

Financing higher ed

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Imparting quality education, at the university level, is an expensive proposition. And this is the case the world over. Harvard University charges a fairly high tuition fee to its students. Yet, revenue from students forms less than 30 percent of the expenses of the university. The rest come from income from its endowment fund, grants and donations, and sponsored research. The same is the case with other good universities. Yale University has an endowment fund in excess of 12 billion dollars (more than a third of our national debt), and raises donations of around 500 million dollars every year (more than a couple of tranches that the multilateral agencies release to Pakistan, and after making us go through all the hoops).

How can then we have quality educational institutions at university level in Pakistan? If we want quality faculty, we need to pay them salaries that can entice them to come to Pakistan. A mid-level university, in the area of economics, starts a fresh doctorate, at about 50,000 dollars a year, or about \$ 4,000 a month. Net of taxes this should be around 2,700 dollars a month, or about Rs. 160,000 odd. How can we pay that kind of salary to an assistant professor in Pakistan? We cannot. Even if we adjust for cost of living differences and make the comparable salary to be about Rs. 80,000 a month, a 50 percent reduction, we still cannot pay that kind of salary to a starting doctorate in Pakistan.

Suppose we have 1 to 20 teacher to student ratio, which is what most good schools have. If we want to teach 10,000 students in this university, we need 500 teachers. If we pay Rs. 120,000 per faculty member, averaging over assistants to full professors, we need Rs. 60 million for just salaries. Given other overheads like staff salaries, buildings, utilities and so on, faculty salaries cannot be more than 40 percent of the total expense need. So the total minimum revenue needed by such a school, per month, would be Rs. 150 million. This implies that per student, as a minimum, we have to charge Rs. 15,000 per month or Rs. 180,000 per year!

This is a very rough calculation, as we have not added the capital costs of things like land and buildings and so on. The actual costs will be higher. But the real question is: given the cost of having a good quality education, can we have such institutions in Pakistan? And the answer is that it is going to be very hard to do so. There are specific reasons I say this.

The purchasing power, in general, in a country with per capita income of about \$ 450 per annum, is going to be low. Hence there will be large numbers that are not going to be able to afford to pay for higher education anyway. A added complication here is that even if returns to higher education are high enough, so that if people are educated they can payback the money later in their lives when they make more, the capital market imperfections existing in Pakistan mean that these people cannot get access to money to finance their education now. There is no bank, private or public, investment or commercial, which would lend

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Banks feel that this is high-risk investment, getting money back will be hard, and default might be too high. I have a feeling that they are wrong. My feeling is that none of the banks have explored this possibility as yet, and especially not in conjunction with a university. Most students, who spend years at a university and develop strong loyalty to their alma mater, tend to benefit it later and not hurt it. It is unlikely that they will default on student loans in a big way. But this solution has not been tried at all. Hence many a talented and brilliant students do not end up going to good universities, as they cannot afford to do so. But this also implies that good universities cannot exist in a country where sufficient number of good students cannot come to the university either.

Another solution to the problem would be if the universities could raise the money elsewhere, through grants, endowment, sponsored research and so on, and use it directly or the return that could accrue from this money, to subsidize the tuition of all students or deserving students. As we have mentioned, this solution seems to work well for the Harvards and the Yales of the world.

This is another under-explored area in Pakistan. It seems that Pakistanis give a lot in charity, and philanthropy raises more than what the Central Board of Revenue raises in terms of tax revenue, but Pakistanis give to madrassas and masjids and hospitals but not to universities and not for education. This is a bit odd. What could be better investment, better philanthropy, and better investment even for ones salvation than educating the youth of the country? It seems that many people disagree. It is also true that there has been no university that has explored this area seriously in Pakistan as yet. It has only been some of the hospital trusts that have developed some expertise here, but the potential here, for universities, could be large. And if universities do explore it, maybe people will respond and change their philanthropic priorities.