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**Working Paper**

## Financial sustainability of higher education institutions in the Philippines: Issues, challenges, and opportunities

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DISCUSSION PAPER SERIES NO. 2024-24

# Financial Sustainability of Higher Education Institutions in the Philippines: Issues, Challenges, and Opportunities

*Connie Bayudan-Dacuycuy, Herisadel Flores, and Arnel Onesimo Uy*



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# Financial Sustainability of Higher Education Institutions in the Philippines: Issues, Challenges, and Opportunities

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## **Abstract**

Higher education institutions (HEI) and the quality of educational products and services they deliver play a critical role in supporting international development goals and Filipinos' national aspirations. However, achieving quality in tertiary education has benefits and costs, making HEI financial sustainability an important means to an end. This study adds to the scant literature on Philippine HEI financial sustainability, highlighting the key insight that HEI financial sustainability is an educational asset and strategic imperative. It forwards national and HEI-level policies to ensure that HEI can fulfill educational objectives, deliver valued outcomes, support societal advancement, and add tangible value to stakeholders.

**Keywords:** financial sustainability, higher education institutions, revenue sources, financing strategies, risk management

## Executive Summary

### PURPOSE OF THE STUDY

This report aims to inform the United States Agency for International Development’s “strategic planning, activity design, and professional development” in sustainably financing higher education institutions (HEIs). Thus, this study produces evidence-informed strategies for sustainably improving HEI financing by analyzing HEIs’ financial operations and strategies in the broader Philippine development context and higher education environment of policy, regulation, and funding.

### KEY FINDINGS

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#### *UNDERSTANDING OF HEI FINANCIAL SUSTAINABILITY*

*RQ1: How do HEI leaders and government actors in the countries under study understand HEI financial sustainability?*

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This research question investigated HEI leaders’ and government representatives’ perceptions of HEIs’ financial sustainability. Respondents agreed on the centrality of HEIs to Philippine development and, thus, on the importance that they become financially sustainable. Public HEI administrators recognized the importance of seamless future operations by becoming less dependent on government funding to ensure that they produce outcomes aligned with their mandates and the aspirations of the Philippine society. While private HEI administrators generally viewed financial sustainability in the context of financial metrics like returns and profits, they recognized that producing valued results aligned with the private HEIs’ mission and vision will attract parents and students, resulting in higher enrollment and income from tuition. Respondents agreed that strategic efforts to support the HEIs’ core educational objectives, including the physical and human capital investments needed to offer quality programs and improve students’ learning experiences, will eventually translate into revenues and income.

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#### *CURRENT STATE OF HEI FINANCING*

*RQ2: How are sampled HEIs financed to operate, and what are their various revenue streams?*

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This research question examined HEIs’ funding model and revenue sources, providing additional contexts in producing evidence-based recommendations to improve HEI financing. HEIs’ primary revenue sources depend on whether they are public or private, with the former reliant on government subsidies and the latter reliant on enrollments and tuition fees. Stakeholders from both public and private HEIs articulated that donations and endowment funds can tame HEIs’ reliance on these sources and help them become financially sustainable. In general, however, obtaining donations depends on alumni and their success in the labor market, highlighting the importance of quality in educational products and services HEIs provide. Specific to LUCs, barriers to obtaining donations are organic to their governance structures and the absence of extra funds. HEIs can also earn from income-generating projects, although these depend on the available human and physical resources.

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### *INFLUENCING FACTORS ON FINANCIAL SUSTAINABILITY*

*RQ3: What are the factors that sampled HEI leaders and government actors perceive to determine or shape HEI's financial sustainability?*

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This research question investigated the understanding of HEI leaders and government actors of the factors that influence HEIs' financial sustainability. Given the private HEIs' dependence on enrollments and income from tuition fees and public HEIs' reliance on government subsidies, respondents highlighted policies and regulations, political disruptions, and rising costs as factors at the national level, as well as leadership quality and the quest for quality education at the HEI level. Respondents agreed that good leadership and governance are key to crafting and executing strategic directions in investments and collaboration initiatives. In turn, these initiatives will support institutional development, allowing HEIs to achieve key performance indicators and produce outcomes aligned with the institution's mandate and mission/vision.

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### *HEI FINANCING STRATEGIES*

*RQ4: What strategies do sampled HEIs undertake to promote their financial sustainability?*

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This research question investigated the different strategies used by sampled HEIs to promote and improve their financial sustainability. Respondents highlighted approaches and challenges in reducing costs and increasing revenues and discussed these in the context of navigating financial sustainability while producing outcomes valued by the Philippine society. Strategies implemented by the HEIs under study to manage, promote, and enhance their financial sustainability can be grouped into two categories: 1) cost and resource management, like fiscal prudence and green initiatives, and 2) increasing market shares, like promoting transparency and accountability, forging industry linkages, expanding programs and campuses, and digital technology adoption. HEI administrators recognized that by diversifying revenue streams, minimizing costs, and optimizing resources, they position themselves for long-term financial stability in an evolving educational landscape. They also recognized that by aligning educational programs and services with industry needs and fostering collaboration, their schools become key contributors to workforce development and economic growth, ultimately securing their financial future.

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### *HEI RISK MANAGEMENT STRATEGIES*

*RQ5: What risk management strategies, if any, do HEI stakeholders undertake to navigate unexpected shocks (e.g., COVID-19)?*

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This research question examined the strategies of HEI leaders to manage shocks and mitigate their adverse effects. Respondents emphasized the role of various plans, highlighted the benefits and challenges of establishing such plans, and shared learnings from their pandemic experiences to anticipate, manage, and mitigate the adverse effects of shocks.

## RECOMMENDATIONS

HEI's financial sustainability is an educational asset and strategic imperative. Thus, policies are needed to ensure HEIs can fulfill educational objectives, deliver valued outcomes, support societal advancement, and add tangible value to stakeholders. At the national level, crafting comprehensive plans outlining the government's vision and commitment to achieve these and implementing policies that foster complementarity between public and private HEIs will provide stability to the higher education sector. At the HEI level, HEIs need to build resilience, innovate, and leverage existing resources to enhance the quality of their products and services. HEIs also need to develop a culture of long-term visioning to identify future opportunities and craft strategic initiatives.

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### RECOMMENDATIONS FOR THE NATIONAL GOVERNMENT

- Develop and implement long-term policies and plans for tertiary education to provide direction and stability.
- Provide student-centric (rather than HEI-centric) scholarships and subsidies to address the competition for students between public and private HEIs.
- Enact a law on LUC operations and governance to mitigate political disruptions.
- Explore the establishment of more regional university systems to promote greater efficiency in SUCs' resource use.
- Harmonize the requirements on the full tax deductibility of donations in private and public HEIs.
- Build HEI resilience through support for digitization of processes and systems.

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### RECOMMENDATIONS FOR HEIs

- Leverage the government's transnationalization initiatives to enhance the quality of program offerings and attract students, partners, and donors.
- Develop a culture of foresight and future thinking to navigate all types of uncertainties.
- Explore pathway systems to enhance the complementarity of program and course offerings in public HEIs.

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# Financial Sustainability of Higher Education Institutions in the Philippines: Issues, Challenges, and Opportunities

*Connie Bayudan-Dacuycuy, Herisadel Flores, and Arnel Onesimo Uy<sup>1</sup>*

## 1. Introduction

This study aims to inform the United States Agency for International Development’s “strategic planning, activity design, and professional development” in sustainably financing higher education institutions (HEIs). In service of this goal, this study produces evidence-informed strategies for sustainably improving the financing of HEIs. This study analyzes HEIs’ financial operations and strategies by examining the wider context of the higher education environment of policy, regulation, and funding. The target audience for the output of this study includes the following stakeholders: USAID and its Missions, regulators, policymakers, and HEIs in the Philippines.

### 1.1. Overview of HEI financial sustainability in the Philippines

Investments in the higher education sector are strategic investments to transform the Philippines into an inclusive society and high-income economy. HEIs play a critical role in supporting Filipinos’ national aspirations, as outlined in the *AmBisyon Natin 2040*<sup>2</sup>, and achieving the United Nations’ Sustainable Development Goal 4 of inclusive and equitable quality education and lifelong learning opportunities for all. The Philippine Development Plan 2023-2028, the country’s national development blueprint, echoes these aspirations and SDG4 by setting goals for globally competitive and inclusive Technical-Vocational Education and Training. The government has also established State Universities and Colleges nationwide to improve access and crafted regulations to enhance the quality of educational products and services.

Achieving quality in higher education has benefits and costs, making the discourse on HEIs’ financing and financial sustainability relevant. Financial sustainability in HEIs is broadly defined as the “HEIs’ ability to produce desired outcomes over time” (USAID, 2021). It is needed to invest in people and infrastructures, mitigate vulnerabilities to shocks, adhere to international standards, and achieve globally competitive learning systems. Physical and human capital investments boost the HEIs’ reputation and improve their position in national and international rankings, attracting students, teachers, donors, partnerships, and funding. However, resources are needed to obtain a high level of reputation and community standing. Compliance with standards on accreditation and quality assurance requires time, money, and human capital. These inputs are recurring costs that HEIs must adequately plan for.

### 1.2. Types of HEIs in the Philippine higher education ecosystem

The Commission on Higher Education (CHED) is the country’s highest policy-making body with jurisdiction over the delivery of all higher education programs. To differentiate HEIs with respect to their capabilities and roles in nation-building, CHED adopts a horizontal typology,

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<sup>2</sup> *AmBisyon Natin 2040*, or “Our Ambition 2040”, is a long-term development plan by the Philippine government since 2016.

which includes colleges, universities, and professional institutes. Colleges produce generalists with skills that serve the needs of local communities. Universities produce specialists with competencies for research and development and innovations. Colleges and universities account for 71% and 28% of total HEIs, respectively. Professional institutes develop students as competent professionals (typically in business, law, and medicine). These are mostly private and account only for a very small proportion of the total HEIs in the country (23 or around 1% in 2022).

HEIs are classified as public or private. Public HEIs are state universities and colleges (SUCs), which are funded by the national government, and local state universities and colleges (LUCs), which are funded by the local government. Public HEIs have different governance structures based on their funding mechanisms (see Table 1 for comparison). SUCs and state-run technical-vocational institutions (TVI) are governed by national legislation, and their budget is appropriated through the General Appropriations Act. These public HEIs prepare annual budget proposals based on their strategic plans, programs, and projects for the upcoming fiscal year. Through the Higher Education Modernization Act of 1997<sup>3</sup>, SUCs were granted the right to corporatize and manage their incomes. LUCs, on the other hand, operate according to their local charters. Their funds are provided by their host local government units (LGUs) and may be subject to the local chief executives' discretion. Most do not have organizational autonomy from their host LGUs.

Philippine legislation mandates SUCs to perform multiple functions, including instruction, research, and extension services. Thus, in addition to educating students on various fields of higher learning, public HEIs conduct basic and applied research, provide technical assistance, and offer training and capability-building interventions to government and private entities. These activities affirm HEIs' public service nature by contributing to communities and national development.

Meanwhile, private HEIs are anchored in their mission and vision, which vary depending on the private HEI type (e.g., a sectarian private HEI's mission-vision touches on their religious affiliations' core values), although the overarching theme focuses on the learners' formation and the institutions' role in societal development. Private HEIs primarily rely on tuition fees and have management committees to determine their financial and administrative matters. They also must be accredited by the Philippine Council for Non-government Organization Certification (per Executive Order 720 series of 2008) before becoming established institutions. Currently, there are 55 HEIs listed on the accrediting agency's website.

**Table 1: Comparison of key characteristics of public and private HEIs**

	Public HEIs: State Universities and Colleges (SUCs)	Public HEIs: Local Universities and Colleges (LUCs)	Private HEIs
Classification: Horizontal typology	Universities, Colleges, and professional institutes	Universities and Colleges	Universities, Colleges, and professional institutes
Classification: Vertical typology			Autonomous, deregulated, regulated (CHED Memorandum Order No. 52 in 2006)

<sup>3</sup> The law authorized SUCs to retain and utilize income generated from tuition fees and other charges. It empowered SUC boards to fix the tuition fees and other school charges and allowed them to adopt and implement a socialized scheme of tuition and school fees to promote access to poor deserving students (Manasan, 2012). Further, it led to SUCs becoming more self-reliant regarding funding (Manasan, 2012).

	Public HEIs: State Universities and Colleges (SUCs)	Public HEIs: Local Universities and Colleges (LUCs)	Private HEIs
Main Fund source	National through the General Appropriations Act, deliberated by Congress annually.	Local Government Unit (LGU) typically allocates 5% of the budget but may depend on the local chief executive discretion.	Tuition and other fees (Manual of Regulations for Private Higher Education, created by Memorandum No. 40, series of 2008, provides the guidelines on the allocation of tuition fee increases).
Fund use/Reporting	Fund utilization must conform with existing laws and regulations set by the Commission on Audit as specified in the Government Accounting Manual. Financial statements submitted to and scrutinized by the Commission.	Budget/Fund is a line item in the host LGUs' financial statements. LGUs must conform to the Commission on Audit rules.	Financial statements are submitted to the Security and Exchange Commission.
Organization and staffing	Permanent positions are determined by SUCs and are subject to the rules of the Department of Budget and Management.  Contract of Service workers are funded by other sources.	Permanent positions are determined by available LGU positions. No budget, finance, accounting, or human resource management offices separate from the LGU.  Contract of Service workers are funded by other sources.	Human resources are determined by the top management and are hired as needed.
Receipt of donations, gifts	The Governing Board receives these in trust legacies (CHED Memo 7, Series of 2022).	Need approval of the LGU and CHED (CHED Memo 7, Series of 2022).	Need to be accredited by the Philippine Council for Non-government Organization Certification (Executive Order 720 series of 2008) before becoming donee institutions.
Donors' benefits	<i>Can be deductible in full only if donations are used in priority activities indicated in the National Economic Development Authority's National Priority Plan (Section 34 (H) of the National Internal Revenue Code). Otherwise, allowable tax benefits are 5% and 10% for corporations and individuals.</i>		

Source: Authors' compilation

## Shape and size of HEIs

Historically, the majority of HEIs in the Philippines are private (Figure 1). As of the academic year 2019-2020, 72% of the 1,729 HEIs<sup>4</sup> are private HEIs. However, trends indicate a declining private HEIs' enrollment share, accounting for around two-thirds of the total enrollments in the academic year 2009-2010 and only around half of the total enrollments in the academic year 2019-2020 (Table 2). Additionally, the 10-year compound annual growth rate of private HEIs' enrollment is significantly lower than that of their public counterparts (0.8% versus 4%, respectively).<sup>5</sup>

To improve supervising efficiency, CHED issued Memorandum Order No. 52 in 2006, which autonomous and deregulated status in private HEIs. Autonomous HEIs can increase tuition and other fees, offer new courses/programs, and establish satellite campuses without the CHED's approval. They also have priority in availing of subsidies/grants from the Commission on Higher Education (CHED). They must demonstrate a commitment to excellence, operationalized as accreditation level IV and the presence of a center of excellence/center of development, to achieve autonomous status. Historically, there is a low percentage of autonomous/deregulated private HEIs (3.8% in the academic year 2009-2010 and 4.3% in the academic year 2019-2020). Meanwhile, SUCs are subject to leveling instruments<sup>6</sup>, which intend for SUCs to shift to outcomes-based education and align with ASEAN standards and

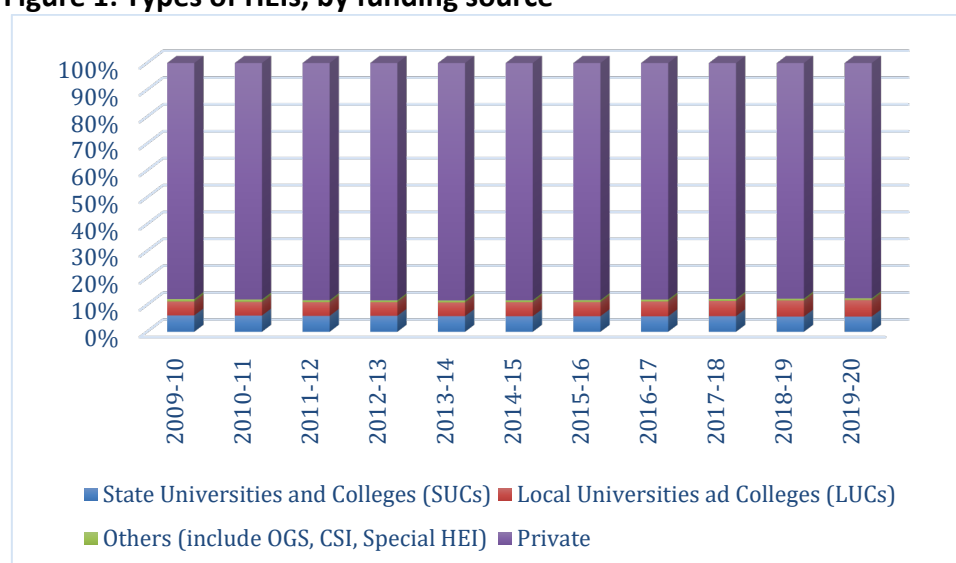
<sup>4</sup> Including SUC satellite campuses, or campuses located in different city/municipality or region

<sup>5</sup> Based on the data downloaded from <https://ched.gov.ph/wp-content/uploads/Higher-Education-Data-and-Indicators-AY-2009-10-to-AY-2019-20.pdf>, April 2024.

