



Palestine Economic Policy Research Institute (MAS)

Toward a National Strategy for the Financial Sustainability of Palestinian Universities

Nasr Abdel Kareem

2013



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The Palestine Economic Policy Research Institute (MAS)

Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

Mission

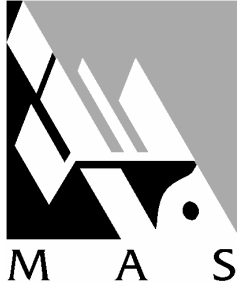
MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

Strategic Objectives

- ♦ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ♦ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ♦ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ♦ Disseminating up-to-date socio-economic information and research results.
- ♦ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ♦ Strengthening economic and social policy research capabilities and resources in Palestine.

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Foreword

The lack of financial sustainability of Palestinian higher education is a chronic problem; up until now, it accompanied the Palestinian universities since their inception in the early seventies. The severity of this problem has increased year after year in light of the increasing budget deficit parallel with the decline in the financial ability of the Palestinian National Authority and diminishing foreign aid. The search for a way out of this dilemma is necessary and at high national responsibility, in order to create a sound higher education environment that helps to improve the quality of education and results in graduates with qualified skills that can keep up with the requirements and challenges of today's development.

This study is a modest contribution from MAS to renew the attention to this problem, discuss available options, and emphasize the need to speed up the assembling of a national strategy to deal with this problem urgently before it gets out of control.

With the completion of this study, I would like to thank the research team, the people that provided blind reviews, the discussants, and all people that participated in the discussion in the public workshop. I also extend my sincere thanks to the Minister of Higher Education for his important observations on the study, and his valuable intervention at the discussion, which contributed to the development of the study's recommendations.

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Dr. Samir Abdullah
Director General

Executive Summary

The financial crisis of Palestinian universities has worsened over the past few years. This crisis has led universities to face difficult academic and administrative choices, whether by horizontal extending of academic programs, students' preparation, raising contributions or restricting operational costs. Moreover, some universities cut down service funds and use bank loans or savings to cover this financial gap. Although these options might have solved the crisis temporarily, they have not provided a peremptory solution for it. However, this crisis cannot be viewed in isolation of the authority financial crisis and its economic and social repercussions over a large segment of Palestinian population. Furthermore university education is seen as part of the Palestinian heritage, thus it does not only carry out economic and social importance, but also patriotic and political importance against the Israeli occupation. As a result, the universities' financial crisis is an unacceptable and undesirable issue.

The Palestinian higher education differs from the ones in neighboring countries, as it has a distinct type of universities called "Public University". This type is neither governmental nor private university, but a nonprofit organization that receives governmental financial funding, while keeping administrative and financial independence. This feature that distinguishes most of Palestinian universities developed due to its inception under the Israeli occupation and the absence of a national authority in the occupied Palestinian territories. In total, there are nine public Palestinian universities; seven of them located in the West Bank and two in Gaza Strip. The governmental and private universities are subjects to different finance methods than the public universities; as a result they will be out of the scope of this study. This study will focus on public universities that are not financed by the authority treasury and on which the executive financial system is not applied to manage public expenditure and revenues.

Objective of The study:

This study aims to achieve two main objectives:

- ✧ Assess the state of current financial sustainability in the public university education sector in the Palestinian society
- ✧ Propose a national strategy to improve the degree of financial sustainability for this vital sector in the Palestinian society

Methodology:

To meet the previously mentioned objectives of the study, the applied methodology is based on the following procedures:

- ✧ Conduct a review of the published literature relevant to the financial sustainability in university education sector.
- ✧ Review of a number of leading international experiences and models of the tertiary education finance sector.
- ✧ Collection and analysis of data issued by:
 - The Palestinian Ministry of education about the number of enrolled university students or graduates, and the number of workers in these universities whether they were administrators or academics.
 - The Palestinian Central Bureau of Statistics about labor market indexes
 - The Public universities themselves about their financial record when available

Conclusions:

The main findings of this study, based on an analysis of the individual and consolidated financial data of the public universities, can be summarized as follows:

Revenue sources:

The Palestinian public universities receive their revenues from different sources which are:

