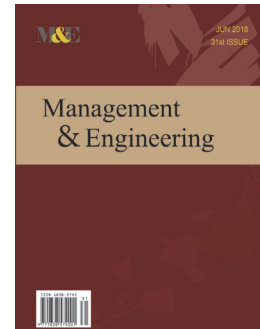




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Study on Management of Use of Foreign Funds in Higher Education

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ABSTRACT

Many countries including China have been troubled by the shortage of education funds, which is the main bottleneck in the development of education. As higher education becomes more and more popular in China, government grants fail to cover the development costs of higher education schools due to the increasing numbers of enrollment and costs alone. Diversified fund-raising for higher education is a key to solve this problem. Foreign funding is one of the funding sources for higher education and is used in direct and indirect ways. Direct use of foreign funds mainly involves China-foreign cooperative running of schools and wholly foreign running of schools. Indirect use of foreign funds mainly involves loans extended by international financial institutions and international assistance, etc. This paper mainly discusses the indirect use of foreign funds for higher education, where the reasons why China should actively use foreign funds and existing issues are analyzed and suggestions are proposed.

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Higher education is an important way for the long-term development of the country and the nation. Since the reform and opening up, China's economy has made great achievements, and knowledge innovation and technological progress have played an indispensable role in it. This has raised new challenges for education. According to *China Statistical Yearbook 2009*, the gross enrollment ratio of higher education in China reached 24.2%¹. The number of students enrolled at universities, colleges and specialty schools exceeded 40 million² in 2012, marking the start of the popularization of higher education in China. Thanks to the scale-up of high education, more highly competent talents were trained for economic development. However, as the demand for education funds increased, the funding shortage has become increasingly urgent, which seriously held back the further development of higher education.

I Loans from International Banks

(I) World Bank's Loans

As an international financial institution, the world bank aims to support development by providing long-term productive loans for developing countries to promote their economic development and improve people's living standards. The world bank's operations include loans, technical assistance, academic and policy research, and the provision of services to member states that need help in many ways.

The world bank, including the international bank for reconstruction and development (IBRD) and the international development association (IDA) two agencies, the world bank group by the world bank, the international finance corporation (IFC), changeable investment guarantee agency (MIGA) and the international

investment disputes resolution center (ICSID). These institutions work together to complement each other in order to reduce poverty and improve people's living standards.

The IBRD includes 188 member countries to promote sustainable economic growth by providing loans, risk management products and development experience, and addressing pressing issues such as regional and global economic and environmental sustainability. IDA is mainly to provide preferential loans, the world's poorest countries to support the national economic growth, fiscal year 2013, 82 countries are eligible for its financial support, including public sector governance, legal and judicial offices to obtain the highest percentage of total loans, reached 22%, the smallest percentage of information and communication, only 1%.

According to the World Bank's statistics, its loans for education increased from \$1,927 million to \$2,731 million during 2008-2013, up by 41%, when the proportion of the education loans in the total amount of the World Bank's loans rose first and then decreased, from 7.8% in 2008 to 11.88% in 2010, 4.03% in 2011 and 8.66% in 2013. The proportion of the education loans ranked the fifth among Top10 sectors, following public sector governance, health care, transportation and energy & mining.

(II) Official Development Assistance

Official Development Assistance (ODA) is a form of economic diplomacy that emerged after World War II. ODA are flows to developing countries or multilateral agencies, which are provided by official agencies of developed countries (including central and local governments and their implementing agencies) either in the form of grant or in the form of concessional loan with a grant element of no less than 25%, in order to promote the economic development and welfare of developing countries. As a form of assistance conveying political and diplomatic significance, it is widely used in bilateral and multilateral

¹<http://www.stats.edu.cn/sjcx.aspx#>

²<http://data.stats.gov.cn/normalpg?src=/lastestpub/quickSearch/y/year22.html&h=800>

diplomacy. The aims of such assistance usually fall in four categories, i.e., economy, politics, military security and morality and justice.