<sup>6</sup> See DBM-CHED Joint Circular No. 1, Series of 2016. See Annex III for details.

typology-based quality assurance. As of 2019, 52% and 19% of the 106 SUCs are levels III and IV, respectively. No SUCs are comparable to the best universities in Asia (level V).

**Figure 1: Types of HEIs, by funding source**



Source: Commission on Higher Education (CHED)

Notes: The total number of HEIs excludes SUC satellites. OGS (other government schools)  
CSI (CHED- supervised institutions)

**Table 2: 10-year compound annual growth rate of HEI enrollment**

	AY 2009-2010	% of total	AY 2019-2020	% of total	10-year CAGR, %
Public	1087983	39	1575645	46	3.77
Private	1686385	61	1832780	54	0.84

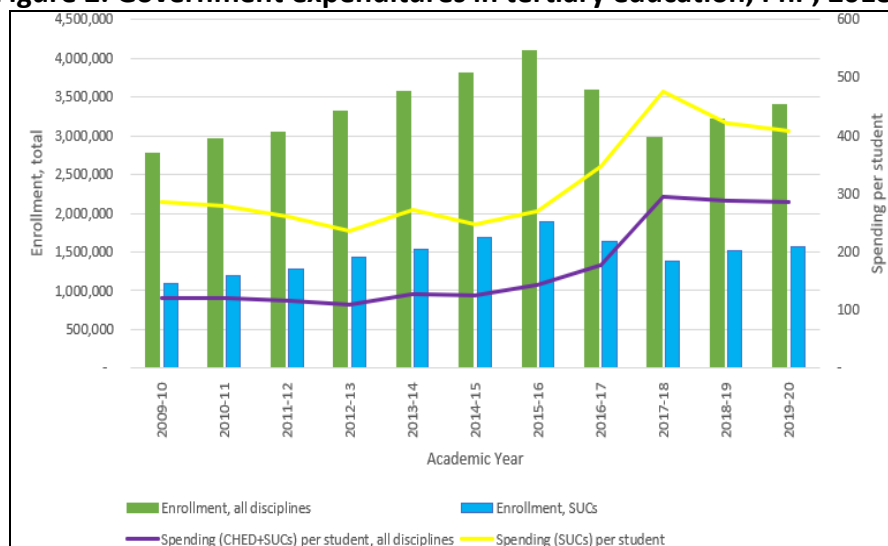
Source: Authors' computations based on the data from <https://ched.gov.ph/wp-content/uploads/Higher-Education-Data-and-Indicators-AY-2009-10-to-AY-2019-20.pdf>, accessed in April 2024.

### ***Some laws and policies for the higher education sector***

Laws and regulations in the Philippines reflect a growing emphasis on accessibility and quality, and accountability in education and a recognition of the important role that higher education plays in the country's development (See Annex III for details on other laws/regulations.). To increase accessibility, the Universal Access to Quality Tertiary Education Act (UAQTEA, RA 10931, also popularly known as Free Higher Education (FHE) law)) was enacted in 2017. UAQTEA is a landmark policy that promotes access to SUCs, LUCs, and state-run TVIs through free tuition fees. UAQTEA has successfully made attendance in public HEIs more accessible. Due to the implementation of UAQTEA, government expenditures increased in 2017 after being relatively flat from AY 2009-2016. In SUCs, spending per student was PhP206 in AY 2009-2010 and PhP409 in AY 2019-2020, or a 10-year compound annual growth rate of around 4% (Figure 2). The growth rate of the total public spending (SUCs + CHED) in higher education per student was higher at 9%. Despite this, some saw the policy of free tuition in public HEIs as discouraging private investment in human capital development. Central to this is the issue of equitable use of limited public resources since high-income households who can otherwise afford their children's college education also benefit from the free tuition (Orbeta and Paqueo, 2017; Orbeta and Paqueo, 2022).

The Transnational Higher Education Act (RA 11448 enacted in 2019) is a recent key legislation on enhancing quality. This policy aims to encourage, promote, and accelerate the establishment of transnational higher education programs. The law paved the way for the internationalization of higher education in the country by articulating various transnational higher education modes<sup>7</sup> and providing opportunities for research collaboration with foreign HEIs and academic expansion.

**Figure 2: Government expenditures in tertiary education, PHP, 2018 prices**



Source: Department of Budget and Management (DBM)-Budget of Expenditures and Sources of Financing for spending data; CHED for enrollment data

## 2. Review of prior studies

The literature on HEI financial sustainability in the Philippines is relatively scant, focusing on a narrower aspect, such as revenue sources, financing mechanisms, and spending strategies. The following discussion provides a review of the existing evidence and provides the context and motivation for the contribution of this study.

While private HEIs rely mainly on tuition fees funded by parents and/or students (Suarez et al., 2020; Ngohayon and Nangpuhan, 2016; De Jesus, 2011), they also seek funds from alumni, donors, and philanthropists and apply for government and international research grants (Ngohayon and Nangpuhan, 2016; De Jesus, 2011). SUCs rely mainly on government appropriations but are mandated to supplement their income through outside sources, though they have historically struggled to do so. For example, very few utilize their land grants or engage in joint ventures with businesses and industries (Manasan and Revilla, 2015). SUCs also struggle to commercialize their research outputs since many faculty members and SUC administrators lack entrepreneurial skills or connections to industry (Catibog, 2016).

SUCs use a normative financing formula<sup>8</sup>, which applies a set of prescribed objective criteria to promote quality instruction, improve research and extension services, and promote fiscal prudence in allocating funds for their maintenance and other operating expenditures. However, applying the formula had limited effects on improving the quality of instruction and shifting the SUC enrollment toward priority courses (Manasan, 2012). In addition, an assessment of the SUCs' resource utilization indicates declining efficient SUCs between 2007 and 2009 (Cuenca, 2011).

<sup>7</sup> See Annex III for details.

<sup>8</sup> See DBM-CHED Joint Circular Number 2, series 2004 in Annex III for details.

There are some good practices and proposals for enhancing HEI revenue generation. One practice, the sibling tuition fee discount model, which allows up to five siblings to enjoy the maximum tuition discounts and encourages enrollment in the same school, is considered successful in internalizing the higher education experience within families (Jacob et al., 2018). One proposal is the implementation of a national student loan program through matching grant mechanisms to prevent loan defaults and incentivize mechanisms to institute rewards and punishments based on default rates (Canlas, 2016). However, administering student loans, including tracking and collection, may be costly. Additionally, evidence of the success of cost-sharing schemes, such as the student loan programs implemented in Asian countries, is scarce. ADB (2012) identified issues and weaknesses in implementing student loans in Indonesia, Malaysia, Thailand, and Vietnam, including minimal planning and weak control, generous loan eligibility, and long repayment conditions.

To enhance program complementation and improve resource use efficiency, some SUCs have undertaken amalgamation initiatives, which consolidate SUCs in a geographical unit (typically region) into a regional university system (National Economic Development Authority, 2022). These include the regional university system in the Cordillera, with the Ifugao State University as the lead HEI (Gonzales and Ngohayon, 2015) and the merging of two public HEIs in Northern Mindanao (Mindanao University of Science and Technology and Misamis Oriental State College of Agriculture and Technology), which is now the University of Science and Technology of Southern Philippines under Republic Act 10919. An initial assessment of the proposed amalgamation of three public HEIs in Ilocos Sur indicates opportunities to serve the students and community and advance management practices (see Alviento, 2017). A similar assessment in CALABARZON indicates that stakeholders agreed that consolidation in the region will improve resource utilization and quality of services. In addition, they indicated that crafting a blueprint for the merged identity, governance, and organization structures during all phases of the merger would be an immediate priority (Lucido, 2020).

There are other suggestions to enhance prudent investment and spending. These include transforming those not meeting the standards of excellence into community colleges (see Canlas, 2016), searching for partner agencies for joint business initiatives, and increasing personnel to manage internally generated projects (Ngohayon and Nangpuhan, 2013), and improving administrative processes, addressing bureaucratic bottlenecks, and enhancing client service through digitization (Chao, 2022).

### 3. Research questions

This study addresses the following overarching question: *How do governments and HEIs in the countries under study understand financial sustainability, and what approaches and risk management strategies are sampled HEIs pursuing to strengthen their financial sustainability?*

This question stems from Question 2 of the USAID Higher Education Learning Agenda: “How can financing higher education systems and institutions become more sustainable?” (USAID 2020, 5). The research team used a mixed methods approach to answer the following research questions (RQs), specific to this study:

Theme	Research question
Understanding of HEI Financial Sustainability	RQ1: How do HEI leaders and government actors in the countries under study understand HEI financial sustainability?
Current State of HEI Financing	RQ2: How are sampled HEIs financed to operate, and what are their various revenue streams?
Influencing Factors on Financial Sustainability	RQ3: What factors do the sampled HEI leaders and government actors perceive to determine or shape HEI’s financial sustainability?



HEI Financing Strategies	RQ4: What strategies do sampled HEIs undertake to promote their financial sustainability?
HEI Risk Management Strategies	RQ5: What risk management strategies, if any, do HEI stakeholders undertake to navigate unexpected shocks (e.g., COVID-19)?

## 4. Methodology overview

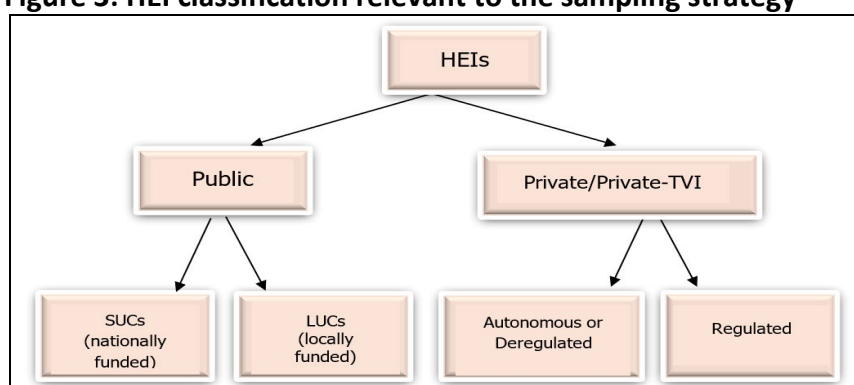
This research used a multimethod approach, or a mixed methodology, which involved multiple data collection methods to gather comprehensive information on the research topic (see Bryman, 2003). A desk review and Systems Thinking Workshop were used to determine the theoretical framework. To gather findings, the research team conducted key informant interviews and an analysis of financial statements. Key informant interviews provided primary data and focused on key players in the HEI ecosystem (see Annex II for guide questions). The selection process is discussed in detail below. The respondents included representatives from government agencies and HEI and TVI leaders, as well as other stakeholders from civil society organizations, higher education researchers, and non-state funders. Results were analyzed to ensure that findings and recommendations were not skewed in favor of certain types of HEIs.

Some findings from the interviews were supplemented with secondary data obtained from government agencies, such as the Commission on Audit, Securities and Exchange Commission, and CHED. The team secured the financial data of 18 HEIs. To validate the findings and recommendations, the team incorporated the research advisory group's inputs into the draft report.

### 4.1. Sample description

The team obtained the full list of HEIs (2498 entries) from CHED, which was used as the sampling frame for the study. A two-stage selection strategy was implemented to determine which HEIs would be further investigated. For the first stage, HEIs were stratified into five mutually exclusive categories: LUCs, SUCs, regulated private HEI, autonomous/deregulated private HEI, and private HEI-TVI (see figure 3). Using the sample command in Stata, 20 HEIs were drawn from each stratum. For the second stage, purposive sampling was used. The team initially contacted ten institutions from each stratum and chose replacements for HEIs with no or negative responses after three or four follow-ups. In sum, 18 HEIs (9 private and 9 public) and 11 stakeholders (individual researchers and representatives from the government and civil society organizations) participated in online interviews (See Annex I for full details of sample selection).

**Figure 3: HEI classification relevant to the sampling strategy**





## 4.2. *Limitations*

The research team faced three primary types of challenges in data collection: timing in the conduct of interviews, interview channel and connectivity, and availability of financial data. Mitigation measures and anticipated impacts on findings are detailed below:

### 4.2.1 Potential non-representativeness of the KII samples

A total of 18 HEIs participated in the interviews, representing less than 1% of the 1,975 HEIs in AY 2019-2020. Thus, there are concerns that the HEIs might not be representative of the population, resulting in insights that were skewed to HEIs with certain attributes.

#### Mitigation

KII participants were administrators and presidents of various HEI associations. Their insights reflect a combination of HEI-specific experiences and professional interactions with other HEIs.

### 4.2.2 Timing in the conduct of interviews

Institutions were contacted and invited to participate in interviews from May 2023 to the second week of August 2023. Unfortunately, this period conflicted with many key activities within schools, including preparations for year-end commencement exercises and the next academic year's enrollment. Other schools were transitioning to their new administration, so staff hesitated to accept the invitation. In addition, the period also coincided with floods and heavy rains brought by tropical storms and southwest monsoon, resulting in school closures in the Luzon regions.

#### Mitigation

To increase participation, the team regularly followed up on HEIs that did not decline. After three or four follow-ups and getting no clear indication of participation, the team sent invitation letters to the replacement batch. The replacements were chosen to match the general characteristics (i.e., location, HEI type) of the HEIs being replaced. To avoid attrition among HEI representatives who agreed to participate, the research team responded promptly and immediately sent the Zoom link and calendar invite.

### 4.2.3 Scheduling conflicts

Geography, weather, and scheduling proved to be barriers to in-person interviews. Some respondents were outside the Metro Manila area. The tropical storms and severe weather characteristics during this season often kept people home. Other interviewees confirmed their participation on short notice. It would be impossible to prepare the travel documents for the PIDS personnel in such a short timeframe.