First: tuitions revenues

- ✧ Accrued tuitions revenues from universities' contributions and fees. This source is considered the most important one in financing the current expenditures in the Palestinian public universities
- ✧ The total revenues from this source totaled 107 million JD for the nine public universities (constitute about 70% of the total current expenditures), the highest is in AL-Quds Open University which totaled 30 million JD , and the lowest in Bethlehem University which totaled 2.5 million JD
- ✧ The ratio between the revenues to expenditures varies from a university to another depending on the number of students and the level of contributions and fees. The highest has the Islamic University with 118% and the lowest has the Bethlehem University with 43%

- ✧ The accrued revenues differ from the actual revenues (81 million JD), as there is a discrepancy between the universities in their ability to collect their contributions and fees, this creates a new challenge for these universities in achieving financial sustainability
- ✧ The percentage of actually collected revenues to accrued revenues is approximately 83%
- ✧ The average of actual revenues per student is around 800 JD per academic year

Second: Grants and Donations

- ✧ In recent years, most of the donations, if not all, were not directed to finance development expenditures (buildings and facilities)
- ✧ Some grants and donations have started to decrease in some universities, forcing them to use their self revenues for this type of expenditures

Third: Students Loans

- ✧ Students' lending fund contributes in the payment of accrued student premiums, as a result reducing the gap between actually collected revenues and accrued revenues
- ✧ The total amount of these loans at the end of 2011 added up to 72 million JD, the highest for An-Najah's National university students (13 million JD) and the lowest for Bethlehem's University students (2 million JD)

Forth: Activities and Services Revenues:

- ✧ This source is very limited and slightly contribute to the total revenues of most of the Palestinian public universities

Fifth: Governmental support:

- ✧ In the past three years, \$ 40 million were apportioned in the Public Budget for universities, but in the best cases only half of this amount was transferred.
- ✧ The criteria for the distribution of this support among universities is only the number of enrolled students

What about the financial deficit in the Palestinian public universities?

- ✧ The total nominal deficit of public universities' budget equals 19 million JD, where as the actual deficit equals 9 million JD, in other words the average rate ranges from 20% to 40%
- ✧ The average nominal deficit per student is estimated to be around 400 JD.

- ✧ The financial deficit varies from one university to another, where the highest has the Birzeit University (9 million JD) and the lowest has the AL-Quds Open University (0.5 million JD)
- ✧ The highest actual deficit to expenditures was by Bethlehem University (70%) whereas the lowest was by AL-Quds Open University (13%). Additionally, in Birzeit University this ratio was 45% and in An-Najah's National University it was 35%
- ✧ This deficit clearly demonstrates the depth of the financial crisis of the universities, thus raises serious questions about the level of financial sustainability

Virtual financial options for Palestinian universities

- ✧ Improving the efficiency of collecting contributions and fees: possible option if an effective and sustainable lending mechanism is available for needy students
- ✧ Raising contributions and fees: difficult option in current circumstances, but could be possible if gradually applied through linking the tuitions to cost of living index
- ✧ Increasing government support: possible and required option if the PNA relieved from its harsh financial crises
- ✧ Attracting more grants, donations and financial aid: best option and least detriment
- ✧ Increasing the number of students enrolled in universities: possible option for some universities but with taking into account the overcrowding issue
- ✧ Increasing the income generating activities such as advisory, research and service: possible but unused option until now
- ✧ Rationalizing and reducing operating expenditures excluding salaries: this option must be examined especially when there is a defect in the career structure as in most universities

Simulations for some of the options

First simulation: Improving the efficiency of collecting premiums and fees:

- ✧ If the full contributions and fees were collected, this will cover 79% of the universities' current expenditures, thus the ratio of the actual deficit of the universities' budgets would be reduced from 40% to about 20%

- ✧ Some universities will achieve a surplus if they collected the full contributions and fees. For example, the self revenues of the Islamic University in Gaza Strip will cover 118% of the expenditures
- ✧ The deficit ratio would be reduced in other universities. In Al-Azhar University it will decrease to 18%, where as in Hebron University it would diminish to 17% and in AL-Quds Open University it will become 31%. In the same way in the Palestine Polytechnic University the ratio will decrease to 22%, where as In An-Najah's National University it would be 25%, similarly in Bethlehem University and in Al Quds Open University the ratio would be reduced to 13% and 12% respectively. Finally, in Birzeit University the ratio would become 34%

Second Simulation: setting a plan considering increasing contributions and fees and implementing it within ten years:

