies, Michigan State University, 2006).

Provision of clinical and laboratory services and patient care, either in the hospitals of the University of Pittsburgh, Medical Center or in other institutions are considered to be among the primary duties and responsibilities of full-time faculty members. These activities comprise a part of the total professional effort by a faculty member and all income earned by these activities will be recovered in the name of the University and/or the practice plan (Outside Consulting Policy, 2008).

Our universities are not much research oriented. University faculties should be the authority in their field and they should be leading applied research in their field.

*There is no record with our universities and there is no habit of sharing income generated from their employees research works even though the works are done while the academics are under university employment (Jamadagni, File folder # 3).*

*Faculty members must get approval from the university to get involved in any research work that generates money (Bishwombar, File folder # 2).*

Private investment in higher education is growing day by day in Nepal. This is more so in health education. These private investors will be more interested in profit than in quality of education. Therefore, the investors, the university employees and the University must have a clear understanding and good collaboration about the employees work outside the university.

*Private institutions trying to maximize their profit is rampant among most of medical schools in Nepal (Bashistha, File folder # 1).*

### **Financial Management System**

The office of the Auditor general of Nepal is the official financial auditor of universities according to TU act. Implementation of the audit report is the crucial part to improve and maintain proper financial management.

How to improve the financial health is a big issue in many Nepali institutions of higher education. The current situation has been a practice for a long time and it is not going to go away that easily. One of the public universities is facing budget management problem, and is now trying to introduce new fiscal management policy called “Treasury Single Account” or “TSA”. On this system, campuses will have to deposit all their income into university’s Central Office account and the university Central Office will release expenses as needed (Bhuban, File folder # 8).

TSA will be a centrally controlled accounting system. There will be no room for maneuvering accounts even for good reasons from local level. Everything including transferring budget from one heading to another will need to be approved from the central level. Local level executives hands will be tied up and they will have difficult time to make decisions. They will have to seek approval from central office even for minor issues.

Lack of monitoring and supervision of financial aspect of higher educational institutes provides chances for not having transparent financial system. On top of that, political haggling creates work more intricate.

Financial commission issue has been cropping up time and again in my interview. But it looks like more of an issue of system rather than of a commission. Changing the accounting system or working on TSA system may bring the desired change. Will changing the accounting system bring a fair and transparent account management? Some of the universities are already applying TSA system and others are following to apply the new system.

*Do we need financial commission to improve financial health of our higher educational organizations? TU's financial health is in a critical condition (Bishwombar, File folder # 2).*

*Lack of proper supervision and monitoring and also pressure from higher ups are the main reason of not having transparent financial system (Harish, File folder # 5).*

The policy, TSA, will provide authority to TU central office to control and disburse budget as per need and demand (as per budget submitted previously) basis. According to the TU Admin officials, the main problem with TU's financial management comes from lack of proper supervision (Bhuban, File folder # 8).

*This new policy (TSA) is currently in process and will take some time to produce the desired positive result (Bhuban, File folder # 8).*

This new system will tie the hands of budget managers to misuse the fund. They will have to seek approval from the central office if they need to transfer budget from one heading to another. Central office will have tight control over the budget.

*As such, the University now wants to take care of the problem by providing budgets clearly in appropriate headings and the institutions will need to seek permission of the central office if they need to transfer budget from one heading to another. It may also help human resource management (Bhuban, File folder # 8).*

It looks like this system is working properly in KU. So, it may work in TU too. As KU does, TU will also have to disburse budget in different headings and only central office will have the authority to change budget from one heading to another. This system will need less financial work force than they have now. It may save some unnecessary expenses but the problem is, in Nepal, once someone is hired, even in contract basis, it is difficult to say "good bye" to that person because of workers union. So, minimizing work force will not be that easy.

*KU has been already implementing this system. All schools of KU deposit all their revenues in KU Central Office account and KU Central Office release budget as needed (Keshab, File folder # 11).*

Due to the lack of proper supervision and management in its financial section, TU is having problem to collect proper rent money from its tenants in its real estate property in Tripureswor. The tenants go to court just to delay payment. TU has not been able to take strong action like removing the tenants from the property if they don't pay rent in time. It takes years for the court to give verdict and thus TU has to wait for a long period of time to collect its rent money from the tenants.

*There is also a lack of proper staff in the financial section (Bhuban, File folder # 8)?*

Political interferences are the root cause of all these problems. This has been pointed out by most of the research participants. If political interferences are stopped, the financial management health will improve slowly. The problem is more with transparency and appropriate use of available resources rather than system.

*Political interference must be stopped to improve the situation (Bishwombar, File folder # 2).*

### **Evaluation / Per Student Cost**

What are the reasons for vast differences in per student cost? Why does it go up? There must be specific reasons for high student cost of one university in comparison to another. There is a vast difference in per student cost in higher education among the universities in Nepal. There is no check and balance system to find out why it is happening.

*Per student cost is one way of evaluating universities' financial management (Tika, file folder # 12).*

*Table 12. Per student cost in higher education in Nepal*

S. #s.	Institutions	Cost per year
1.	Community colleges <sup>1</sup>	US\$ 30 to 40
2.	Nepal Sanskrit University <sup>1</sup>	US\$400 to 500
3.	Tribhuvan University <sup>1</sup>	US \$ 270 to 280
4.	Kathmandu University <sup>2</sup>	US \$1,000 to \$1,450

<sup>1</sup>Source: World Bank official,

<sup>2</sup>Source: KU admin & finance office. Average undergraduate fee for science and engineering.