#### Mitigation

To streamline the data collection process, the team conducted all interviews via Zoom. Respondents felt comfortable sharing their insights and ideas over Zoom (i.e., openly offering criticisms of policies, instantly providing positive/negative feedback on issues), and the

interpretation of non-verbal cues (which is not an aspect of online interactions) was nonessential to the research questions. Only two interviews experienced unstable connectivity. This was remedied by using a cellphone to project the respondent's voice on Zoom, which allowed the team to facilitate and record the interview as planned.

#### 4.2.4 Availability of financial and enrollment data

During interviews, HEI representatives agreed to return the filled-out survey form. However, successive follow-ups indicated their unwillingness to share information, with some citing the data as non-existent<sup>9</sup>, proprietary, or too disaggregated<sup>10</sup>. Additionally, changes to financial reporting guidelines altered the reporting format of SUCs. Depending on the year, some SUCs provided a detailed breakdown of expenses and income in their special and general funds, while others only reported consolidated funds. Given these challenges, the compiled data were not as disaggregated or detailed as desired.

#### Mitigation

The team obtained data from other government agencies, including the Commission on Audit (for SUCs' financial statements), Security and Exchange Commission (for private HEIs' financial statements), and CHED (for enrollment data). Owing to the non-representativeness of the data collected, these data are used as illustrative examples to support some insights articulated in the interviews.

## 5. Findings

### 5.1. Understanding of HEI Financial Sustainability

RQ1: HOW DO LEADERS AND GOVERNMENT ACTORS IN THE COUNTRY UNDER STUDY UNDERSTAND HEI FINANCIAL SUSTAINABILITY?

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*This research question investigated HEI leaders' and government representatives' perceptions of HEIs' financial sustainability. Understanding their views helps in providing contexts for developing strategies to improve HEI financing. Respondents agreed on the centrality of HEIs to Philippine development and, thus, on the importance that they become financially sustainable. However, the views of respondents were nuanced due to the differences in HEIs' governance structure and stakeholders.*

HEI administrators, government officials, researchers, and a civil society organization (CSO) representative generally agreed that financial sustainability and initiatives to achieve it vary depending on whether HEIs are public or private. They recognized, as synthesized by one SUC leader below, that the difference in funding sources influences public and private HEIs' resource allocation, use, and management.

“Financial sustainability differs depending on the HEI type. These can influence the HEIs' financial sustainability strategies. Funding sources differ for public and private HEIs, so revenue diversification and fundraising efforts also differ.”

Public HEI (SUC) president

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<sup>9</sup> This is true for LUCs whose finances are lodged under the LGU. Thus, their expenditures are aggregated and appear as a line item in the LGU's financial statement.

<sup>10</sup> Including data on students receiving benefits from HEI and other sources, number of faculty and non-teaching personnel, and salary for faculty and non-teaching personnel

While there are differences in funding sources (public HEIs being mainly state-funded and private HEIs relying mainly on tuition), both HEIs allocate for similar types of expenditures: maintenance and other operating expenses and capital expenditures. Public and private HEI administrators, government actors, and other stakeholders recognized that financially sustainable HEIs should have adequate resources to cover daily operations and to finance and maintain infrastructures and equipment to deliver educational products and services. The latter expenditure is important, as illustrated by the insights of a private HEI-TVI administrator below, articulating the connection between capital expenses and HEI capabilities.

“I think another characteristic is adequate capital expenditure. In an institution, the biggest investments are facilities, buildings, equipment, etc. A financially sustainable HEI should have the capacity to meet these investments to ensure their educational and research capabilities. Educational business is all about capex, so it can develop and produce more.”

Private HEI-TVI administrator

Other than the importance of capital expenditures in both HEIs, both have societal roles to fulfill. SUC administrators emphasized that, as they fulfill their mandates to educate the next generation of workers and professionals in the government and the private sector, it is important to become less reliant on state subsidies. Forward-looking SUC leaders highlighted the importance of certainties in their operations through income generation. These leaders agreed that these certainties allow them to sustain the delivery of quality educational products and services, which, as illustrated by the statement of an SUC administrator below, can enhance community standing and improve enrollments.

“Physical infrastructures, including technology, require substantial investment. Big funding for infrastructure improvement can affect the quality of education and our research capabilities. It can affect the institution’s reputation and our ability to attract students.”

Public HEI (SUC) administrator

To produce outcomes aligned with their mandates and those of the Philippine society, public HEI administrators recognized the importance of seamless future operations by becoming less dependent on government funding. In contrast, private HEI administrators emphasized that, as they fulfill their mission and vision of producing employable graduates and helping industries grow, financial sustainability is the ability to generate revenues, pursue cash viability, and minimize costs. To do this, private HEIs monitor key performance indicators, examples of which are elucidated by the statements of private HEI administrators below.

“We measure earnings before interest, taxes, depreciation, and amortization. We also have a responsibility to our shareholders, so we monitor the return on investment and profit margin. We compare these against our benchmarks and monitor that we do not go below it.”

Private HEI administrator

“We have a good track record of progressive top-line and bottom-line earnings, total revenue and then net income. For-profit HEIs, like us, ensure a consistent return to stockholders via dividends.”

Private HEI administrator

Underlying the seemingly business-as-usual pronouncements of monitoring financial metrics is the private HEI administrators’ recognition that their institutions’ financial health hinges on delivering quality educational products and services to attract and retain students. They shared the importance of good facilities and excellent supporting staff and administrative personnel to improve students’ learning experiences and retain and attract students. These are aptly synthesized by the statement of a private HEI administrator below, articulating the link between financial sustainability, quality education, and enrollments.

“A good metric for financial sustainability is the ability to support the school’s academic aspirations. The school’s core is to deliver quality education. Failure to accomplish this will result in lower year-on-year enrollment. There will be losses as enrollments decrease since we need to support a certain number of workforce.”

Private HEI administrator

This section investigated how HEIs’ financial sustainability is understood by HEI leaders and government actors. Public HEI administrators recognized the importance of seamless future operations by becoming less dependent on government funding to ensure that they produce outcomes aligned with their mandates and the aspirations of the Philippine society. While private HEI administrators generally viewed financial sustainability in the context of financial metrics like returns and profits, they recognized that producing valued results aligned with the private HEIs’ mission and vision will attract parents and students, resulting in higher enrollment and income from tuition. Respondents agreed that strategic efforts to support the HEIs’ core educational objectives, including the physical and human capital investments needed to offer quality programs and improve students’ learning experiences, will eventually translate into revenues and income.

## 5.2. Current State of HEI Financing

RQ2: HOW ARE SAMPLED HEIS FINANCED TO OPERATE, AND WHAT ARE THEIR VARIOUS REVENUE STREAMS?

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*This research question examined HEIs’ funding model and revenue sources, providing additional contexts in producing evidence-based recommendations to improve HEI financing. HEIs’ primary revenue sources depend on whether they are public or private, with the former reliant on government subsidies and the latter reliant on enrollments and tuition fees. HEIs can harness other sources like donations and endowment funds depending on factors like the strength of donor relationships and the availability of competent personnel and land grants (for public HEIs).*

### **Tuition fees and government appropriations**

The largest revenue sources for private HEIs are tuition fees and government appropriations for SUCs. This is illustrated in Figure 4, with a sample private HEI’s tuition fees constituting 99% of its total revenue and a sample SUC’s budget and capital appropriations from the government making up 90% of its total revenue in 2020.

Meanwhile, LUC administrators shared they receive appropriations from the general funds of their host LGUs, although this may be limited to infrastructure development if LUCs are considered by their host LGUs as local economic enterprises<sup>11</sup>. In addition, LUCs fund their personnel services and maintenance and other operating expenditures almost entirely from tuition, as shared by one LUC president below, articulating the role of the 2017 UAQTEA (also known as the FHE law) in the LUCs’ funding. LUCs are required to have their own account to receive FHE proceeds, although they have no separate finance divisions.

“The difference is that SUCs’ budget comes from Congress, meaning they are assured of their budget per year because there is an appropriation from the national government. LUCs get our funds for

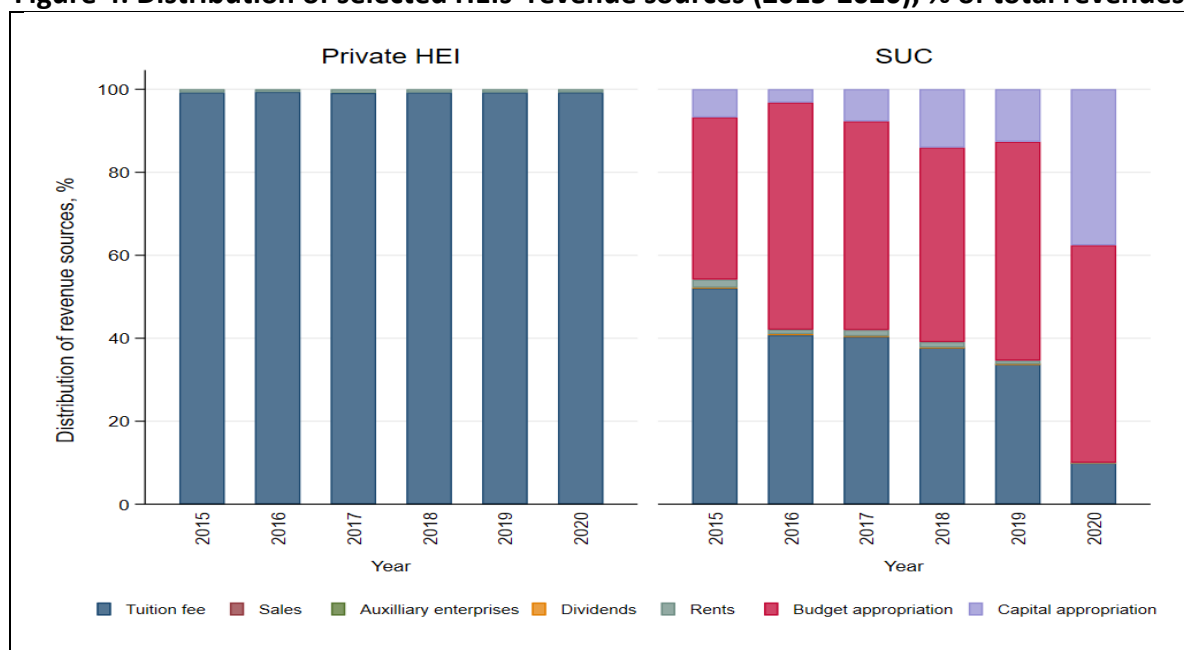
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<sup>11</sup> The 2016 DBM Manual on the Setting Up and Operation of Local Economic Enterprises (2016, p. 2) defines local economic enterprises as “ventures wholly or partially owned by LGUs that generate revenue/income through the sale of services and goods to meet a perceived constituency demand”.

operations and maintenance and other operating expenditures based on the billing we send to UniFAST (Unified Student Financial Assistance System for Tertiary Education). Under the UAQTEA, tuition fees are reimbursed by the national government to eligible public HEIs. In terms of operational costs, we rely solely on the UniFAST reimbursements.”

Public HEI (LUC) president

**Figure 4: Distribution of selected HEIs’ revenue sources (2015-2020), % of total revenues**



Sources: Securities and Exchange Commission for private HEIs; Commission on Audit for SUCs.

While public HEIs rely heavily on government subsidies to fund their operations, compensate teaching and non-teaching personnel, and develop infrastructure, private HEI administrators articulated that enrolments remain the major driver of their financial sustainability. Tuition fees are the cornerstone of private HEIs’ income, with a sample private HEI’s tuition fee consistently accounting for 99% of its total revenue from 2015 to 2020 (Figure 4). Thus, some private HEI administrators articulated the importance of balancing increases in tuition fees and enrollments with ensuring socioeconomic diversity among their students or resource drain due to over-enrolment. This is illustrated by the quote from a private HEI administrator below, describing the dangers of not focusing on scale and its management.

“Scale is very important in building the resources to sustain operations. Too small an enrollment, even if our tuition is high, won’t be enough. It may be enough to pay the salaries, but what remains for operations and building will not be enough. But when we’re too big, it becomes unmanageable. So, it depends on the system we have in place and how big and small we can be.”

Private HEI administrator

### ***Donations and endowment funds***

Donations may be earmarked for specific purposes, and those with more restrictive provisions usually take the form of an endowment fund, where only the interest generated is available for use. Public and private HEI administrators generally recognized that a sizable endowment fund could generate additional income to augment specific expenditures of schools, like expenses on professional chairs, human resource development, additional scholarships for faculty, staff, and students, and research projects.

“Look at how Harvard operates. It does not need tuition to operate. Their endowment funds are very large. They don’t need tuition. If you’re admitted to the university, you can avail of their scholarship.”

Private HEI administrator

“I plan to establish a foundation so that the school will have more flexibility in using the money. We can support the faculty members and students if they need training or scholarships. That is getting creative but is still within the provisions of the law.”

Public HEI (SUC) administrator

Aside from its potential to fund scholarship programs and training initiatives, HEI administrators agreed that donations can be harnessed to tame HEIs’ reliance on tuition and enrollment and, thus, become financially sustainable. However, not all HEIs can build endowment funds big enough to generate a stable and substantial source of income. Donations can come from the government, industry, and philanthropic organizations, although alumni are the most common sources, which some HEI administrators thought to be challenging to harness. They noted that only the top 3 or 4 big HEIs, typically with alumni occupying top management positions in corporations, often receive generous donations. This insight is illustrated by the quote from one LUC president, articulating how donations and endowment funds depend on alumni and their success in the labor market.

“It’s very hard to build an endowment because an endowment, by definition, is excess. It’s excess capital that can be infused, and we only touch the interest out of it. The right strategy to become completely self-sustaining would be to have a huge endowment, but this is difficult unless we are university Z, where many graduates become influential people. Unless some wealthy individuals decide that they will adopt our school, which was not their alma mater.”

LGU official

Furthermore, norms in the workplace, such as men being more likely to ascend to top corporate positions, are also viewed as barriers to receiving donations. This point is illustrated by the statement of a president of an exclusive for girls HEI, articulating that few females rise to top positions, affecting their school’s ability to obtain alumni donations.

“Congregational schools, especially those with very good brands, have large endowment funds. We don’t have that because our school is exclusive to girls, and our graduates don’t end up as CEOs who are usually males. To give an example, we have an alumnus married to a successful graduate of University Y. They reportedly donated PhP 50 million to University Y, but only a small fraction of that was donated to us. His wife is not the income earner. We get good donations from tycoon D only because his daughter attended our school. Tycoon D also donates to other big universities.”

Private HEI president

Big and prestigious HEIs that historically produce successful graduates obtain big donations and harness the benefits of endowment funds. Administrators of these HEIs shared they have initiatives to nurture the culture of giving among their alumni, tapping into the strength of their alumni networks, organizing reunions, and holding donor forums where HEIs present the impacts of financial support. They agreed that obtaining donations depends on the success of alumni, and, thus, on the quality of educational products and services they provide. This is illustrated by the insight of a private HEI administrator below, linking donation flows to the quality of educational products and services HEIs provide.

“Donations are cyclical and opportunistic. Schools X and Y are lucky because they have alumni who give back. These schools have a very strong program for soliciting donations. Providing quality education



is a contributing factor. If students succeed due to the quality of education they obtained, the school's network of potential donors improves.”

Private HEI administrator

While school size, alumni success, and workplace norms are points of concern on donations and endowment funds for SUC and private HEI administrators, those of LUC administrators are more existential. LUCs typically spend what they earn and, thus, do not have adequate money to build endowment funds. This is illustrated by the insights of a government official below, who agreed with the importance of endowments to financial sustainability but explained the requirements of building an endowment fund and how these represent substantial barriers for them.