II Current Situation of Foreign Funds in China's Higher Education

(I) World Bank's loans in China

Most of the foreign funds used in China's higher education are loans from international financial institutions and foreign governments. According to the World Bank, it totally extended 77 loans to China from 2011 to 2014, with the total amount being about \$5.7 billion. About \$140 million, or 2.43% of the total amount, went to the education sector, which was only next to the proportions of those for finance and information and communications. Our country presented the growth of foreign investment utilized, and established long-term cooperative relations with the world bank, the use of world bank loan project success, become the third in world developing countries using world bank loan in order to promote its economic model of scientific and technological progress.

According to *The Most Brilliant Career Under the Sun-Education of China & The World Bank* issued by the Department of Finance, the Ministry of Education, the last project was completed in June 2009, before which there were 16 World Bank loan projects. The total cost of these projects reached \$3.02 billion, of which \$1.57 billion was from the World Bank and RMB 7.96 billion was domestic. Among these projects, five projects involved elementary education in poverty-stricken areas, two involved vocational and technical education, two involved higher education and others involved teaching materials and teacher training, etc. In addition, the World Bank has also implemented other projects in cooperation with government departments at all levels.

A Higher Education Development Project funded by the World Bank from October 1999 to July 2005, cost RMB 879 million in total, for

which the World Bank extended a loan of \$70 million, including \$50 million of soft loan and \$20 million of hard loan, with RMB 300 million of domestic fund. The project has been implemented for six years, with the aim of refining the levels of undergraduate education of the target schools, especially laboratory conditions for basic courses in grades one and two, improving the level of teachers, speeding up the reform of curriculum and teaching materials, and greatly enhancing the quality and efficiency of undergraduate education. The project organized by the ministry of education department of the central universities to participate in, through the efforts to finally built a batch of high levels of the experiment center, largely improved the basic experiment conditions, laboratory management system have also been reform, make the experiment education model updating to innovative talent training, at the same time set up teaching material update mechanism, management and teaching staff training effect is good, the human resources ability is greatly increased, with the 28 to 30 of the rest of the colleges and universities to establish collaboration is located in the less developed really got the leapfrog development of local colleges, provides a good example for exploring the Midwest higher education model, in addition to the innovation education teaching system, and to go abroad investigation and promotion means of promoting technical assistance project achievements, etc.

Loans from the World Bank provided a strong financial guarantee for the development of China's education, as the result of which, school facilities were improved. Moreover, cooperation under such projects enhanced the competence of the staff of the target schools by providing opportunities of studying abroad, inviting foreign experts to give lectures in China and organizing classes for advanced study and seminars. In addition, the research of our country and the world bank cooperation and consultation, the macroscopic planning and provides the reference for education career, not only that, the world bank also to establish a

normative education act and award loans system, curriculum reform, as well as the study of education reform and development fields such as education yields have outstanding contributions. Also for our country staff to learn advanced project management experience, further optimize education resource allocation provides a platform.

(II) Japanese loans in China

Since 1979, the Japanese government has provided government development assistance loans to our country, including Japanese yen loans and free financial aid and technical assistance. Yen loans account for the bulk of that, up to 70 percent. Since Japanese yen loans and free aid are the ODA of the Japanese government, Japan is generally referred to as "China ODA". In 2001, the Japanese government's cooperation on yen loans changed from a traditional batch to a single-year commitment loan. Loans range from mainly infrastructure expands to ecological construction, personnel training, public health and poverty alleviation and development, etc., loan area from across the country into a mainly aimed at the Midwest economic less developed areas.

According to the statistics of the Ministry of Finance of Japan, the amount of loans by Japan to China has reached 3.32 trillion yen (about RMB 203 billion) by 2011, the amount of non-reimbursable financial assistance has reached 156.6 billion yen, and the amount of technical assistance has reached 177.2 billion yen. It was stated in Japan's ODA White Paper 2012 by the Ministry of Foreign Affairs of Japan that Japan provided \$13 million of non-reimbursable financial assistance to China in 2012 with technical cooperation amounting to about \$287 million. That is, a total of about 30 billion yen flowed to China in 2012.