The above chart shows a vast difference of per student cost between different universities. We can understand the difference between soft sciences and engineering or medical sciences but there should not be that big difference between the same subjects.

OECD countries spend much more than our average cost of per student expenses. On average, OECD countries spend USD 13, 958 per tertiary student per year (OECD, 2014). Our highest expense is US\$ 1,450 for science and engineering. Per student cost for tertiary education in U.S. is higher than OECD. According to National Center for Educational Statistics of USA average per student cost per year of four year institutions including tuition, room and board is US\$ 36,589 (U.S. Department of Education).

Per student cost differs according to the economic standard of the country. Our highest per year cost for science and engineering is US\$ 1,450 (only tuition, food and lodging not included) whereas it cost US\$ 36,589 in a four year college in US and USD 13, 958 in OECD countries. . Our per year cost is only tuition fee and it will go up after adding food and board as included in US and OECD countries per year cost. But even

then our cost is much lower, a path to attract foreign students if we can provide quality education.

Proper financial and program audit helps keep the program status transparent. Not only financial audit but proper program audit redirects the universities towards its goals and objectives.

*Proper financial and program audit should be carried out to control improper expenses. Big differences in per student cost show the lack of proper financial management (Tika, file folder # 12).*

### **Issues and Contradictions**

Effective financial management is an essential pillar of higher education. Resources are limited and proper use of limited resources is the trick of effective financial management. Financial management of our higher education has been the talk of the town in recent days. Lack of transparency, inadequacy of fund, and personal interest of fiscal managers, have been drawing criticism from general public. One of my research participants, Bishwombar, (File folder # 2) says, “The rumor is that money changes hands but can’t talk much about it because I don’t have any proof”. Charging high tuition fees (more than prescribed by the government) has been the norm of most of the Nepali medical schools.

CIAA filed several cases against many higher education institutions with the belief that funds have been misused. Medical schools get many comments like use of “Khadebaba”, and attracting more patients on the day of observation and inspection as discussed above. These are all mal-practices taking place under the nose of the government. All these are contradictions on issuing regulations and monitoring to check if the regulations have been implemented properly. It occurs that government realizes the need of proper management of higher education finance and issues rules

and regulations but lack the proper monitoring and implementation of these rules and regulations.

### **Chapter Summary**

Financial management refers to correct and efficient use of money to accomplish goals and objectives of the organization. Success and failure of the organization very much depends upon the proper financial management. Improper political influence has stained and disfigured many higher educational institutes in Nepal. Various issues like lack of transparency, lack of proper implementation of rules and regulations of the country, etc. have been cropping up in financial management of Nepali higher educational institutions.

There have been improper political influences on financial managers to use financial resources for personal benefits disregarding institutions interest. In most cases, corrupt political appointees have been playing unfair and unethical games for their personal benefits. Lack of transparency, authority's un-ability to check and stop the corrupt activities, lack of autonomy to work independently and government interferences are some of the obstacles and hindrances to proper financial management in higher education in Nepal. Universities not being able to mobilize internal resources (in-house resources), not having proper evaluation of financial management, and unethical practices are some other issues that have been encouraging financial managers to use financial resources for personal gains. Promoters of private institutions, who are looking more for big profit, encourage the managers to do unethical works. Fair distribution of income from research and other works among the personnel involved and the university may also help improve the situation of financial austerity.



## CHAPTER IX

### REFLECTION, CONCLUSION AND IMPLICATION

This is the last chapter of the study and it summarizes my whole study presented under various sub-headings in the previous chapters. This chapter will reflect on the whole work of the study and tries to tie up all the findings and conclusion. At the end of the chapter, I have presented my thoughts on the need for further study on the areas of financing of higher education in Nepal.

Even people who are not very well educated are conscious about providing the best education to their children. They know the value of education but the means are out of their reach of many financially constrained people. They have noticed the change in the life style of educated people from their villages and want to give the best possible education to their off-springs. They do not hesitate to give up their interest and comfort to support their children for their higher education. They also do not hesitate to borrow money despite high interest rates to send their offspring to bigger towns for quality education. Therefore, the demand of higher education is growing despite the increasing price-tag.

#### **Reflection**

I was a student of business by training with a Master of Commerce degree from TU but spent a majority of my thirty plus year career in the field of education in various capacities. After retiring from my job in Peace Corps/Nepal in 2001, I worked for different organizations doing jobs like HR consultant for an international NGO in Nepal, Academic Director for School for International Training (Brattleboro, VT, USA) assigned to Nepal program and worked in different capacities for Institute of

International Education (Fulbright), Washington DC. After all these years in the field of education, my inner soul encouraged me to learn more about the theoretical aspects of education. I had also been unofficially involved in the financial management of a public campus in Nepal, and had become aware of the ongoing problems that higher education institutions in Nepal were facing in resource management. These experiences gave me insights not just into the scarcity of resources but also the difficulty of tapping available resources. I also worked as a Chairman of a financial company for several years, which gave me some idea about how difficult it is for Nepali students to secure student loan. My various experiences in the field of education and finance motivated me to learn more about the financing mechanisms of public and private campuses and higher education institutions of Nepal, and pursue a degree in higher education especially in the field of higher education finance. I did my M. Phil. from KU and my research topic for my M. Phil. was “Financing Higher education through student loan un Nepal”. For my Ph. D. degree I wanted to do a more elaborate study in financing higher education and focused my research on finance with the topic, “*Financing Higher Education in Nepal: A Qualitative Research*”.