“To become financially sustainable entities, we need to come up with some large endowments. Unfortunately, we don't have it and cannot get it. In theory, we can build it over time. But to the extent that we spend everything we generate, there is no excess. To build an endowment, we must set aside a certain amount yearly. Even if we set aside PhP100 million a year, if the interest rate is 3%, we can only utilize PhP3 million. It will take a long time to build an endowment of significant size for us to become a completely self-sustaining entity.”

LGU official

Other than the lack of adequate extra budget to build endowment funds, the governance structure can be a challenge for LUCs. LUC administrators shared that financial management, reporting, and budgets are integrated into their host LGUs, so they cannot officially receive grants and donations themselves. This is highlighted by one LUC president below, articulating their lack of a separate legal entity from their host LGU, which makes the establishment of an endowment close to impossible.

“Restricting in a way because our taxpayer's identification number is the same as the LGU. So, we cannot set up our foundation because it is not separate from the LGU. Somehow, it discourages donors because the money will not go through a foundation.”

Public (HEI) LUC president

The LUCs' governance structure is a challenge to fiscal autonomy, which has substantial implications for the LUCs' use, management, allocation, and generation of income and resources. Thus, LUC administrators articulated the need to enhance fiscal autonomy through a national law that provides for LUCs' budget and outlines their governance structure. This point is elaborated by one LUC president below, offering insights on how fiscal autonomy in LUCs can be achieved.

“LUCs have no law at the national level. We look for ways to achieve our fiscal autonomy. It would be helpful if we had laws for local colleges that speak to our autonomy. LUCs should be treated as attached agencies but independent institutions. So, the local chief executive can still be the chairman, but the LUC should have its own human resources and procurement division.”

Public HEI (LUC) president

### ***Other revenue sources***

Private and public HEIs earn supplemental incomes by catering to the needs of the community, such as offering certificate and non-degree programs and or partnering with other HEIs and government agencies. This insight is illustrated by a private HEI-TVI below, enumerating their other income sources.

“We explore alternative sources of income beyond the traditional sources, including partnerships with private companies and research collaborations. We customize training programs for corporate clients,

leverage institutional expertise for consulting services, and explore revenue-sharing arrangements with partners for our online courses.”

Private HEI-TVI administrator

Other than additional program offerings, some private HEIs earn income from rental agreements with concessionaires like canteens, bookstores, and other service providers or by offering their facilities for hosting conferences and other events. Meanwhile, SUC administrators shared that their income-generating projects include agricultural and non-agricultural projects, examples of which are illustrated by a quote from one SUC administrator below.

“We have other income-generating projects like fishponds, rice fields, university hotels, and solar parks. These are idle lands, and we use these, not necessarily to commercialize education, but to turn the idle assets into useful resources that can sustainably finance the programs and the academic goals of the university.”

Public HEI (SUC) administrator

Public HEI administrators also recognized that research products and services can be a good income source, although these require resources that only a few HEIs possess. For example, consultancies can generate big income but require competent faculty members and researchers, as noted by HEI administrators and illustrated by a statement from an LGU official below, articulating the two-way feedback between having top professors and obtaining consultancies.

“High revenue-generating activities come from research and consultancies that the institution can provide. But to do that, we need top people. So, we are getting back to the chicken and egg problem. Unless we have the best professors, we will not be able to attract high-revenue consultancy jobs.”

LGU official

This section examined the existing and potential revenue sources of the HEIs under study, providing deeper insights into their financial sustainability. Private HEIs mainly rely on enrollments and tuition fees, while public HEIs are supported by the government’s budget appropriations. Stakeholders from both public and private HEIs articulated that donations and endowment funds can tame HEIs’ reliance on these sources and help them become financially sustainable. In general, however, obtaining donations depends on alumni and their success in the labor market, highlighting the importance of quality in educational products and services HEIs provide. Specific to LUCs, barriers to obtaining donations are organic to their governance structures and the absence of extra funds. HEIs can also earn from income-generating projects, although these depend on the available human and physical resources.

### **5.3. Influencing Factors on Financial Sustainability**

**RQ3: WHAT ARE THE FACTORS THAT SAMPLED HEI LEADERS AND GOVERNMENT ACTORS PERCEIVE TO DETERMINE OR SHAPE HEIS’ FINANCIAL SUSTAINABILITY?**

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*This research question investigated the understanding of HEI leaders and government actors of the factors that influence HEIs’ financial sustainability. Given the private HEIs’ dependence on enrollments and income from tuition fees and public HEIs’ reliance on government subsidies, respondents highlighted policies and regulations, political disruptions, and rising costs as factors at the national level and leadership quality and the quest for quality education at the HEI level. Respondents shared how these factors play a role in the bigger context of quality education and financial sustainability.*



## National policies and regulations

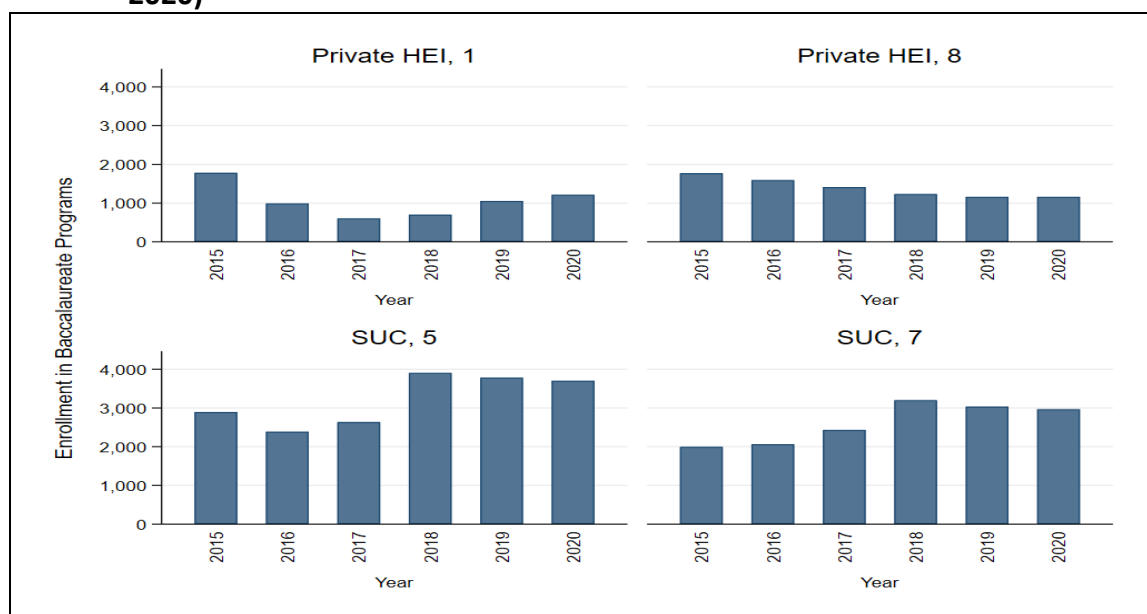
The UAQTEA/FHE Law has affected the private HEIs' enrollment, with one private HEI administrator observing the shift in the private-public enrollment ratio from 70-30 before the 2017 FHE law implementation to a more balanced 50-50 ratio afterwards. The enrollment trends of some public and private HEIs in this study support this insight. Figure 5 shows that enrollment in private HEIs (samples 1 and 8) declined in 2017. After 2017, the enrollment in private HEI 8 continued to decline while the enrollment in private HEI 1 increased, although it has yet to return to its 2015 level. Private HEI 1 offered scholarships (i.e., 50% in the first two years) in their bid to make the school attractive. Meanwhile, enrollment in the SUCs (samples 5 and 7) increased, and notably so after 2017.

This is also reflected in the interviews with private HEI administrators, who shared that the law has reinforced the competition between public and private HEIs. Some private HEIs pointed out that private and public HEIs often vie for the same students, with some waiting for nearby SUCs to close their admissions before they can improve their enrollment figures. This point is highlighted by a quote from a private HEI president suggesting ways to improve policy implementation.

“There should be complementarity in terms of students. Public HEIs attract even those who can afford to pay the tuition fee due to the FHE law. The government should give scholarships only to those who need them. Instead of building facilities, why not expand the scholarship program to include private HEI students?”

Private HEI president

**Figure 5: Enrollment in baccalaureate programs in selected public and private HEIs (2015-2020)**



Source: Commission on Higher Education

Other than its perceived effects on private HEIs' enrollment, public and private HEI administrators generally agreed that FHE implementation poses challenges to their daily operations. Public HEI administrators noted that before the FHE law, they collected tuition and other fees from students upon enrollment, which can immediately be used to finance operations. However, disbursement delays occur due to inadequate supporting documents and

bureaucratic processes<sup>12</sup>. This point is illustrated by the quote from one SUC administrator articulating the negative impact of delays.

“Before UniFAST (*respondent likely referring to the FHE Law*), we can already collect the tuition fee from students. Now, we must wait for the money. It takes some time before we can collect, and delays are preventing us from implementing our projects and programs.”

Public HEI (SUC) administrator

In addition, some LUC administrators shared that due to the FHE law, some LGUs have stopped providing financial support for the LUCs’ operations. LUC administrators shared that while some LGUs consider social service to be the LUCs’ main function, others have reclassified them, following national government directives, as local economic enterprises. LUCs, as local economic enterprises, receive financial support for infrastructure development only and are expected to generate their income to finance their operations. These insights are summarized by the quote from one LUC president, articulating the challenge of being classified as a local economic enterprise given their limited resources for revenue generation.

“When the free higher education was signed, the LGU no longer provided for the LUC’s operational costs such as personal services, maintenance and other operating expenses, and capital outlay except for infrastructure development. This is not only for our college. This is true for all local colleges in region W. The LGU is assuming that it no longer needs to provide funds due to the FHE law. Maybe, this is because there is a Department of Budget and Management (DBM) rule when LUCs are considered local economic enterprises. When we say local economic enterprise, we mean self-generating and self-sustaining. The LUC must generate its income, which must be used for its operations. That is a problem because we have limited resources. We have no land grants, and we lack competent researchers to generate consultancy revenues.”

Public HEI (LUC) president

Meanwhile, the legislated salary increases in public HEIs<sup>13</sup> affect private HEIs, with their administrators articulating negative effects on faculty retention rates and overall institutional competitiveness as they face challenges of justifying tuition fee increases to cover increases in salary expenses. These administrators agreed that fluctuations in faculty salaries, competition for qualified teaching staff, and government-mandated salary standards impact private HEIs’ operational costs and viability.

“Whenever government salary scale moves, we get affected. Eventually, our people will transfer to the government. We don’t compete anymore with universities like X and Y. Now, we also compete with the public sector. Aside from the students, there is also a competition for the faculty. We have our own College of Education and only produce 10 to 12 graduates at any time. We need at least 36 teachers yearly, so we cannot even fill our needs.”

Private HEI president

While some private HEI administrators viewed the government-mandated salary increases in the public sector as factors that affect their ability to attract and retain teachers, other private HEI administrators expressed appreciation of the CHED’s rule on how increases in tuition fees

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<sup>12</sup> There are processes in releasing funds including securing the Notice of Cash Allocation (NCA), which ideally can be released within 2-3 weeks from request. However, there are factors that can influence the duration including the completeness of submitted documents and the timing of the request. On the timing of the request, NCA has a quarterly lapsing. Thus, releasing is ideal at the beginning of the quarter to ensure that the NCA does not revert to the Bureau of Treasury.

<sup>13</sup> The Salary Standardization Law of 2019 (RA 11466) adjusts the compensation of government employees, including public HEI faculty and staff, in annual increments.

should be allocated<sup>14</sup>. The latter point is illustrated by one private HEI administrator articulating how the rule helps them control personnel expenditures.

“The 70% rule is a blessing. The faculty or staff will ask for a higher increase, and we can always rely on the 70% and say, we can only give you this much because this is our tuition fee increase. The staff understands that we cannot increase our tuition too much. So, everybody is part of that decision-making to achieve the right balance between salary increase and tuition fee increase, and that’s relatively easy to do because of the 70% rule. When we have a simple rule, we’re able to do more things.

Private HEI president

Public and private HEI administrators also identified some policies and processes related to curriculum development and online instruction as factors that affect their conduct of business, thus shaping their financial sustainability. They articulated that crafting a minimum program curriculum and other quality standards for faculty qualifications and facility requirements takes years to complete, limiting their ability to adjust to changing job market conditions and demands and making their programs less attractive to students and parents. One SUC president, while appreciative of standards to maintain quality, conveyed the need to adapt to the changing academic landscape.

“The problem with CHED is that their rules in accreditation and allowing schools to offer new courses are sometimes very rigorous but outdated. I have nothing against that. It is okay to be strict because we don’t want to lower our academic standards, but at the same time, because things have changed already, we need to be agile and innovative.”

Public (SUC) HEI president

Related to the issue of CHED regulations, HEI administrators articulated the developmental aspect of policies, with one LUC president conveying that standards-setting should be accompanied by funding support, especially for HEIs with limited resources.

“As they set standards and regulations, there should be funding as well. What happens if a requirement is a laboratory, but the LGU does not have the money? Yes, we need to set high standards, but the funding requirement is overlooked. Different LGUs have different funding capacities. If funding is given to LGU R and S, it has no impact on them but will have a big effect on LUCs in a 4th class municipality. There should be equity in terms of access to funding. There are LUCs that don’t need much funding from the national government. There are LGUs that have a large excess budget, and they don’t know where to use the budget. There are LGUs that don’t need funding from UniFAST. The government should focus on those who do not have much funds, see who has the most needs, and support them.”

Public (LUC) HEI president

Additionally, short-term policies on online instruction create uncertainties (e.g., possibilities that full face-to-face delivery of instructions will be required by CHED). Private HEI administrators generally agreed with this, conveying that uncertainties limit their capacity to plan for and invest in digital strategies for instruction delivery. The recent regulation on removing the private HEIs’ “no-permit, no-exam” policy is also a cause for concern, with one private HEI president worrying about its potential adverse impacts on cash flows. Given these concerns, private HEI administrators hoped for longer horizons in CHED policies to enhance stability in the private HEI ecosystem, as illustrated by a quote from a private HEI administrator below.

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<sup>14</sup> CHED issued Memorandum No. 40, series of 2008, promulgated a Manual of Regulations for Private Higher Education stipulating the following allocation of tuition fee increases: 70% of the amount shall go to the payment of salaries, wages, allowances, and other benefits of teaching and non-teaching personnel except administrators who are principal stockholders of the institution; at least 20% shall go to the improvement or modernization of buildings, equipment, laboratories, libraries, and other similar facilities and infrastructures and the payment of other costs of operations; and Not more than 10% shall be allocated for return on investment.

“There is a lot of uncertainty because CHED does not have that long-term direction. It goes with the wind. Whatever the political breeze is, they sort of sway with it, and that’s dangerous because educational institutions need stability. Our products take time to develop. We are caught off guard when policies suddenly change, and we need to scramble.”

Private HEI administrator

## ***Political disruptions***

Politics may adversely affect LUCs’ operations and leadership. This is a view generally shared by LUC administrators as they recognized that LUCs are governed by elected local chief executives. For example, one LUC administrator stressed that many LUC presidents are retirees appointed by the local chief executive through a contract of service. As they are not part of the civil service, the executive retains authority and accountability, with the LUC president acting as a figurehead only. Another LUC administrator shared that appointments of LUC leaders can be cut short due to political interventions. These points are reflected in the quote from one LUC president, noting how political conditions can result in changes in LGU leadership and, thus, priorities and level of financial support to LUCs.