The assistance provided by the Japanese government to China is declining year by year, due to a resolution made by the Japanese government in 2005 and a decision made by the Japanese government in 2008 to close access to

new loans. Therefore the amount of foreign funds to China decreased, having certain negative impact on the development of education in China.

III Major Issues in Use of Foreign Funds in China's Higher Education and Suggestions

(I) Major issues in use of foreign funds of China's higher education

As one of the diversified fund-raising sources for China's higher education, foreign funds have immeasurable positive effects, which bring not only economic benefits but also new management concepts and methods. Rational and effective use of foreign funds is important to the development of China's higher education. However, there are also many urgent issues to be solved concerning the use of foreign funds.

1. Foreign loans are declining while financing costs are increasing gradually.

The World Bank stopped preferential policies on interest-free loans to China since July 1999. The Japanese government also decided to phase down loans in yen since 2005, and closed access to new loans in yen in principle in 2008. The availability of foreign funds for China narrowed down further.

2. Overall size is small and structure is irrational.

China's higher education has experienced the process from nothing to gradually increasing, but the overall scale is still too small to meet the development needs of colleges and universities. This is mainly due to large international loans under the influence of international politics, and the amount is limited, the size of the loan by the local economic development speed, policies and regulations, and the influence of many factors, such as school repayment capacity is bigger.

An obvious feature is that colleges and universities in coastal provinces got more large loans than those in inland provinces of China. In the current composition of funds for higher education, government investment still plays a

leading role, and the scale of private investment is small. There are few investments by social groups, and most of the education costs are paid by individuals who are being educated. The overall size of foreign funds is still limited and unstable, accounting for a relatively low proportion of all the educational funds.

3. Foreign funds come in a single form.

At present, foreign funds for higher education flow to China in a single form, most of which are concessional loans extended by international financial organizations (mainly the World Bank) and foreign governments (mainly the Japanese government). There is a lack of direct investment by foreign businesses. To take advantage of foreign direct investment is the advanced form of Chinese-foreign cooperation in running schools in colleges and universities, which cannot only combine the two sides interests form interdependent relationship, is more advantageous to raise higher education funding channels, but also provides the foundation for the further development of the cause of higher education.

4. Without an effective supervision system, foreign funds are used inefficiently.

At present, most of the foreign funds for China' s education have been used to introduce advanced teaching equipment and experimental apparatus from foreign countries and to purchase hardware facilities that are required for domestic teaching experiments. A relatively limited part is used for the training of teachers. It is not good for the long-term development of colleges and universities to pay too much attention to the improvement of hardware and too less to software.

In addition, international financial organizations and foreign government loans are sovereign debt, its responsibility in government reimbursement, and during the project implementation due to very few regulations by the unit of reimbursement responsibility, lead to the lack of sense of responsibility in the project management, did not establish perfect use of funds management responsibility system, it is easy to cause cannot better use of the loan in

colleges and universities in more where it is needed, and uneven distribution, low efficiency when using the foreign capital. In addition, there is no corresponding development plan in the use of foreign investment in education, and there is a lack of a complete and unified supervision system and corresponding rules and regulations for loans. The lack of external constraints, the lack of ownership in the sense of ownership leads to the phenomenon of misuse of funds.

5. Ideas need to be refreshed and investment environment needs to be improved.

Being unaware of changes in the ways education is financed under the circumstances of market economy, education administrators and school administrators are still waiting for government grants. They are afraid of introducing foreign funds because they fear that they might be accountable for possible impacts on the original mode of education.

As an important form of using foreign capital to develop education, Chinese-foreign cooperative education requires that domestic colleges and universities have certain professional advantages, and attract foreign universities to exchange and cooperate with them. However, be badly in need of reform in Chinese universities, the main problem is the old professional structure, serious lack of high and new technology professional. Society needs the emerging disciplines, this reduces the attraction of foreign investment cooperation of colleges and universities.