### **Background**

Decades ago when higher education started in Nepal, only a limited number of people enrolled for higher education and the financial burden on government was not very high. As people became aware of the benefit and the need of higher education, the demand grew and non-governmental community institutions and private institutions cropped up to meet the growing need and these institutions started expanding rapidly. The expenses of higher education slowly shifted from government to beneficiaries that are students and parents. Thus, cost sharing practice started. This

rapid growth of higher education and introduction of cost sharing practice addressed partial need and demand of people who could afford the higher education fee but people from lower financial bracket could not benefit from this growth. Nepal government's decreasing support to public institutions further exacerbated this problem. Thus, higher education financing problem surfaced.

Austerity in higher education became a normal practice in Nepal. This situation demanded proper financing system of higher education in the country. Along with higher education finance, came four other closely related issues which are intertwined with each other. Higher education finance policy, trends and practices of higher education finance, student support system in higher education finance and political interferences in higher education finance. These four issues are related to each other and need to be studied together. Therefore I formed my research questions based on these four issues.

This study shades light on higher education financing policy, proper financing mechanisms for higher education and also exploring and focusing on virgin areas of resources, exploring student-friendly financial schemes, and also looks into financial management.

### **Methodology and Data Collection**

As there are not much numerical data available for this kind of study, I chose Qualitative Method to do my study. Qualitative method gave me the opportunity to approach authorities of higher education to collect data. I chose my research participants from among the knowledgeable and experienced people who were/are the authorities in their field. I applied interpretive paradigm and interview and observation have been the main technique of my data collection. After interviewing twenty six top-notch higher education authorities, data was analyzed giving

appropriate weight to confidentiality, accuracy, reliability, and ethical consideration. Interview notes were transcribed with coding to maintain anonymity and confidentiality.

Discussion chapters cover all the ideas and feelings expressed by the respondents and these data has been checked, corresponding with related literatures and theories. As the secondary sources of data, national and international journals, books, and websites have been used and all the sources have been provided in the reference section.

This study was conducted in Kathmandu, Nepal. All my research participants were/are the policy makers, policy implementers, and other high ranking officials in higher education in Nepal. All of them are vibrant leaders in the field of higher education with their own specialization. I selected these people as my research participants in consultation with some experts and also because of their long time experience in the field. Most of them expressed their ideas on the issue with very clear view. Long hours were spent with the research participants. While a few research participants did not have much information or data to offer but most of them had abundant data. With one research participants, I spent nine hours (in one day) with three short breaks of about 15/20 minutes. I spent about 3 hours in average with each research participants. Many of my research participants had spent more than twenty years in higher education in various capacities. Thus data collection was a long and wearisome work but at the same time overwhelming and interesting with continuous flow of data.

### **A Bird's Eye View on Issues, Paradoxes and Contradictions**

Issues and contradictions have been discussed in corresponding chapters which covers different aspects of the study like education commissions, education

policy, revenue collection, cost sharing, and financial management. It also covers opinions of research participants expressing their views and ideas about the issues under discussion. Many controversial ideas came from the research participants which leave strong impact on the readers over the issues under discussion. While no two human minds work exactly the same way, but there needs to be a meeting point to come to a conclusion if we look at these issues from conflict management point of view. The meeting point has to indicate a clear sense of purpose and/or direction in order to be able to visualize the goals and objectives of the undertaking. The paradoxes and contradictions discussed above in different chapters carry heavy weight and leave strong impressions of the study on the readers.

One of the main issues discussed in this study is related to how the government has shown interest in finding out the problems and issues, but has not taken any visible initiatives to implement the recommendations submitted by the experts or the commissions formed by the government itself. There have been several commissions in the past that have submitted valid and important recommendations, however these recommendations have yet to bear any fruits.

In many instances, the government's inconsistency is apparent, wherein it wants the institutions to be autonomous and independent, but does not help the institutions when they try to prepare their budget independently. There have been many such issues in higher education that have shown contradictions between vision (interest to find out issues and problems) and implementation. These issues, contradictions and paradoxes are clearly visible in the educational history of Nepal.

## Major Findings and Conclusions

### Policy Makers' and Policy Implementers' Perception of Higher Education Policy

Ministry of Education and UGC issue circulars, guidelines and letters with regulations and instructions to all concerned institutions from time to time but clear policy guidelines are still lacking. All the players of the game (policy makers, policy implementers, experts, financiers and others) agree that the government needs to have clear policy guidelines to govern and facilitate higher education in the country. With the changing scenario in the field of higher education, a clear policy on administration, financial management, evaluation of institutions and ways of supporting institutions to produce graduates according to the demand of the market directs towards high standards of higher education. Paradoxically, it has been noticed that policy makers and policy implementers have not been following the suggestions and recommendations provided by various commissions and committees formed by the government to improve the standard of higher education in Nepal. The University Umbrella act also known as Higher Education Act 2067 created to unify all prevalent higher education laws and regulations have still not been implemented. This Umbrella Act is supposed to bring effective administration and management in new higher education institutions leaving the old ones to operate under their own acts. The policy makers could have influenced to make needed changes in this umbrella act and have it implemented but as discussed above, the policy makers dream new and effective ideas but they have yet to come to fruition. A firmly implemented policy on higher education that provides equal opportunity to students from all economic bracket groups will help to have a quantum jump in our economy. Theory of change can be implied with vision, mission and goals in Nepal with clear expectation of outcomes, results, impact in the development of higher education. This will clear the path to long

term strategic plan for higher education in Nepal. Theory of change helps measure shorter-term, intermediate and longer-term outcomes in comparison to our planned goals and objectives and guides us to our future destination.