“If education is a priority by the mayor, and that mayor loses in the next election, and the LUC president is not a supporter of the incoming mayor, how will the LUC get support from the LGU? The LGU can just claim inadequate budget.”

Public HEI (LUC) president

Despite LUCs’ vulnerabilities to political conditions, LUC administrators observed that some LUCs are more fortunate in funding due to their localities’ favorable political and economic climate. For example, a president of one LUC located near an economic zone shared that their school is viewed by the LGUs as a full partner in community and economic development and is a member of a Chamber of Commerce in the locality. This uneven fortune among LUCs and its effects on their operations is highlighted by a quote from a CSO stakeholder below.

“LUCs are doing well depending on whether the LGU is rich. The problem with other LUCs is bureaucracy and how the slow release of funds affects their operations. Teachers’ salaries are 1-2 months delayed, resulting in teachers looking for better opportunities.”

CSO stakeholder

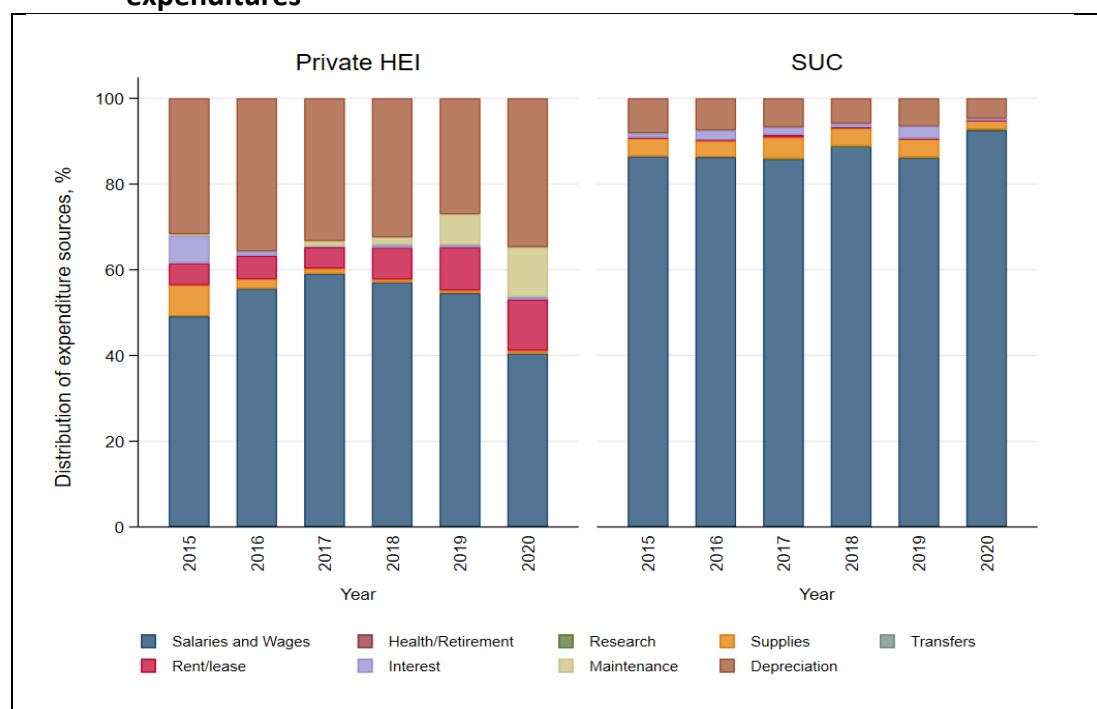
## ***Inflation***

Public and private HEI administrators articulated that delivering quality education while maintaining affordability is a struggle for HEIs, with wages and salaries needing to keep pace with inflation. Salaries and wages have the highest share in the sample HEIs’ total expenditures, between 40-59% for a sample private HEIs and between 86-93% for a sample SUC (Figure 6). Increases in salary/benefits contribute to HEIs’ financial strains, especially since, as articulated by one private HEI administrator, wages/salaries constitute the biggest proportion of HEIs’ expenses.

“The biggest expense item for a school would be salaries. There is depreciation and other expenses, but salaries get a certain percentage of the total revenue. So, we are trying to keep it at a certain level but not sacrificing the per-salary component of each of our faculty.”

Private HEI administrator

**Figure 6: Distribution of selected HEIs' expenditure sources (2015-2020), % of total expenditures**



Sources: Securities and Exchange Commission for private HEIs; Commission on Audit for SUCs.

Post-pandemic inflation imposes additional financial burdens due to the HEIs' growing demand for resources. Public and private HEI administrators also generally agreed that the affordability of tuition fees becomes a pressing concern as inflation also drives up the cost of living. One LUC president observed that senior high school graduates who proceed to college are a small percentage of total graduates because most look for jobs after graduation, an insight echoed by a private HEI president below.

"Besides the market for teachers, it's the student market. Markets A and B can afford private HEIs. However, senior high school graduates in markets C, D, and E seek jobs after graduation to sustain their families. Senior high school graduates who attend college make up less than 50% of the population since the rest are looking for a job after graduation to sustain their families."

Private HEI president

As inflation could result in increasing dropout rates, private HEI administrators shared that they are pressed to offer competitive financial aid packages to attract and retain students, putting additional strains on HEIs' financial health. Aware of their roles in nation-building, some private HEI administrators recognized the limited paying capacity of their students. Thus, they strive to achieve a mix of paying and non-paying students. This is illustrated by the insight of one administrator below, sharing the business model that works for their school, given the financial challenges in Filipino families.

"Volume and scale are particularly important for us. We serve the low-income market, so our model is small margin-high volume. Our students, our clients, cannot afford high tuition fees. So, to be successful financially, we need to keep our margins small to attract as many clients as possible. That way, we will grow."

Private HEI president

## ***Shifts in learners' demand for learning opportunities***

Evolving students' preferences for online learning, flexible study options, and experiential learning opportunities will likely affect HEIs' pedagogical models and marketing strategies. The changing attitudes toward education and work could also influence the demand for programs and perceptions of private HEIs' value propositions, as observed by HEI administrators. This point is supported by a quote from one SUC president below, conveying the dangers of not adapting to the needs of the labor market.

“The workforce is evolving, and people are demanding more flexible options, demanding skills and competencies that evolve with the labor market. We need to adapt to these shifts, or we will have lower enrollments.”

Public HEI (SUC) president

The younger generation's appetite for micro-credentials and short programs may threaten the relevance of more traditional higher education programs. Respondents generally agree to this, with a CSO representative articulating an emerging paradigm shift in the country towards technical vocational education, micro-credentials, and short programs. Thus, the challenge for HEIs is to leverage norms while adapting to the shifting attitudes and preferences of students and the labor market. For example, a funder for private HEI students articulated that the strong diploma culture in Philippine society is an advantage. This insight is supported by a CSO representative, observing that HEIs can formalize short-term programs if the industry desires to do so.

“Industries always have certain minimum education qualifications. I think it's an opportunity more than a threat to HEIs. If industries want to formalize their short-term programs, HEIs are in a good position to capitalize on them because Filipino families and parents would always value a diploma or a university/college attendance.”

CSO representative

## ***HEIs' pursuit of quality education***

While public and private HEI administrators and other stakeholders generally agreed that tuition income from enrollment shapes HEIs' financial sustainability, these respondents recognized that the key to attracting students is providing quality educational products and services. They agreed that doing so enhances the overall academic experience and translates into tangible benefits like HEIs' increased ability to charge higher tuition fees and stable enrollment rates, thus improving financial performance. These insights are supported by a quote from one private HEI administrator, articulating how financial sustainability can be achieved when quality education objectives precede profitability concerns.

“When I started this school, I had the mindset of an entrepreneur. It was driven by profitability, and I invested money to generate more. However, I became an educator, and I believe producing quality graduates will make the school financially sustainable. I saw that everything else would follow.”

Private HEI administrator

The importance of quality educational products and services in financial sustainability is also underscored by another private HEI administrator below, observing that their graduates are the best advertisements for the school.

“To have higher enrollment, we always need to recover those who graduated. We need to add some more to have growth. We need to ensure faculty and student development. We have activities for students that they can talk about. Our students are our best ambassadors for the quality of education that we're able



to deliver. Enrollments can be driven by word-of-mouth. Thus, it's very important for students to have an inclusive and diverse campus environment because these enhance the campus experience. "

Private HEI administrator

Staying competitive is also shared by one SUC administrator below, highlighting key developments, including technological innovations, and sharing insights to

"We need to be prepared to meet the needs of a more diverse population with different educational backgrounds and financial resources. We need to find ways to differentiate ourselves and offer unique programs and experiences that will attract and retain students. We need to stay up to date with the latest trends and innovations to remain competitive and provide the best possible learning experience for our students. Moreover, the HEI must be responsive to the changing market conditions and student demands by investing in its academic programs and infrastructure that drive long-term growth and success. We need to find ways of maintaining the quality of our programs and services."

Public (SUC) HEI administrator

LUCs, on the other hand, have more organic issues related to quality objectives, with LUC administrators generally agreeing on the difficulties of complying with CHED standards due to their governance structure. This is illustrated below by a quote from one LUC president articulating the challenges to their quality-related initiatives.

"LUCs were created before the local government code in 1991, to provide access to tertiary education. So, our purpose was simple. However, with the new guidelines coming from CHED, things have become complicated. There are so many conflicting provisions and policies, so we find it hard. We're not yet autonomous, and we don't have accreditation because funding is a big factor. When we propose to the LGU some initiatives for accreditation or to achieve autonomous status, we are always asked if we have funds for these initiatives."

Public (LUC) HEI president

Despite challenges, HEI administrators recognized that parents are becoming more discerning about HEIs' value propositions, making quality education both an educational imperative and a strategic asset. A CSO representative echoed this when pressed for the link between employability and sustainability, sharing that parents look for good outcomes like employability when choosing schools for their children and observing how these outcomes are also emphasized on some education-related platforms.

"For many stakeholders like parents, for example, particularly in the provinces, they really look at outcomes, right? How soon will my child be able to find a job immediately after graduation? Therefore, when a school can deliver, it will improve its reputation, I guess. And that leads towards that virtuous cycle of good outcomes: good reputation-high enrollment-high revenue. Parents are becoming more discerning. While we don't have a robust labor market information system in the country that provides info on the schools and their performance, there are existing platforms like Edukasyon, for example. They provide insights on how parents should choose schools, and one of the insights is how good HEIs develop students."

CSO representative

### ***HEI leadership and governance***

Leaders must have a vision for the HEIs' future and identify strategic directions, including setting up research initiatives, prioritizing investments, and generating value for society. This insight is shared by public HEI administrators and other respondents. For example, one LUC president shared that she works on demonstrating the social returns of LGU investments, including enhancing employability, training solo parents, and helping locals to be productive. One SUC leader shared that he is turning the SUC's idle lands into an economic zone or eco-tourism to generate revenue and is leveraging technology to upgrade their agricultural

programs. These examples illustrate the importance of competent leadership, which, as shared by a researcher in a government agency below, is critical in achieving financial sustainability.

“Financial sustainability cannot be devoid of good leadership and governance. Sustainability is a strategic commitment driven by leadership, as in all organizations. Without the right leaders, institutions will operate but neglect the long-term performance. I once asked a professor why he became an SUC president. He shared that he was able to secure the funds needed, and he made things happen. People look for leaders who will help the organization.”

Researcher in a government agency

Public HEI administrators and other stakeholders observed the importance of good governance and competent leadership in helping public HEIs harness growth opportunities. Meanwhile, private HEI administrators shared that meeting key performance indicators<sup>15</sup> is imperative to their financial sustainability, and these goals are realized through investments in facilities and equipment. They oversee these investments, ensuring they align with the institution’s strategic direction. Beyond strong marketing and branding strategies and crafting effective student retention initiatives, they recognized the need to hire and retain top-tier talent. This involves deepening the bench of educators, with one private HEI administrator articulating the need for a continuous effort to hire good people. These initiatives are important in delivering promised outcomes, and failure to do so, as shared by a private HEI administrator below, can adversely affect their financial sustainability through lower enrollments.

“We hire good teachers. The inability to deliver what was sold to students will result in lower year-on-year enrollment. We will not be financially sustainable with the decrease in enrollment because we need to support the school’s resources. Failure to do that means losses, potentially resulting in school closure.”

Private HEI administrator

Leadership with integrity fosters a strong commitment to delivering promised outcomes, with HEI administrators articulating that competent managers usher the institution towards a desired future and guide people to deliver valued results. This is demonstrated by one SUC president who steered the school into an approved agri-industrial economic zone and a recognized knowledge innovation science and technology park. Having these recognitions has financial benefits, as conveyed by the quote from one SUC president below.

“We can open the university now to the private sector. They can come in tax-free and enjoy certain benefits from the Philippine Economic Zone Authority. The proceeds of the agri-industrial zone can be used to improve the school facilities and augment funds for salaries, scholarships, and laboratories needed by the university.”

Public (SUC) HEI president

When pressed what it took to make the transformation happen, the SUC president shared that he leveraged his experiences from his previous administrative posts and exercised his corporate leader role specified in the SUC charter. The president, however, shared there are challenges to the project due to initial resistance from the community and stakeholders, but having and communicating a solid plan helped to turn around the community/stakeholders’ sentiments, as articulated in the quote below.

“One challenge in this undertaking was the preparedness of the internal stakeholders. You know, this was new, and there were doubts. But, they realized the contribution of the project to the university and the entire island. They realized that with this project, people will have work and learn new knowledge

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<sup>15</sup> encompass factors such as returning value to stockholders through dividends, maintaining a healthy debt-equity ratio, sustaining a favorable current ratio, optimizing earnings before interest and taxes, increasing revenue per student, achieving year-on-year growth in student enrollment, and ensuring a stable and growing revenue base.



and skills, working together with the locators of the economic zone. We made it clear that a minimum of 30% of employees should be locals. So, they realized that the university is not just doing it for itself. It's also doing it for the province, although my real interest here, really, is to upgrade the academic skills of our students as well as our faculty members. Our students and teachers will learn the standards and technology, and we will have royalties.”

Public (SUC) HEI president

This section examines the factors that HEI leaders and government actors perceive to shape HEIs' financial sustainability. At the national level, HEI administrators and other actors perceived policies and regulations that result in competition between public and private HEIs as factors shaping HEIs' financial sustainability. Relying mainly on enrollments, respondents identified political disruptions that can affect the continuity of programs and inflation that increases operating costs and erodes household incomes as key factors shaping the HEIs' economic resilience, growth prospects, and long-term viability. At the HEI level, respondents agreed that good leadership and governance are key to crafting and executing strategic directions in investments and collaboration initiatives. In turn, these initiatives will support institutional development, allowing HEIs to achieve key performance indicators and produce outcomes aligned with the institution's mandate and mission/vision.

#### **5.4. HEI Financing Strategies**

**RQ4: WHAT STRATEGIES DO SAMPLED HEIs UNDERTAKE TO PROMOTE THEIR FINANCIAL SUSTAINABILITY?**

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*This research question investigated the different strategies used by sampled HEIs to promote and improve their financial sustainability. Respondents highlighted approaches and challenges in reducing costs and increasing revenues and discussed these in the context of navigating financial sustainability while producing outcomes valued by the Philippine society.*

#### **Establishing financial planning and monitoring systems**

Public and private HEIs establish planning and monitoring systems to ensure fiscal discipline and accountability. These HEIs conduct financial forecasting, modeling, and scenario analysis to craft comprehensive plans on strategic imperatives related to costs and resources. Projections are important, with HEI administrators enumerating key metrics like enrollment, revenue sources, operational expenses, capital investment, debt management, and external economic factors. Private HEI administrators shared that they have a 4- or 5-year forecasting cycle, and they start with a budget workshop to look into the actual and forecasted expenses. This is a common practice, as shown by a quote from a private HEI administrator below, giving insights into how financial planning is implemented in their school.