- ✧ Raising the price of the credit hour by 5% annually in the disciplines of administration, health sciences and engineering for bachelor's and master's programs in universities
- ✧ This ratio is identified based on rate of return on education of these fields
- ✧ This increase would not decrease the number of enrolled students in the mentioned fields due to the demand for those disciplines' graduates in the labor market

In light of this simulation:

- ✧ Some universities are expected to make a surplus after this increase in the price of the credit hour. To illustrate, Al-Azhar University would become able to cover 119% of its expenditures (19% surplus), while the Islamic University would become able to cover 123% of its current expenditures (a surplus of 23%). In the same way, the ratio in the Palestine Polytechnic University, An-Najah's National University and Al Quds Open University would become 118%, 115% and 107% with as surplus of 18%, 15% and 7% respectively
- ✧ The budget deficit in some universities is expected to decline, as in Birzeit University it would decrease to 30%, where as in Hebron University it is expected to become 26%. Similarly in Bethlehem University and Al Quds Open University the deficit is expected to decline to 37% and 12% respectively

Third Simulation: Rationalizing and reducing expenditures

- ✧ By an analysis of academics and administrators indicators and ratios, it is clear that many of them are away from the optimal level of the academics and administrators to total workers ratio. This ratio is estimated by UNESCO of 35% for administrators and 65% for academics
- ✧ Since the wages and salaries of universities' workers form 94% of total current expenditures, the administrative and academic system must be restructured in every university and the other operational expenditures must be controlled. Certainly, the quality of outcomes and educational performance must be taken into consideration and should be maintained
- ✧ This option would make some savings but it would not be enough to improve the universities' financial sustainability.

Proposals for financial sustainability for public universities

First: At the universities level

- ✧ To implement policies and strategies that would ensure diversification of income sources and identification of opportunities
- ✧ To reinforce the partnerships with the local community and the private sector, especially for research projects
- ✧ Optimal and effective exploitation of financial sources through rationalization of expenditures and the linkage between expenditures and its purposes
- ✧ Reducing major duplication (by merging similar disciplines) in order to increase academic efficiency and reduce expenditures through a detailed study of the comparative advantages of these disciplines in each university
- ✧ Examining the idea of introducing evening study in order to increase self financing
- ✧ To ensure a higher return on investment of education, the admission policy in universities and disciplines should be linked with the labor market and its needs. Thus, universities could raise the price of its credit hour for some disciplines. Consequently, the graduate student will have a higher return
- ✧ Gradual increase of premiums in order to not exceed the annual inflation rate
- ✧ Stop administrative recruitments, restructuring and rationalization of human resources

- ✧ Establishment of endowments for the benefit of the universities, especially funded by wealthy Palestinians in the Diaspora.
- ✧ Attract distinct and active academic staff and researchers characterized by their ability to bring in income-generating projects
- ✧ Communicate more effectively with wealthy Arabs and Palestinians at home and abroad to maximize donations and grants and as reward to perpetuate their names

Second: At the governmental level

- ✧ To provide adequate public funding for higher education in the public budget, with an emphasis that any other complementary funding sources will not replace government funding in the foreseeable future
- ✧ Training investments for managers and leaders of higher education on leadership and development skills
- ✧ Establishment of funding incentives to enter into partnerships and reinforcement of donations from the private sector
- ✧ Setting competitive financing policies that are linked to performance and would help in achieving financial sustainability on the one hand and improving the quality of education on the other hand.
- ✧ Develop policies and mechanisms that activate the role of the student lending fund and increase the efficiency of the collection of loans granted to students in order to ensure the continuity of the fund.
- ✧ Formulation of a financial policy for students' lending fund, which is mainly dependent on the development of priorities of the lending process for needy students, females and those with special needs. Also, restrict lending on some disciplines that respond with the demand in the labor market and linking it with the performance levels of students.
- ✧ Examine the idea of imposing tax charges in universities, whether on government transactions, utility bills, or both
- ✧ Adopting a financing strategy that is based on the demand, not supply, so that the focus would be on enhancing the students' ability to pay the costs of higher education by the provision of financial resources for these students, and not through the foundation
- ✧ Direct public support to cover the costs of high-priority fields, including high-demand disciplines
- ✧ Examine the idea of replacing common salaries staff by a contractual negotiating system that is based on the qualifications and labor market performance, thus achieve differentiation among teachers