### **Financing Practices of Higher Education**

There is a decreasing trend in financing higher education in Nepal. All the research participants unanimously voiced that this has to be changed and higher education budget needs to be increased. Nepal government has been trying to facilitate students from poor financial background to enroll in higher education by supporting public higher education institutions and by providing scholarships. Nepal Government's policy embraces both supply side and demand side financing. The main practices of current higher education finance have been cost sharing with the students and parents, but the government still needs to come up with the proper ratio of payment between the students and the government. More student friendly cost sharing practices will encourage and facilitate students from poor financial background to enroll in higher education.

Higher education finance is in cross roads with the mushrooming of non-governmental community and private higher education institutions. Either the "financialization" of higher education has to be stopped or the government has to come up with a student friendly tuition and other fee schedules with mixed financing schemes. Current government support to higher education is decreasing every year and it is not enough to enroll students from lower financial bracket. The growing number of students in higher education demand more budget to accommodate them. Public institutions cannot embrace all aspirant students and the students are unable to enroll in private institutions due to the high tuition and other fees. There needs to be a

middle path with student friendly scheme to cover all intelligent and interested students.

Higher educational institutions need to try to get out of their cocoon and trap different resources to subsidize their deficit budget. There are various other sources as mentioned in different chapters above besides government funding, tuition fee and affiliation charges.

### **Financial Support to Students in Higher Education**

The need of student friendly higher education financing scheme is apparent. Human capital investment improves knowledge, understanding, and skills not only of the students but also of the members of the whole society. Interest in attending higher education has intensified due to the above factors and also due to increasing differences between the earnings of college and high school graduates. People are beginning to realize that education unlocks the door to economic success. Higher education is viewed as the door to economic prosperity, and to healthy democracies and civil societies, with economic rewards that accompany greater productivity. All these factors causes the high demand of higher education and proper financing plays a vital role in fulfilling these demands.

More creative and more active fund managers can identify and tap new resources. A cost sharing schedule worked out between the government, institutions, students and/or parents and possible philanthropists provides more workable budget, better working relationship and student friendly environment. The policy implementers think that current proportion of government contribution to higher education is low. Nepal lacks other student friendly support system to enhance students from deprived sections. A well-managed student loan system, well



administered scholarship program, bursary, education voucher and other student friendly schemes will help needy students.

A student friendly and student supportive scheme will help the country in its all-round development as well as the students to secure their future by having their dream education. A well thought out plan to support students in higher education is the demand of the time. As in many other countries, a well-planned student loan scheme could be a help to many students in need. There need to be a middle path with student friendly scheme to cover all intelligent and interested students.

The first generation higher education aspirant students from lower middle class not only have financial problem, they also have information accessibility problem. The information about the opportunity of higher education rarely trickles down to the lower middle class students or students from under privileged groups like Dalits. Access to needed information is another face of the coin in providing support to students for their financing of higher education. All high school graduates will benefit from information accessibility and counseling services on higher education finance. Counseling to the students and their parents helps the students to access higher education.

Student friendly financial scheme is a must to provide equal opportunity to all students who are interested and capable of pursuing for higher education.

### **Higher Education Financial Management**

Political interferences in all aspect of higher education including financial management have been brought up and discussed. All of them unanimously expressed their feelings and concerns about political interferences and how these interferences have been taking higher education down to this dilapidated situation.

Higher education financial management in Nepal is in jeopardy. More profit oriented institutions need to change their vision into impact investment by which they will be making profit as well as the society will benefit from their investment. Public universities charge reasonable tuition fee but private institutions do not have any government approved schedule of tuition fee. Public universities receive financial assistance from the government through MOE and UGC whereas health institutions receive their government financial support directly from the Ministry of Health. Especially in medical schools, the cases are very scary. As discussed in chapter VIII, apolitical vision in higher education system including hiring and firing could bring clear financial management. CIAA has filed many cases against several universities of Nepal for misappropriation of funds, with some cases still pending at the courts. Financial management has been very weak in Nepali institutes of higher education.

In the financial management section, the budget needs to be transparent. No hanky-panky businesses should be allowed. The financial manager should be more responsible to the institutions rather than party bosses. All institutions must adhere by the government rules and regulation including tuition fee schedule provided by the government.

Political interference is the main cause of the current dilapidated situation of higher educational institutions in Nepal. The unions must be limited to their professional and personal growth and should not be allowed to play political drama. Appointments of high ranking officials must be on merit, experience, and knowledge based. Proven knowledge of advancement of the institution must be the first priority.

In a nutshell we can say that proper higher education policy helps improve institutions. Political interferences remain the root-cause of dilapidated condition of higher education in Nepal. Mixed funding mechanism provides better resource

tapping opportunities and helps institutions become self-reliant. Proper cost sharing mechanism assists financially deprived students. Market survey provides needed information to the institutions to update their curriculum.