“The cycle of education is four years because that's one cohort. However, our financial calculations go beyond ten years because that will tell us how the salary and revenue will increase and how many faculty members and students to recruit. Based on the current trends, we can perform forecasting. If we see revenue and the cost intersecting, we have a problem. We need to ensure that revenue is above the cost. When we talk of the students, we also do the regression to project the attrition rate and how many of them will continue for the next 4 or 10 years. It's good that we have something like that in place, a financial forecasting model we update regularly.”

Private HEI administrator

Public and private HEI administrators highlighted the use of various forecasting and modeling strategies to project costs and revenue trends, paying close attention to key items like

enrollments and capital expenditures. These planning and forecasting exercises are complemented by regular monitoring, with HEI administrators sharing they conduct regular expenditure and revenue reviews to ensure alignment with budgetary expectations. Any discrepancies are analyzed to guide better administrative actions, as conveyed by HEI administrators below.

“We regularly monitor and review factors like the budget, utilization rates, allocation of funds, prioritization of programs, projects and activities, and procurement to ensure everything is in order. These help the management to make informed decisions and adjustments.”

Public HEI (LUC) administrator

“We have people who review our financial statements to monitor whether the actual cost exceeds the budget. We analyze the variances to ensure that we achieve the profitability target. Profitability is important since it sustains our operation, and we don’t borrow funds.”

Private HEI administrator

Public and private HEIs set clear budgetary targets and benchmarks monitored throughout the fiscal year, conduct regular monitoring, and establish reporting mechanisms to track budget compliance and identify variances. However, the key to the success of these initiatives is the guidance from HEI leaders. This point is illustrated by a private HEI administrator, articulating that effective directions can come from inquisitive leaders.

“Every year, we have this strategic planning session and gather all the managers. There will be focus group discussions. But going into that place, we already have activities. There’s guidance. There’s a tone from the top-down, but we follow a top-down, bottom-up approach. At the management level, we have our budget sessions to consolidate all the department budgets. This will be approved by the board, and that is the end line of what we can spend next year. During our board meetings every month, there’s a report to the president. Our board meetings are very dynamic and very energetic. Our leaders ask good questions, and we must be on our toes all the time.”

Private HEI administrator

Despite the financial planning and monitoring systems in place, some challenges inherent to the financing and governance structure of public HEIs were shared by a researcher in the government and SUC administrators. One SUC leader noted that while SUCs undergo the rigorous budget preparation process and endorsements by several national government agencies, politicians determine their budget in the end.

“We go through a rigorous program to determine our budget, including consultations with various agencies. It’s a very good process. But at the end of the day, even if our programs are endorsed by all these government agencies, what the government ultimately approves are budgets set by politicians and not by experts.”

Public HEI (SUC) president

In addition, public HEI administrators shared that government procurement rules result in inefficiencies and delays in project implementation. They shared that they need to follow the published prices on the DBM website when procuring supplies, which are often lower than market prices for certain supply items in their region. Thus, suppliers do not bid for these items, which results in procurement delays. These affect their budget utilization rates, often leading to future budget cuts, as supported by a quote from an SUC administrator below.

“Another hindrance is the utilization of government funds. The national government will not give us enough funding if our utilization declines. If there’s a delay in the procurement of some projects, our budget utilization rate will decrease, and we will have a budget cut in the next period.”

Public HEI (SUC) administrator

## ***Pursuing resource optimization and green initiatives***

Resource management is key to cost reduction. This point is observed by HEI administrators, although some shared that most institutions have budgets for building construction but none for maintenance. These administrators noted that the latter's absence will have costs but will benefit schools in the long run by prolonging the use of equipment and infrastructures and preventing costly downtime in operations. This point is highlighted by a quote from a public HEI administrator, underscoring the importance of a system for scheduled maintenance.

“It costs so much without preventive maintenance. Without maintenance, we cannot prolong the use of equipment and facilities. So, we have a system that tells us when maintenance is needed.”

Public HEI (LUC) president

While some public and private HEIs optimize resources by allocating funds for retrofitting and maintenance, some HEI administrators observed that the preventive maintenance mindset is not yet mainstream in the Philippines. This point is illustrated by a quote from a private HEI administrator describing the costs without deliberate initiatives to make preventive maintenance a culture.

“We are quite bad at maintenance in the Philippines, especially in the public facilities. They have a budget for buildings but none for maintenance. In some sense, HEIs are also guilty of that. We have the budget for maintenance, but we still have the mindset that we don't replace a light bulb until it is broken. I think we need to go into a more preventive maintenance mindset through scheduled maintenance, whether broken or not, because it costs more to replace a single light bulb than to replace 100 light bulbs at a scheduled time. Oftentimes, we think only of the material cost. What about the labor cost? What about the cost of solving the problem? Because sometimes, the problem needs to be solved by a group of people. It seems to cost more, but actually, in the long run, it may not. It will improve the experience of our clientele and our stakeholders. That's very important.”

Private HEI administrator

Recognizing that inflation and rising electricity costs erode the HEIs' financial resources, public and private HEI administrators shared they implement initiatives on reducing energy consumption (i.e., incentivizing personnel to be more prudent in using these inputs), minimizing waste, and adopting environmentally sustainable practices (i.e., installing solar panels on lampposts and building green buildings). Anticipating the adoption of digital technologies to instruction delivery, a private HEI president highlighted the importance of foresight and planning in going green below.

“We're already implementing blended learning mode this school year, so our utilities will increase by 40% to 45%. So now, what will we do about that? We're going solar. This is a capital expenditure, but we've been saving for this. Besides, we're not going to go full blast. We will install solar panels only in buildings that are intensively used.”

Private HEI president

## ***Enhancing trust through transparency and accountability***

Promoting transparency and accountability is important in achieving financial sustainability. SUC leaders generally agreed to this and underscored that these play essential roles in promoting good governance and enhancing public trust and confidence. To successfully implement big projects, SUC administrators believed they needed to promote transparency and shared governance to ensure the committed involvement of internal and external stakeholders. The basis of these beliefs is aptly summarized by the articulation of one SUC president below.

“At the end of the day, relationships and economic transactions are based on integrity, truth, and transparency. If we eliminate these, we lose credibility, and all transactions will be closed.”

Public HEI (SUC) president

To enhance transparency, public HEI administrators shared that they post their financial reports on their websites’ Transparency Seal, allowing public scrutiny of the use of taxpayers’ money. Disclosures are important for partners and donors, with one CSO representative articulating the role of accurate disclosures in facilitating the awarding and releasing of grants.

“Disclosures entail bigger responsibility and better financial management. These are things that many partners look for when providing grants. Particularly for private sector funding opportunities, they are super strict when downloading funds. They investigate financial capacity, absorptive capacity, and financial management. Transparency allows for easier access to this information.”

CSO representative

While public HEIs aim for transparency and accountability in the use of public funds, private HEI administrators expressed the importance of transparency to protect their reputation and enhance the trust of students and, eventually, their financial sustainability, as illustrated by a quote from a private HEI administrator below.

“Students will attend our university if they think they get their money’s worth. We must disclose where their money goes. If we’re not transparent, if students think they are being shortchanged, the student population will decrease. We cannot sustain our operations when our population is going down.”

Private HEI administrator

In addition, another private HEI administrator recognized tangible and intangible losses due to dishonesty. In the quote below, the administrator articulated the adverse repercussions of hiding something for short-term gain, highlighting the importance of following rules and adjusting within the boundaries allowed by these rules.

“You’re asking if transparency correlates with financial sustainability? Yes, it does. If we hide something, we lie about something to make it appear to be something else, and maybe we will gain in the short term. But everything unravels in the end. It’s very dangerous and it affects our reputation because it’s hard to bounce back once we lose our reputation. In our school, we always say reputation is very important. And then, of course, there are rules or policies that we must follow, but we should have the ability to accommodate and adjust.”

Private HEI administrator

### ***Expanding market share through campus and program expansion***

Some private HEI administrators noted that young families move to suburban areas where spaces are big and real estate is more affordable. They also noted the aggressive marketing and the shift of big private HEIs to a co-educational system. Noting these developments, these private HEIs installed branches in suburban communities and secured lands at lower costs by striking deals with community developers. As shared by a private HEI administrator, by setting up campuses in these developments where the demand for higher education is rising, they tap into underserved markets, attracting students who may otherwise be unable to access quality higher education.

“We realized that we cannot compete with school X. The best way to get a share is to move where the young population, young couples are going.”

Private HEI president

Other than taking advantage of mutually beneficial deals with community developers and harnessing opportunities in emerging markets, some private HEI administrators offer senior high school programs to expand their market shares. These administrators shared that a smooth transition from senior high school to college programs is vital for attracting and retaining students. In addition, private HEI administrators generally agreed that this alignment enhances the institution's reputation for producing job-ready graduates. These points are illustrated by a quote from a private administrator of one HEI offering services related to job placement and career development and programs for school-to-work transitions.

"Depending on the market assessment, we match the programs with job opportunities in the area. When we started the school, the tagline was 'We will teach you.' Then, it became 'We will hire you.' Our enrollment-to-employment program makes us relevant to the local community."

Private HEI president

### ***Strengthening linkages with partners to reduce costs and improve programs***

Partnerships are helping to defray costs, as shared by HEI administrators, including scholarships, trainer's honoraria, facilities, and equipment. Partnerships are critical when offering programs requiring facilities, as highlighted by a quote from a private HEI-TVI administrator below.

"If we want a laboratory which we cannot afford at the moment, we have to tie up with the industry. Right now, we are considering a program in criminology that needs facilities like a swimming pool and firing range. We need to establish a partnership for cost management, or else we'll go bankrupt."

Private HEI-TVI administrator

Other than harnessing cost-sharing initiatives, public and private HEI administrators forge partnerships with international and local partners to improve the quality of educational products and services they offer. For international partnerships, one private HEI administrator tapped into a consulting group to globalize its business and health programs and shared that they benefited from improved content delivery and better marketing strategies. Below, a quote from a private HEI-TVI administrator described the benefits brought about by tapping foreign partnerships.

"To financially sustain our programs, we need to improve them. Right now, we have a partnership with Company T in China. We are collaborating with their program on railway engineering technology. The program is already in its first year of implementation. Company T provided us with some funds to improve our facilities, and our students will also have the chance to have on-the-job training in the company."

Private HEI-TVI administrator

Partnerships with local industries are beneficial. One LUC leader collaborated with the industries in the nearby special economic zone to prepare its curricula and implement various research undertakings, allowing faculty members to learn from the technology and standards of their industry partners. Meanwhile, a CSO representative shared that partnerships with private companies are beneficial since they immediately respond to the labor market needs by helping develop the curriculum and providing training and equipment.

"Private companies move really quickly, so partnerships could really be done and put in place early. In a year's time, they can develop programs. I would imagine it can impact financial sustainability because, depending on the partnerships, many private companies put in resources to schools. They help co-develop curriculum and provide equipment and training. That might not be a big chunk of money, but it kind of helps augment some of the financial costs."

CSO representative

Partnerships with other HEIs have benefits as well. One LUC president expressed high hopes for their collaboration with a nearby SUC in implementing a pathway system, one that allows students to earn units from the LUC's certificate programs that the SUC will credit if students eventually decide to pursue college degrees.

"We cannot open expensive programs for the long term. Sometimes, politicians have a wish list because there is more demand for nursing, for example. But that's a very expensive course that we will not be able to sustain later because it demands equipment and facilities. Those are the programs that we don't see ourselves sustaining. So, what we do right now is we are working in a pathway program to the State University. So, we can provide students with certificates and diplomas, the micro-credentials that one can stack and can be credited by the SUC. The pathway system helps ensure the financial sustainability of a community college like ours. Imagine we are not pressured to open expensive programs. What is happening right now? Some local colleges offer programs requested by their host LGUs, but what happens to the quality?"

Public HEI (LUC) president

However, there are challenges to successful partnerships. The same LUC leader emphasized the importance of enhancing partners' trust through quality educational products and services.

"If the president of the partner state university trusts you as a community college, they might say yes to your proposed pathway system. But if they don't know the leader, and they don't trust the LUCs' curriculum, then there will be no partnership."

Public HEI (LUC) president

### ***Adoption of digitalization strategies***

Offering courses online can reach a broader audience without the need for extensive physical facilities and reduce operational costs. As recognized by public and private HEI administrators, this approach aligns with CHED's policy to offer courses in hybrid mode and increases revenue potential by accommodating more students in existing degree programs. This is supported by one SUC president below, articulating the importance of integrating technological innovations in the higher education sector.

"We always think about technological disruptions. Technological advancement and digital transformation are changing the higher education landscape. To remain competitive, HEIs need to invest in digital infrastructure, particularly online learning platforms and other technology-related initiatives. Failure to adapt to technological changes may affect the institution's financial capability."

Public HEI (SUC) president

Scaling up enrollment and tuition fee collection is crucial to financial sustainability, and private HEI administrators emphasized that high enrollments will not translate to revenues due to inefficient collection of fees. Thus, they implement installment payment schemes and establish partnerships with financial institutions to offer convenient payment options to bridge student financing. Some private schools are shifting to online payment systems for efficient tuition fee collection.

"Technology and innovation simplified the burden on the administrative side, especially in the administrative part of the enrollment system. This benefited our employees since everything is automated. This benefited our clients as well because everything is simplified."

Private HEI administrator

HEI administrators generally recognized the importance of digitization in saving time and money. However, some public HEI administrators shared that they encountered challenges in digitizing their systems. The financial strains of digitization initiatives have become



increasingly evident in light of the post-pandemic shift to online mode of instruction, with one SUC administrator sharing that their school does not have enough funds to subscribe to larger e-learning platforms given their small budget for maintenance and other operating expenses. A quote from a CSO representative supported the preceding articulation, highlighting how some HEIs may find digitization a challenge.

“I think we’re never going back to the way we were pre-pandemic. We learned that from our FGDs with about 100 HEI administrators and presidents. Therefore, it’s kind of like an adapt-or-die sort of thing. So, a key issue would be how they will adapt without straining their financial capacity. If their wallets are already tied to begin with, that’s going to put them at a disadvantage.”

CSO representative

Issues like weak internet connectivity, the inadequate pool of technical support, inadequate facilities and equipment, and a limited budget for faculty communication allowance are also highlighted by HEI administrators. These challenges are articulated by a CSO representative below, recognizing that digitization initiatives have nuances related to HEIs’ available budget and geographical location.

“Regarding digitization, our discourse with HEIs showed the need to improve digital infrastructure to make sure they cater to students. This really put a strain on their resources. Schools with more money to spend can easily upgrade. For those who don’t have much money, it’s harder for them. The location also played a big role because, in areas where you have bad connectivity and inadequate infrastructure and technical people, you need to do more to upgrade. In urban areas, HEIs do not have to spend as much.”

CSO representative

This section examined the strategies implemented by the HEIs under study to manage, promote, and enhance their financial sustainability. HEI administrators identified strategies that can be grouped into two categories: 1) cost and resource management, like fiscal prudence and green initiatives, and 2) increasing market shares, like promoting transparency and accountability, forging industry linkages, expanding programs and campuses, and digital technology adoption. HEI administrators recognized that by diversifying revenue streams, minimizing costs, and optimizing resources, they position themselves for long-term financial stability in an evolving educational landscape. They also recognized that by aligning educational programs and services with industry needs and fostering collaboration, their schools become key contributors to workforce development and economic growth, ultimately securing their financial future.