(II) Suggestions

1. We should have a better understanding of foreign funds and a stronger sense of repayment obligations.

Currently, most of the foreign funds in China come from international financial organizations and foreign governments. Former President Jintao HU also made it clear that he would unswervingly promote reform and opening up, attach importance to cooperation with international financial institutions, focus on infrastructure, and strengthen science and

education in all fields.

The introduction of foreign funds for education not only promotes foreign cooperation, but also provides funds for education, bringing down financial pressure on the Chinese government. Therefore, China's education sector should take the initiative in introducing foreign funds.

2. Third-party donations should be actively sought from foreign parties, while finance discount should be provided by the domestic government.

Third-party donations are available to China mainly refer to support from such organizations as the International Bank for Reconstruction and Development, the UK Department for International Development and the Australian Agency for International Development. Australia has already funded a project to develop a learning network in western China.

Finance discount is particularly provided to schools that repay their own capitals and interests. Such discount is not necessarily a great financial support, but it shows how great the government values education in terms of policy. It means more than just a number.

3. While funds are introduced, importance should also be attached to the introduction of technology, talents and management concepts and modes.

The loans by the World Bank in the 1980s and the 1990s greatly promoted infrastructure construction in China. In the Outline of the 11th Five-Year Plan for National Economic and Social Development of China, it is also stated that "foreign funds should be used mainly to introduce advanced technologies and management experience from foreign countries and to train highly competent talents."³

4. Project management systems should be established and improved to ensure successful implementation of projects.

The management process of foreign-funded projects generally includes the early, middle and

late stages. The preliminary stage usually takes two years, and its preparation includes feasibility study report, acceptance evaluation and signing agreement. Foreign attaches great importance to the feasibility study report, once established, cannot be changed, even because of special reasons to change the tedious procedure to need to apply for and after a long time of examination and approval, so to attach importance to it. The intermediate stage usually takes one or one and a half years, and the preparation includes the tendering and purchasing part which is strictly implemented according to the regulations of foreign lenders. Late stage takes one or one and a half years, generally need to include question bank security and acceptance of the audit, etc., also need a year and a half time, according to the progress of the production of qualified paper at this stage is important.

For each foreign loan project, it takes five years from the signing of loan agreement to the completion of loan payment. The deadline of project marks the start of repayment of capital and interests, which usually lasts for 20 years. Thus it is vital to keep archives and other text data.

5. Importance should be attached to the avoidance of risk of interest rate and exchange rate.

Risk of interest rate is mainly concerned with hard loans. To avoid this, efforts should be made in two ways: on one hand, a risk warning system for foreign loans should be developed. Specifically, you can set up a professional education organization, full tracking and analysis of the relevant data by model, once the abnormal report in a timely manner, in order to fast react to risk and control its negative effects; on the other hand, financial instruments should be properly used to reduce risk. In particular, it is possible to choose a favorable interest rate mode when signing a contract, and set the interest rate ceiling or lower limit to avoid the uncertainty caused by interest rate fluctuation. It is also possible to use interest rate options, swaps and other means to avoid interest rate

³ See Chapter 36 of the 11th Five-Year Plan for National Economic and Social Development of China, as approved at the 4th session of the 10th National People's Congress.

risk after signing the contract.

To control the risk of exchange rate, the government should adjust the currency composition of loans to avoid focusing on a single currency. For schools that benefit from such projects, different methods should be adopted to avoid the risk of exchange rate in three different phases, i.e., the borrowing, use and repayment of loans. Specifically, borrow the stage of increase in value terms in the contract, etc., with the stage by forward foreign exchange transaction, currency options and other financial instruments to evade, and also the stage will be super to forward foreign exchange trading, currency swaps and other financial instruments to avoid exchange rate risks.

Author-in-brief

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