### **Future Perspectives and Implications**

In the wake of Federal Republic of Nepal, it could be a Herculean task to find a proper solution to this issue of higher education finance and financial management.

After the promulgation of constitution in Nepal, the Federal Republic of Nepal needs a clear vision about how the higher education institutions will be financially supported by the government, whether the federal or state will be responsible to finance higher education Who will pay and how much, and who will be responsible for the supervision of higher education? Malaysian experiment of launching student loan program state wise and providing autonomy to the universities based upon their financial capacity (MohdRamli, 2013) could be looked upon as a possible practice for us in our new Federal Republic of Nepal.

In Nepal's case, we can look at various policy issues and decide what will fit in our situation and environment. As we have discussed before only one scheme will not work, so we have to have a mixed bag of schemes for financing higher education. Continuing both supply side financing and demand side financing will be necessary to support students from different walks of financial status. In supply side financing more realistic picture is needed by letting public universities raise certain percentage of their regular and development budget to get autonomous status. There should be a stepwise plan clearly drawn for several years before they get full autonomy.

Demand side financing needs a clear picture of scholarship plan. A clear picture of student's family economic status helps decide the recipient of the financial

support. A clear guideline for the implementers of the scholarship project for choosing students for scholarship and distribution of fund will help run the program smoothly. .

Student loan is one scheme that supports students to pursue for higher education. It needs a large amount of money to start with but there are various sources that can be tapped to start a student loan scheme. The Government can direct Bank and Financial Institutions (BFIs) to provide a small percentage of their total loan as student loan to start with as the government is doing with deprived sector loan. Government will need to provide strong support to BFIs to collect installments. Government will also need to fix interest rate so that all BFIs will be charging the same rate. In many countries government pays interest on student loan for some year, at least for first few years until the students complete degree. This will be a big support to the students. Government support to BFIs to deduct installments from students' salary after they graduate and get employed will help repayment of the loan.

If government plans to run its own student loan scheme, it can use current education tax money from the private educational institutions as seed money. Also, if needed, government can approach WB or ADB for seed money, as WB has been helping many developing countries to start student loan scheme. Chile is one good example of WB assistance in Education loan. Central government or State government may provide help to community and private institutions and also Regional Universities with appropriate infra-structure development.

Encouraging private entrepreneurs towards impact investment, innovative finance, CSR, endowments etc. are some other sources of financing higher education. Creating strong alumni association and encouraging fund raising through alumni and their parents and grand-parents is another source of revenue generation.

Increment in government share in higher education budget has been recommended by almost all research participants. Political interferences in higher education administration and management have been creating havoc. It needs to be stopped. VC, Registrar, Dean and other high ranking officials should be appointed in merit basis not on party line. These officials should have total freedom in their work and should be accountable for their successes and failures. Government's strict monitoring on student fees, number of student enrolled, entrance exam and educational equipment, and facilities will help run the institutions smoothly. A clear policy on the role of Central and State Government on financing and monitoring of higher education institutions will provide smooth functioning of these institutions.

These above issues will help to develop quality standard of institutions. These issues are just a few to start with. New issues may crop up as time passes by. The list will need to be adjusted. This gives an insight on how funds can be mobilized and financial management can be improved. We have to pick and choose what is suitable for us and what can be afforded. Bryan Cheung (2003) quotes Woodhall (1992) and OECD (1990) that suggests financing higher education is not just a mechanism for resource allocation, but also a mechanism that facilitates dialogue between funders and users. The Government of the country, different fund providers and also the students must have dialogue and agreement on the choice and selection of financing mechanism of higher education in a country.

In-depth study by the educational authorities on the subject matter including need of human resources for the country and also the best education to the youth of the country who also may prefer to go out of the country looking for green pasture for their financial gain as well as proper utilization of their talents and expertise, may bring some positive change. This will prepare good graduates who will have strong

demand in the market. Continuing government subsidy and implementing a combination of different schemes for demand side financing can be utilized to have a successful higher education finance system in the country.

### **Consolidation and Mobilization of Resources**

No government in the world can totally support the higher education just by itself. Even the Nordic countries (Norway, Sweden, Finland, Denmark, and Iceland) have higher education tuition free but the students have to arrange their own food and lodging. There are different ways of consolidating and mobilizing resources. Government funding, student fee, affiliation charges from the outlying campuses are some of the sources that Nepal has been currently using. Besides these there are many other sources of funding that have not been explored in Nepal yet. Impact investment is in practice in Nepal but as mentioned in chapter II (page 61-62), it is more commercialized. The investors are thinking more about profit at the cost of the quality of education. Innovative finance is another way of collecting financial resources, but it needs creative mind and willingness to take more efforts. Alumni contribution is one of the major sources of financing of higher education in the United States of America which is not in practice in Nepal yet. It may take some time to make the habit of giving, but it is certainly is a big source. There is no inheritance tax in Nepal. If government imposes a high inheritance tax people may be willing to give funds to educational institutions to create “Endowment Fund”. Corporate Social Responsibilities (CSR) has just started in Nepal. Institutes need to go out and approach big corporate houses. They have fund and they looking for proper areas for donations. Individual philanthropists are other big sources of funding. Some of our institutions have successfully tapped money from individual donors. KU, Tribhuvan University Teaching Hospital (TUTH) and Gangalal Hospital Bansbari. These

institutions have been successful to convince people to donate total construction cost of buildings.