## **5.5. HEI Risk Management Strategies**

RQ5: WHAT RISK MANAGEMENT STRATEGIES, IF ANY, DO HEI STAKEHOLDERS UNDERTAKE FOR NAVIGATING UNEXPECTED SHOCKS (E.G., COVID-19)?

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*This research question examined the strategies of HEI leaders to manage shocks and mitigate their adverse effects. Respondents emphasized the role of various plans, highlighted the benefits and challenges of establishing such plans, and shared learnings from their pandemic experiences to anticipate, manage, and mitigate the adverse effects of shocks.*

### **Developing institutional resilience and adaptability**

Public and private HEI administrators shared that they have business continuity plans to enhance their agility and mitigate the adverse effects of shocks. These plans identify their current resources and outline the resources needed to prepare them for shocks, including initiatives to upskill people and investments aligned with technological developments and

innovation. It is important to have competent people who will continue existing programs and develop new initiatives, and this is articulated by a quote from one private HEI administrator conveying the importance of succession planning.

“So that’s one of the factors, the scenario that there is nobody who will follow in their footsteps because everybody ages and retires. If there’s no one trained, our financial sustainability can be compromised. So far, we’re still quite okay in that aspect, but it’s a continuous process. Succession planning is part of our risk assessments and risk management strategies.”

Private HEI administrator

Recognizing the importance of business plans, administrators of LUCs, without many capabilities to develop one shared they strategically harness resources from other HEIs and private companies within their LGUs. This point is illustrated by one LGU official, sharing they tap external capabilities to overcome their lack of human resources.

“Having said that, our school is fortunate in the sense that it’s not leveraging just the LGU employees. It’s leveraging the city/provincial government to the extent that the locality has enough people to help the school think through things. In that sense, we do have the capacity to implement a lot of strategies. We partner with School Y to come up with our business plans of the LUC. So, we had to leverage them because we couldn’t hire them all. So, in that sense, we are leveraging external capabilities. I say it that way because we do not have enough capability.”

LGU official

The pandemic has taught HEI administrators the importance of investing in human capital and infrastructure, with one private HEI administrator articulating the adverse effects on their enrollment if risks affecting their promise of quality education are not managed.

“There are risks in navigating the new environment because we don’t know if two years from now, what we’re doing will still be relevant. Part of the risk management strategy is managing what is emerging and agility to adapt to the changing environment. We promise quality education and a superior student experience. Anything that impinges on those promises is a risk that we must manage, including addressing learning deficiencies, improving the quality of inputs like teachers and facilities, and addressing inadequate facilities. We are tuition-dependent, and these risks need to be managed, or we will ultimately experience a decline in student population.”

Private HEI administrator

There are big private HEIs whose online learning infrastructures were in place before the pandemic. Administrators of these HEIs shared they adjusted well to the needs of new instructional methods and modalities when the pandemic happened because they had programs that supported teachers’ training, graduate studies, and the capacity-building of administrative personnel to improve financial processes and ensure efficient spending. This emphasized the importance of leaders with foresight and planning.

“In 2016, we were already using the learning management platform. Our teachers thought that this was additional work because they were used to the traditional way of doing things. But we pushed this platform through training. So, we were prepared to shift to online learning when the pandemic happened. Our leaders were not afraid to try new technologies, even if they were quite expensive. Our leaders have foresight, not necessarily to anticipate risks of pandemic proportion but to improve the delivery of instruction.”

Private HEI administrator

In addition, some private HEI administrators articulated that well-established communication protocols (i.e., email blasts, messages in messenger apps from a designated sender) ensure that information is disseminated swiftly and accurately to all stakeholders, including students, faculty, staff, and parents. These private HEIs conduct regular training sessions and simulations



to ensure that faculty, staff, and administrators are well-equipped to respond effectively during disasters. Meanwhile, some public HEI administrators shared that they created committees and established mechanisms to prepare for and manage the adverse impacts of the pandemic and natural disasters.

“We develop this robust emergency preparedness to address various risks, including the pandemic and natural disasters. We have a local task force trained to facilitate evacuation. We have financial contingencies, including the analysis of resources needed for a digital transformation. This will enhance our resilience against risks.”

Public HEI (SUC) president

### ***Establishing adequate financial reserves***

Some public and private HEI administrators articulated that maintaining cash reserves was a risk management strategy they used before the pandemic, allocating a portion of their budgets to build and maintain financial reserves. Private HEI administrators shared that, following the CHED’s 70-20-10 rule, 10% of the increases in tuition fees can be allocated to their reserve and/or endowment fund. Meanwhile, public HEI reserves come from their generated income, with one administrator articulating an internal policy that 10% of their income goes to reserves.

“I will say that when it comes to financial sustainability, it is important to have adequate reserves to address unforeseen financial challenges and cash flow fluctuations, especially regarding what we experienced during the pandemic. It involves maintaining a balanced cash flow and managing debt obligations. But when it comes to government funding, our primary objective is to disperse the funds so that our budget utilization rate will be close to 100%. Reserves don’t come from the government subsidy but from our generated income. The mandatory reserve that we implemented is an internal policy of the university, that is 10% of our income.

Public HEI (SUC) president

HEIs leaders are developing institutional resilience and adaptability by setting up emergency funds and preparedness programs against natural disasters, establishing communication protocols, conducting training and simulations, and upskilling personnel. They also maintain cash reserves to cover unplanned costs.

## **6. Conclusion and recommendations**

HEIs and the quality of educational products and services they deliver play a critical role in supporting international development goals and Filipinos’ national aspirations. However, achieving quality higher education has benefits and costs, making HEIs’ financial sustainability as an important means to an end. This study adds to the scant literature on financial sustainability in the country, forwarding the key insight that HEI’s financial sustainability is an educational asset and strategic imperative. National and HEI-level policies to ensure that HEIs can fulfill educational objectives, deliver valued outcomes, support societal advancement, and add tangible value to stakeholders will also secure HEIs financial health.

At the national level, crafting comprehensive plans outlining the government’s vision and commitment to achieve these and implementing policies that foster complementarity between public and private HEIs will provide stability to the higher education sector. At the HEI level, HEIs need to build resilience, innovate, and leverage existing resources to enhance the quality of their products and services. HEIs also need to develop a culture of long-term visioning to identify future opportunities and craft strategic initiatives.

## 6.1. Recommendations for the national government

*Develop and implement long-term policies and plans for tertiary education to provide direction and stability.*

Some regulations are short-term and entail high compliance costs that limit institutional flexibility and innovation. Private HEI administrators shared that short-term policies on online instruction create uncertainties, limiting the private HEIs' capacity to plan and invest in long-term strategies for educational delivery. In addition, crafting a minimum program curriculum takes years to complete, limiting the HEIs' ability to address labor market demands. Thus, there is a need for CHED, the regulatory body for the higher education sector, to formulate a comprehensive plan for the HEI ecosystem, one that is aligned with the country's vision as articulated in the national blueprints and roadmaps and support schools in developing their human resources and physical infrastructures accordingly. The comprehensive plan should outline the government's commitment to the development of both public and private HEIs and articulate the role of the government in fostering complementarity between public and private HEIs. A comprehensive plan will guide HEIs' product and service development and inform planning, projection, and monitoring cycles. This provides certainties, especially to private HEIs that need stability in cash flows to finance operations.

*Provide student-centric (rather than HEI-centric) scholarships and subsidies to address the competition for students between public and private HEIs*

While competition improves the quality of educational products and services, some policies embedded in the Universal Access for Quality Tertiary Education Act, like the free tuition fees in SUCs and LUCs, have unintentionally favored public HEIs. This resulted in competition as public and private HEIs vie for the same students. Private HEIs rely heavily on enrollment, and administrators expressed the importance of policies that enhance the complementarity of HEIs in terms of students, including policies subsidizing only the students who need financial assistance and policies that tie subsidies to deserving students and not the HEIs. Thus, instead of free tuition in public HEIs, the government can consider implementing a voucher system, similar to the senior high school voucher program, that gives qualified students a voucher and allows them to choose their schools and programs. Another option is to implement a socialized tuition fee in public HEIs and continue the tertiary education subsidy for private HEI students. The tertiary education subsidy is another program in the UAQTEA that provides tuition fees and living allowance subsidies based on a prioritization scheme. These options can address the competition between public and private HEIs and enhance their complementarity, eliminating private HEIs' perceptions of policy bias in favor of public HEIs. These also allow the more efficient use of public funds since only those needing support will receive assistance (compared to the free tuition granted to all enrolled in public HEIs regardless of income status). However, for any of these options to work effectively, it is imperative to provide comprehensive information on schools and programs to aid students and parents in making informed choices. Establishing monitoring and audit systems is also important to ensure that the money goes to the intended beneficiaries.

*Enact a law on LUC operations and governance to mitigate political disruptions.*

The lack of legal entity and fiscal autonomy for LUCs limits their capacity to engage in long-term development planning and leaves them vulnerable to political partisanship. They have no budget, finance, accounting, or human resource management offices. These have implications

for the LUCs' management of human resources, mainly relying on the available permanent positions in the LGU. These also have implications for LUC's financial sustainability since their funds may be subject to available LGU budgets, and their lack of separate tax identification number constrains the strategies they can pursue related to revenue diversification (i.e., putting up a foundation, pursuing endowments) and cash flow management. In addition, local elections frequently bring instability to the LUCs' governance. A change in LGU leadership, which can have different priorities, can have major implications for financial support.

Currently, no national law governs LUCs, but Bills (including House Bill 6630, Senate Bills 2009, 370, 142, 1488, 325, 509, and 2246) are filed in Congress to provide uniform guidelines for their establishment and operation. Laws can prescribe the composition of the LUC governing board, define their powers and authorities, and provide clear and uniform guidelines on LUCs' funding, financial management, administration, organizational structure, and staffing pattern. Thus, enacting a national law can provide operational stability to LUCs and enhance their financial sustainability as well.

*Explore the establishment of more regional university systems to promote greater efficiency in SUCs' resource use.*

SUC administrators recognize that while the government prioritizes education, SUCs might not obtain their requested funds in the future. Thus, SUCs work on generating income, although most have yet to harness their land grants and other resources. It is worthwhile to consider the consolidation of public HEIs, which can result in simplified governance and efficiency in resource use. There are several regional university systems (RUS) initiatives in the country, including one each in Cordillera and Northern Mindanao. If correctly implemented, RUS can improve resource utilization and enhance the quality of products and services. Thus, it is important to learn from the experiences of existing RUS and build on these based on the specific needs of the community and the existing SUCs' structures in the region.

*Harmonize the requirements on the full tax deductibility of donations in private and public HEIs.*

Given its potential to tame HEIs' overreliance on enrollments and tuition fees, the government can consider harmonizing the guidelines for granting donors full deductibility of their contributions. For private HEI donations, full deductibility applies when private HEIs are accredited by the Philippine Council for Non-Government Organization Certification based on six areas. At present, only 55 private HEIs are fully accredited, highlighting the importance of quality in governance (relevant areas are organizational purpose, governance, administration, and financial management/sustainability) and quality assurance (relevant areas are program/operations management, collaboration/linkages). Such rules do not apply to donations to public HEIs if donations are earmarked for projects specified in National Priority Plans. However, the National Priority Plans are issued annually and may not have specific plans for the higher education sector.

*Build HEI resilience through support for digitization of processes and systems.*

Public HEIs risk future budget cuts due to procurement rules and regulations. A streamlined and digitized financial and administrative system will lead to faster data processing. As private HEIs scale up enrollment, efficient tuition fee collection becomes crucial to stay liquid. Thus,

digitization can enhance efficiency in tuition fee collection, streamline operations, reduce administrative overheads, and optimize resource allocation. By leveraging technology and innovation, HEIs can significantly enhance their capacity to accommodate more students without requiring extensive infrastructure investments. However, digitization requires investments in online learning systems and workforce capacity-building. Thus, the government can explore providing more support for the digitization of HEIs, especially for those in less developed areas and with limited resources.

## 6.2. Recommendations for HEIs

*Leverage the government's transnationalization initiatives to enhance the quality of program offerings and attract students, partners, and donors.*

Stakeholders in the ecosystem articulated the importance of quality educational products and services in shaping HEIs' financial sustainability, citing that parents consider good labor market outcomes, affordability, and financial aid opportunities when choosing educational institutions. The 2019 Transnational Higher Education Act (RA 11448) aims to encourage, promote, and accelerate the establishment of transnational higher education programs and the internationalization of higher education in the country. The said law allows the establishment of various modes of THE programs and initiatives that provide HEIs opportunities to expand their academic and extension programs, improve research collaborations with foreign HEIs, and gain bigger exposure to international standards. These will help HEIs to improve their courses and programs and content delivery, attracting more students, donors, and partners. However, fully harnessing transnational higher education initiatives requires a certain level of quality. Foreign HEIs are discerning and will likely collaborate only with reputable schools. Thus, HEIs need to continuously demonstrate their commitment to excellence, enhancing their reputation and branding, which can translate to more local and international partners, donors, and funding opportunities.

*Develop a culture of foresight and future thinking to navigate all types of uncertainties.*

Planning is key to the HEIs' ability to respond to the needs of a constantly evolving HEI landscape, allowing them to stay relevant to the local and global community. The sampled HEIs are already conducting strategic planning, frequently aided by traditional models that make linear forecasts based on current trends. However, HEIs noted the students' evolving preferences for online learning and the labor market's increasing acceptance of micro-credentials and short programs. In addition, the speed at which technology, innovation, and other developments are unfolding calls for systematic approaches with multiple stakeholders exploring the future and how these can be addressed by the current state of the world.

Foresight is a systematic, intelligence-gathering, and medium- to long-term vision-building process to identify future opportunities and challenges (Bakule et al., 2016). Meanwhile, future thinking is a "systematic approach to thinking about the future and exploring factors that could give rise to possible and probable future characteristics, events, and behaviors" (Government Office for Science, 2021). These approaches provide HEIs with proactive mindsets in tackling challenges and harnessing opportunities to achieve desired outcomes in complex environments. Technological disruptions are examples of developments that underscore vulnerabilities and the need for resilience, which are best addressed by foresight and proactive measures. HEIs that leveraged technologies and online learning systems years before the pandemic easily shifted to full-blown online delivery of instructions during the pandemic.

*Explore pathway systems to enhance the complementarity of program and course offerings in public HEIs.*

HEIs need to expand their programs to reach more students and solidify their client base. However, offering new programs has costs since these require infrastructure such as laboratory/equipment and human resources. One LUC leader articulated that one area that can allow them to focus on programs they can sustain is to consider partnering with SUCs. One such partnership is a pathway system that credits the certificate programs offered by LUCs into SUCs when students decide to pursue a college education in the future. The system ensures that similar subjects are no longer repeated, making tertiary education less costly and more accessible to the community and helping LUCs reduce sustainability risks in their course offerings. Establishing pathway systems relies on the strength and continuity of partnerships and trust between HEI leaders, highlighting the importance of achieving stability in LUCs' governance and operations and promoting trust through enhanced transparency and accountability.

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## ANNEXES

### ANNEX I: FULL DESCRIPTION OF EVALUATION METHODS AND LIMITATIONS

#### Selection of respondents to key informant interviews

To differentiate HEIs with respect to their capabilities and roles in nation-building, CHED adopts a horizontal typology. The typology includes colleges, universities, and professional institutes. Colleges produce generalists with skills that serve the needs of local communities. Universities produce specialists with competencies for research and development and innovations. Professional institutes develop students as competent professionals (typically in business, law, and medicine). Professional institutes, mostly private, account for a very small proportion of the total HEIs in the country (23 or around 0.97% in 2022). Therefore, professional institutes will not be included in the sample since findings involving them may not be generalizable to the majority of HEIs.