As discussed above, financial managers have to be outgoing and must have willingness to take extra burden to tap these different resources. As no institutions can totally rely upon the government only, they have to be creative and outgoing to tap different virgin and available resources.

### **Recommendation for Future Study**

Some studies have been done in higher education finance in Nepal but there are still many virgin areas that need to be covered, noting some of the studies have not been elaborate enough. Consolidated financial packages or different schemes that can be used together, such as exploring new sources of financing, cost sharing scheme, exploring internal resources and effectively utilizing them, facilitating students to share their portion of cost of their education, re-evaluating current tuition and other fees, and helping each institutions developing their own fund raising scheme and alumni mobilization are some of the areas that need to be studied to find out what will work in our case.

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## ANNEX - I

## THE NINE UNIVERSITIES

1. Tribhuvan University (1959 A.D.): Tribhuvan University (TU) is the first university in the country established under the Tribhuvan University act 1959. It has sixty constituent and 826 affiliated campuses in all different subject areas scattered all over Nepal (Bhatta R. 2011). There are a total of 3, 89,460 students enrolled in TU. Out of these, 40.93% or 1, 59,394 students are in sixty constituent campuses and thirty eight central departments and other 59.07% or 2, 30,066 students study in 826 affiliated campuses. There are a total of 7,841 faculty members and 7,413 non-teaching staff in TU (Tribhuvan University, 2012). TU's central campuses and administrative offices are located in Kirtipur.
2. Nepal Sanskrit University (1986 A.D.): Nepal Sanskrit University was established as Mahendra Sanskrit University to develop Nepal as an international center for Sanskrit learning in Dang in 1986, is the second university of the country which fosters Sanskrit education in Nepal. It changed its name as Nepal Sanskrit University in 2006 A.D. The central office and central campus is located in Beljhundi, Dang. This university was established under the “Nepal Sanskrit University Act 2043 (1986)”. This university has 13 constituents and 11 affiliated campuses (Nepal Sanskrit...). There were a total number of 3,348 students in 2065 B.S. (Educational information...,p.121)
3. Kathmandu University (1991 A.D.): Kathmandu University (KU) is an autonomous, not for profit, non-government public university dedicated to achieve high standard of academic excellence. It is located in Dhulikhel, 30 kilometers north

east from Kathmandu with School of Management in Gwarko, Balkumari and School of Education and School of Arts in Hattiban, Lalitpur. This university was established under the Kathmandu University Act 2048 (1991). KU has 3369 students studying in its constituent campuses and 4897 students are studying in affiliated colleges. Annual intake capacity of constituent campuses of KU is 1088 and KU affiliated colleges have an annual intake capacity of 1194 students (About Kathmandu University n.d.).

4. Purbanchal University (PU) (1995 A.D.): Purbanchal University was established under the Purbanchal University act 1993 to provide opportunities of higher education in a decentralized manner. There are twenty colleges affiliated to this university. There were a total of 14,269 students (including both constituent and affiliated campuses) in this university in 2065 (Educational Information...p. 121). This university is located in Biratnagar, Morang.

5. Pokhara University (PokU): Pokhara University was established in 1997 under the Pokhara University act 1996 as the fifth university of the country. It is located in touristic city, Pokhara, in Kaski district. There are four constituent colleges and forty nine affiliated campuses running under the umbrella of Pokhara University. There are about 17000 students studying in its constituent and affiliated campuses (Pokhara University n.d....). PokU's central office is located in Dhungepatan, Lekhanath Municipality-12, Kaski District, in Western Development Region of Nepal.

6. Lumbini Bauddha University (2005 A.D.): This University was proposed by the First World Buddhist Summit held in Lumbini in 1998 to impart standard education on Buddhist Philosophy, Literature and Culture. Lumbini Bauddha University was formally established in 2005 with the promulgation of an Ordinance. The Parliament approved the Ordinance with some modifications as Lumbini

Buddhist University Act (Lumbini Bauddha Vishwavidyalaya Ain 2063) in 2006. Its central office is located in Siddharthanagar Municipality-8, Rupandehi, Lumbani Zone (Lumbini Buddhist University, 2012).

7. The Agriculture and Forestry University (AFU): The Agriculture and Forestry University, an independent educational institution, is the outcome of the merging of Institute of Agriculture and Animal Science and Institute of Forestry. This university was established in Rampur, Chitwan under the Agriculture and Forestry University act 2010 (2067). The Institute of Agriculture and Animal Science had affiliated campuses in Sundarbazaar and Bhairahwa and the Institute of Forestry had affiliated campuses in Hetauda, and Pokhara. All these institutes were affiliated to Tribhuvan University. All these outlying campuses have come under the umbrella of the Agriculture and Forestry University after the merge. The university aims to produce skilled human resources required for the country in the field of agriculture, animal sciences and forestry.

8. Mid-Western University: Midwestern University is still in the making and has a lot to do before coming into full swing. The Mid-Western University plans to cater the need of the people of the region to fulfill their ambition for higher education. This university was established under the Mid-western University act 2067 (2010). This university is situated in Birendranagar municipality of Surkhet district.

9. Far-Western University: This University has been established under the Far-Western University Act 2067 (2010) to cater the educational needs of the people of the Far-western region. This university is situated in Bhimdatta municipality in Kanchanpur district.

## ANNEX - II

## AUTONOMOUS HEALTH SCIENCE INSTITUTIONS:

Currently, there are five autonomous institutions running in the field of health sciences. They are:

1. The Institute of Medicine was established under Trivbhuvan University Teaching Hospital (TUTH) in 1972 with the goal of producing health manpower needed for the country. In the beginning, it started with training middle level health workers and in 1978, it started MBBS program with a batch of 22 students. Currently, IOM is running 29 different programs including post graduate degrees in medicine, public health, nursing and other programs. It has 12 campuses scattered all over the country out of which 3 are in Kathmandu valley ([www.IOM.edu.np](http://www.IOM.edu.np)).
2. B.P. Koirala Institutes of Health Sciences, (BPKIHS) Dharan (1993 A.D.): This autonomous medical institution was established with the financial and technical assistance from the government of India to prepare the much needed competent medical work force for Nepal. The government of India is helping train Nepali man power to run the institution by the Nepali experts. This is one of the best medical facilities available in Nepal. BPKIHS produces many needed medical experts like MBBS, MD, BDS, nurses and many other health related trained manpower. In 2065, this institution has a total of 973 enrollments (Educational Information...2010).
3. Nepal Academy of Medical Sciences, (NAMS) Kathmandu (2002 A.D.): This autonomous medical institution enrolls students in MD/MS courses, Nursing Education and other related areas in health sciences and conduct research work in the

field of medical sciences. It is located in Bir Hospital, Kathmandu. In 2065, this institution has a total of 203 enrollments (Educational Information...2010).

4. Patan Academy of Health Sciences (PAHS): The Patan Academy of Health Sciences is an autonomous, not-for-profit public institution of higher education which produces most needed human capital in the field of health care. It is based in Patan hospital in Lalitpur (Patan academy of health Sciences).

5. Nepali Army Institute of Health Sciences (NAIHS) 2010, established with financial support from Nepal Army Welfare Fund, is a service oriented non-profit making institution. It will have four different colleges under its wing. 1. College of Medicine, 2. College of Nursing, 3. Medical Polytechnic School, and Dental College. NAIHS is committed to produce quality health professionals in respective disciplines not only for army but for the nation as whole at an affordable cost (Nepalese Army, 2010).

Nepal government has also issued the letter of intent to Police Medical College, Kathmandu National Medical College, Manmohan Medical College and Peoples Dental and Medical College. All these medical colleges are waiting to get affiliation from universities.



## ANNEX - III

## GOVERNMENT EXPENSES IN HIGHER EDUCATION IN NEPAL

The following table shows the downward trend of higher education finance in Nepal.

Table: 13. Government expenses in higher education in Nepal (In Rs.000)

Year	National budget	Education			Higher Education	
		Amount	% of Ed.Budget	% ofGDP	Amount	%
1992/93	33595224	4249959	12.65	2.4	1245110	29.29
1994/95	38942741	5020617	12.89	2.4	1235089	24.60
1996/97	57565615	7759297	13.48	2.7	1474200	19.00
1998/99	69693337	8704373	12.50	2.3	1605934	18.45
2000/01	91821355	11749578	12.80	2.8	1828680	15.56
2002/03	96124796	14402421	14.98	3.2	1471000	10.00
2004/05	111700000	18059654	16.17	3.4	1691000	9.4
2006/07	143912300	23005525	15.99	3.20	2037550	8.9
2007/08	168995600	28390000	16.80	3.67	2300000	8.1
2008/09	236015900	39086407	16.56	4.46	3077852	7.9
2009/10	285930000	46616672	16.30	4.46	3680240	7.9
2010/11	306,500,000	57,827,542	17.11	1.5	4661900	8.1
2011/12	384,900,000	63,918,839	16.61	3.6	5327000	8.58
2012/13	404,820,000	63,431,000	17.2	3.34	6311700	9.39
2013/14	517,240,000	80,950,000	15.65	4.20	6640887	8.20

Sources: Singh (2005), Uprety (2003), Financing of Higher Education (2007), Joshee (2010), UGC Reports on higher education, Lamsal (2068) & Acharya (2-15)

## ANNEX - IV

TABLE 14: ALLOCATION OF FUND BY UGC (IN RS.000)

Year	TU	NSU	KU	PokU	PU	LBU	MWU	FWU	A&FSU	Open U
2006/07	1,666,216	123,521	9,000	45,1000	51,213					
2007/08	2,108,240	180,192	9,000	35,472	36,728					
2008/09	2,781.947	204,435	9,000	35,472	36,728					
2009/10	3,090,693	241,400	8,800	35,472	26,728	10,000				
2010/11	3,435,200	312,500	9,200	33,900	32,500	26,700				
2011/12										
2012/13	3,915,500	286,000	65,000	53,600	48,000	30,000	65,000	66,000	162,280	8,400
2013/14	4,600,000	450,000	50,000	100,000	68,000		155,000	175,000	330,000	85,000

Sources: UGC (2007), UGC (2008), UGC (2009b), UGC Annual report 2009/2010,

Joshee (2010). UGC annual reports

## ANNEX - V

## RESEARCH PARTICIPANTS

- i. Member, National Planning Commission
- ii. Director, National Planning Commission
- iii. Joint Secretary, Ministry of Education
- iv. Member, University Grant Commission
- v. Chief Technical advisor, University Grant Commission
- vi. Head, Account Section, University Grant Commission
- vii. Senator, Kathmandu University
- viii. Vice Chancellor, Kathmandu University
- ix. Registrar, Kathmandu University
- x. Finance Manager, Kathmandu University
- xi. Chief Admin. Officer, Kathmandu University
- xii. Internal Auditor, Kathmandu University
- xiii. Vice Chancellor, Tribhuvan University
- xiv. Prof. and Head of Planning Department, Tribhuvan University
- xv. Financial Controller, Tribhuvan University
- xvi. Vice Chancellor, Purbanchal University
- xvii. Professor, Tribhuvan University
- xviii. Professor, Tribhuvan University
- xix. Professor , Tribhuvan University
- xx. Official, World Bank
- xxi. Dean, Institute of Engineering

- xxii. Commercial Bank Director
- xxiii. Kathmandu Finance CEO
- xxiv. Everest Bank Director
- xxv. Account Chief, Public Campus
- xxvi. Account Chief, Constituent Campus
- xxvii. Finance Director, Private Campus

## ANNEX - VI

## CATEGORIZATION OF RESEARCH PARTICIPANTS

## Policy Makers 5

- 1) Harish (NPC) File folder # 5
- 2) Parashara(MOE) File folder # 9
- 3) Ramesh (NPC) File folder # 7
- 4) Ved Byas (UGC) File folder # 14
- 5) Bipin (UGC) File folder # 21

## Policy Implementers 11

- 1) Bishwombar (VC) File folder # 2
- 2) Jagdamni (VC) File folder # 3
- 3) Bashistha (VC) File folder # 1
- 4) Birendra (Registrar) File folder # 13
- 5) Keshav (University Finance Officer) File folder # 11
- 6) Tika (Campus chief) File folder # 12
- 7) Bhuban (University Finance Officer) File folder # 8
- 8) Ratna (Constituent Campus Finance Officer) File folder # 14
- 9) Bidur (Private Campus Finance Officer) File folder # 15
- 10) Pramod (Internal Auditor) File folder # 4
- 11) Bhakta (Constituent campus Finance Chief)

## Financier 3

- 1) Tika (WB) File folder # 12
- 2) Rajendra(Commercial Bank Director) File folder # 6

- 3) Krishnahari (CEO, finance Institution) File folder # 17

Experts           6

- 1) OM (Professor A) File folder # 18
- 2) Shanta (Professor B) File folder # 10
- 3) Janardan (Professor C) File folder # 19
- 4) Arjun (Professor) File folder # 20
- 5) Janaki (Professor) File folder # 22
- 6) Nandan (Planning Div. Chief) File folder # 24
- 7) Madan Bhandari Memo College

Others            2

- 1) Mathema report (A) File folder # 23
- 2) Gyan (BPKIHS) File folder # 16

## ANNEX – VII

## RESEARCH QUESTIONS SUMMARY

- 1) Research Question # 1. How do policy makers and implementers perceive higher education policy?
  - a) Focus
    - i. Current higher education policy of Nepal.
    - ii. How is the policy formed?
    - iii. Their perceptions of higher education policy of Nepal.
    - iv. Their understanding of the policy and practices of higher education financing in Nepal.
  - b) Respondents
    - i. All Stakeholders
    - ii. Officials from : NPS, MOE, UGC, Financial institutions, Professors, VCs, University Officials, Campus Officials
  - c) Tools
    - i. Interviews
  - d) Expected Results and Outcome
    - i. Exploration of the higher education policy of Nepal and its status.
    - ii. Collecting perceptions of all stakeholders regarding higher education policy of Nepal
- 2) Research Question # 2. What are the financing practices of higher education in Nepal?
  - a) Focus:
    - i. Sources of Resource
      - (1) Government funding

- (a) Historical funding
  - (b) Formula based Funding
  - (c) Performance based funding
  - (d) Matching grants
  - (e) Scholarship
  - (f) Dual track tuition fee
- (2) Philanthropists
- (3) Other donors
- b) Respondents
- i. Officials from: NPC, MOE, UGC, Financial institutions, Professors, VCs, Universities Officials, Campus Officials
- c) Tools
- i. Interviews
- d) Expected Results and Outcome
- i. Exploration of current practices of higher education financing in Nepal
  - ii. A picture of higher education financing in Nepal
- 3) Research Question # 3. How are students supported financially in higher education?
- a) Focus
- i. Student loan
  - ii. Tuition fee
  - iii. Dual track tuition fee
  - iv. Scholarship
- b) Respondents
- i. Officials from: NPC, MOE, UGC, Financial institutions, Professors, VCs, Universities Officials, Campus Officials



- c) Tools
    - i. Interviews
  - d) Expected Results and Outcome
    - i. Find out student support system in higher education financing in Nepal.
    - ii. Find out possible sources financially supporting students in higher education.
    - iii. Possible student support system in Nepal.
- 4) Research question # 4. How has finance been managed in higher education in Nepal?
- a) Focus
    - i. Transparency
    - ii. The role of UGC
    - iii. Student enrollment
    - iv. Financial Management System
    - v. Per student cost
  - b) Respondents
    - i. Officials from: NPC, MOE, UGC, Financial institutions, Professors, VCs, Universities Officials, Campus Officials
  - c) Tools
    - i. Interviews
  - d) Expected Results and Outcome
    - i. Need for sound financial higher education management system in Nepal
    - ii. No political interference
  - iii. Opportunities of higher education student from lower financial bracket