HEIs can be either public or private. Public HEIs are categorized based on their funding sources: SUCs (nationally funded) or LUCs (locally funded). While private HEIs are either universities or colleges, a vertical typology in private HEIs is a more meaningful categorization for research. A vertical typology based on the CHED Memorandum Order No. 52 in 2006 includes autonomous/deregulated or regulated status. These statuses have benefits that can enhance private HEIs' financial sustainability. In addition, some private HEIs are accredited by TESDA to offer technical-vocational courses. These HEIs are referred to as HEI-TVIs.

To finalize the sample, the full list of HEIs (2498 entries) was obtained from CHED. Data cleaning was implemented to ensure that findings and recommendations were not skewed in favor of certain types of HEIs, which may not necessarily be representative of the majority. To arrive at the final list of HEIs, the following data cleaning was implemented:

- Professional HEIs (medical, business, and law schools), special HEIs (Philippine Military Academy, Philippine National Police Academy, National Defense College, Philippine Public Safety College, Development Academy of the Philippines, Dr. Jose Fabella Memorial Hospital School of Midwifery), CHED-supervised institutions (trade schools, agricultural schools), LUCs with application on the process, and other government schools were dropped from the list. Professional HEIs account for a very small percentage of the total HEIs (around 0.97%), and findings obtained involving these samples may not be generalizable to other HEIs. The other categories were dropped since these HEIs are covered by special rules/policies that do not apply to most HEIs.
- Satellite campuses were also dropped from the list, trimming the sample to 1507 (comprised of 1207 colleges, 190 universities, and 110 colleges offering technical-vocational courses). Focusing on main campuses will be sufficient since management/governance strategies in satellite branches are more or less the same as those implemented in main campuses.
- The list was limited to regions with at least 5% of the total number of HEIs. These included the national capital region, CALABARZON, Central Luzon, Bicol Region, Central Visayas, and Bangsamoro Autonomous Region in Muslim Mindanao, bringing the sampling frame to 897. HEIs in these five regions (out of 17) already account for around 60% of the total HEIs. Regions in the three major islands, Luzon (national capital region, CALABARZON, Central Luzon, Bicol Region), Visayas (Central

Visayas), and Mindanao (Bangsamoro Autonomous Region in Muslim Mindanao) are represented. These should be adequate to cover differences arising from geographical locations. Including those with low HEI presence may not add substantial value to the research.

- Enrollment data ranges from 3 to 38263. Thus, those at first (with 3-83 enrollees) and fifth quintiles (1824-38263) of the enrollment data were removed. HEIs mostly rely on enrollments and tuition fees for revenue streams. Including these outliers can skew the findings towards the less (or more) financially sustainable HEIs.

The team applied a two-stage selection strategy to the final list. The first stage used the stratification variable with five mutually exclusive categories: LUCs, SUCs, regulated private HEI, autonomous/deregulated private HEI, and private HEI-TVI). Using the sample command in Stata, 20 HEIs were drawn from each stratum. The second stage was purposive sampling, with the team initially contacting ten from each stratum and choosing from the list replacements for HEIs with no or negative responses. There were 18 HEIs (9 private and 9 public) that participated in online interviews and 11 stakeholders, including individual researchers and representatives from the government and civil society organizations (CSOs) (see Table 1A for breakdown).

**Table 1A: Key informant interviews respondents**

Categories	Number of interviews	Number of Participants	Positions
Private HEI	8	9	1 – HEI President/Association President 2 – President 2 – Vice President/Head for Finance 1 – Controller of Planning and Controllershship 1 – Senior Vice President of Administration 1 – Provost and Vice President for Academics 1 – Chief Finance Officer
Private HEI offering TVET courses	1	2	1 – College President/Association President/Regional Association Vice President 1 – Association Chairperson
Public HEI, LUCs	3	3	1 – OIC, College President 2 – College President
Public HEI, SUCs	6	11	2 – President 2 – Director for Planning 1 – Chief of Finance 1 – Vice President for Administration and Finance 1 – Accountant 1 – Director of Financial and Management Services/Budget Officer 1 – Assistant Superintendent for Administration and Finance 1 – Chief of Accounting Office 1 – College Dean

Categories	Number of interviews	Number of Participants	Positions
<b>Total (HEI)</b>	<b>18</b>	<b>25</b>	
Civil Society Organization	4	4	1 – Senior Fellow 1 – Director 2 – Executive Director
Government Stakeholders	2	2	1 – Division Chief 1 – City Administrator
Other Stakeholders*	3	5	1 – Head of Business to Consumer 1 – Chief Strategy Officer 1 – Country Chief 1 – Chief Finance Officer 1 – Association President
Individual Researchers	2	2	1 – Head of Social Sector 1 – Professor
<b>Total (non-HEI)</b>	<b>11</b>	<b>13</b>	
<b>Total respondents</b>	<b>29</b>	<b>38</b>	

Note: Interviews were conducted from June 5 to September 19, 2023.

\*Includes a representative each from non-State/non-bank student loan provider, a private sector group with stakes in the sector, and an association in the hospitality industry

TVET: Technical-Vocational Education and Training

The team also collected financial survey data. The team obtained public HEIs' financial data from the Commission on Audit, the main governing body authorized to examine, audit, and settle all accounts of revenues, receipts, and expenditures or uses of funds and property maintained by national government agencies, LGUs, and government-owned and/or controlled corporations. Meanwhile, registered private corporate sectors file financial reports with the Security and Exchange Commission, and private HEIs' financial data were obtained from the agency. The team was able to secure the financial data of 13 out of the 18 HEIs that participated in the KIIs (3 LUCs did not have separate financial statements from the LGU, and 2 HEIs were not available). The financial statements of three more HEIs were obtained to increase the data points (see Table 1B).

**Table 1B: Financial survey data**

	HEIs that participated in interviews	Additional HEIs
Private HEI	6	2
Private HEI offering TVET courses	1	
Public HEI, SUCs	6	1
<b>Total</b>	<b>13</b>	<b>3</b>

Note: LUCs have no financial statements. The LUC-related items are aggregated in the financial statements of LUCs' host local government units

TVET: Technical-Vocational Education and Training

## ANNEX II: DATA COLLECTION INSTRUMENTS

### Key Informant Interview Guide

#### RQ1: Understanding of Financial Sustainability

1.1. CHARACTERISTICS OF FS HEIs: According to our study's definition of financial sustainability: "a higher education institution is financially sustainable when it is able to fund its operational and maintenance costs and capital expenditures to 1) produce valued results aligned with its mission and 2) achieve resilience over time"

- a. Based on the definition of a financially sustainable institution, what are the key characteristics of a financially sustainable HEI?
- b. Do you believe that these characteristics differ by type of HEI, For example, by [public vs. private, autonomous vs. regulated, listed vs non-listed, profit vs. non-profit]? How so?

#### RQ2: Current State of HEI Financing

2.1. SOURCES OF REVENUE: What are the various revenue streams that your institution relies on to support operations and development plans? Could you share these with us?

2.2. CURRENT FUNDING: Does the current distribution of your institution's revenue sources negatively or positively influence your institution's ability to fund operations and meet strategic goals? Please explain.

2.3. FUTURE REVENUE: What goals, if any, does your institution have for revenue diversification?

2.4. [For Public HEIs only] How do you view the role of your institution in generating revenue vis-à-vis the role of the government in funding HEIs?

#### RQ3: Influencing Factors on Financial Sustainability

3.1. SHORT TERM: What are the key issues facing your institution in the immediate future (1-2 years), that may impact its financial sustainability?

3.2. LONG TERM: What are the key issues facing your institution over the next 10 years that may impact its financial sustainability?

3.3. INTERNAL FACTORS: Could you share factors internal to your institution that affect its financial sustainability? Could you share how each affects your institution's financial sustainability?

3.4. SYSTEM-LEVEL FACTORS: Could you share existing policies, regulation and incentives that affect the financial sustainability of your institution? Could you share how each affects your institution's financial sustainability?

3.5. POLICY IMPLEMENTATION: Do you think that the government deviates from its own regulations and policies? Could you elaborate on what aspects?

3.6. TRANSPARENCY AND ACCOUNTABILITY: In your opinion, what role do transparency and accountability policies (particularly on financial information disclosure) play in influencing HEI financial sustainability, and does this differ by HEI type [public vs. private, autonomous vs. regulated, listed vs non-listed, profit vs nonprofit]?

#### RQ4: HEI Financing Strategies

4.1. What strategies, if any, does your institution currently pursue to be more financially sustainable?

4.2. Do you think there are strategies your institution are not pursuing but should pursue to become more financially sustainable? If yes, could you share what these are?

4.3. What do you consider to be a sufficient "long-term" window for financial planning? What practices or strategies does your institution employ for long-term financial planning, if any?

#### RQ5: Risk-management strategies

5.1. What risk management strategies, if any, does your institution adopt for navigating unexpected shocks (before COVID, during COVID)? Do you think that your institution will continue these strategies? What are you likely to do differently in the post-pandemic era?

## ANNEX III: ADDITIONAL SOURCES OF INFORMATION

**Table 3A: Laws/regulations related to HEIs**

Statutes	Description	Year	Provisions	Funding	Allocation	Quality	Accountability	Compliance	Equity	HEI Type
RA 7180	Local Government Code	1991	Established the system and defines the powers of provincial, city, municipal and barangay governments in the country. Together with this comes the requirement to establish a Special Education Fund (SEF) which provides scholarships to poor but deserving students in their respective jurisdictions.	x					x	Public HEIs (LUCs)
RA 7722	Higher Education Act of 1994	1994	Created the Commission on Higher Education (CHED) and established the Higher Education Development Fund to strengthen HEIs (HEDF). Programs funded by the HEDF include the Student Financial Assistance Program, faculty scholarship, HEI development initiatives, development of COEs/CODs, accreditation, research and development, faculty development program, and corporatization. Promulgated to forward the State's mandate to protect, foster, and promote the right of all citizens to affordable quality education at all levels. Trifocalized the education ecosystem with three governing bodies: DepEd, TESDA, and CHED.	x		x				All
RA 7796	Technical Education and Skills Development Act	1994	Aim to encourage the full participation of and mobilize the industry, labor, local government units and technical- vocational institutions in the skills development of the country's human resources. This defined the function, power and authority of the TESDA. Established the TESDA Development Fund and defined its funding source.	x		x				TVIs
RA 8292	Higher Education Modernization Act of 1997	1997	Provided for the uniform composition and powers of the Governing Boards of SUCs nationwide, the manner of their appointment, the term of office of the president of chartered SUCs, and the corporatization of these HEIs. The law gives the Governing Boards all the powers granted to the board of directors of a corporation under the Revised Corporation Code for them to carry out the purposes and functions of the SUC.				x			Public HEIs (SUCs)

Statutes	Description	Year	Provisions	Funding	Allocation	Quality	Accountability	Compliance	Equity	HEI Type
RA 9184 and IRR	Government Procurement Reform Act	2003	Provides for the rules and procedures for the procurement of goods, services, and infrastructure projects by government agencies, including higher education institutions. It aims to ensure transparency, efficiency, and accountability in the procurement process.					x		All
RA 10687	Unified Student Financial Assistance System for Tertiary Education (UniFAST) Act	2015	Created the UniFAST, which is mandated to harmonize, reform, strengthen, expand, rationalize, and refocus all legislated or ongoing Student Financial Assistance Programs (StuFAPs) of the government in their specific jurisdictions	x					x	All
RA 10919	University of Science and Technology of Southern Philippines (USTSP) Act		Established the University of Science and Technology of Southern Philippines (USTSP) by the amalgamation of Mindanao University of Science and Technology (MUST) and Misamis Oriental State College of Agriculture and Technology (MOSCAT)	x		x	x			
RA 10931	Universal Access to Quality Tertiary Education Act	2017	Provided for free tuition and other school fees in SUCs, LCUs, and state-run technical-vocational institutions, for establishing the tertiary education subsidy and student loan program, and strengthening the UniFAST to make quality tertiary education an inalienable right of all Filipinos	x	x					Public HEI and TVI
RA 10968	The Philippine Qualifications Framework (PQF)	2018	Institutionalized to fulfill the State's constitutional obligation to promote the right of all citizens to quality and accessible education. The PQF's goal is to encourage lifelong learning of individuals, provide employees with specific training standards and qualifications aligned with industry standards, ensure that training and educational institutions comply with specific standards and are accountable for achieving corresponding learning outcomes, and provide the government with a common taxonomy and qualifications typology as bases for recognizing education and training programs as well as the qualifications formally awarded and their equivalents.			x				All
RA 11448	Transnational Higher Education Act	2018	Promulgated to encourage, promote, and accelerate the establishment of transnational higher education programs, the internationalization of higher education in the country, and the development of the transnational higher education sector. This is in response to the growing demand for borderless teaching and learning brought about by rapid developments as a result of globalization and the			x				All

Statutes	Description	Year	Provisions	Funding	Allocation	Quality	Accountability	Compliance	Equity	HEI Type
			expanding use of information and communication technologies (ICT).							
RA 11232	Revised Corporation Code	2019	Amended the four-decade-old BP 68. Adopts international best practices and standards to address the needs of the Philippine corporate setting, and introduces new concepts and mechanisms to help the Philippines keep up with the changing times. Mandates the Securities and Exchange Commission (SEC) to promulgate rules to facilitate and expediate, among others, submission of reports, and other documents required under the Code.				x	x		Private HEIs
RA 11466	Salary Standardization Law of 2019	2019	Modified the salary schedule for civilian government personnel and authorized the grant of additional benefits			x				
RA 11494	Bayanihan to Recover As One Act	2020	Provided mechanisms to accelerate recovery and bolster the resiliency of the Philippine Economy including the educational sector.						x	All
RA 11899	Second Congressional Commission on Education (EDCOM II) Act	2021	Mandated to comprehensively evaluate the present status of the country's educational system. It shall examine the mandates being carried out by the DepEd, CHED, and TESDA, as well as pinpoint the causes of the subpar academic performance of students as reflected in various international reports.			x		x		All
RA 11984	"No Permit, No Exam" Prohibition Act	2024	Mandated public and private educational institutions to allow disadvantaged students with unpaid tuition and other school fees to take the examinations						x	All
Department of Budget and Management (DBM) and CHED Joint Circular No. 2	Application of Normative Funding in the Allocation of Expenditure to State Universities and Colleges (SUCs)	2004	Public HEIs moved to normative financing in allocating funds for the Maintenance and Other Operating Expenditures of SUCs. Normative financing is the application of a set of prescribed objective criteria to promote quality instruction, improve research and extension services, and promote fiscal prudence.		x					Public HEIs
CHED Memorandum Order No. 52	New Policies and Guidelines for the Grant of Autonomous and Deregulated Status to Selected Private Higher Education Institutions	2006	Provides policies and guidelines, including selection criteria and procedure, for the granting of autonomous and deregulated status to selected private higher education institutions with corresponding benefits and conditions of grant.	x						Private HEIs



Statutes	Description	Year	Provisions	Funding	Allocation	Quality	Accountability	Compliance	Equity	HEI Type
CHED Memorandum Order No. 40	Manual of Regulations for Private Higher Education	2008	Contains all regulations applicable to all private higher education institutions including policies relating to funding, tuition and other school fees, government subsidy, among others. Incremental proceeds from tuition fee increases will be allocated using the 70-20-10 rule (salaries/wages, infrastructure/equipment, and ROI, respectively).	x		x	x	x		Private HEIs
CHED Memorandum Order No. 20	Policies and guidelines for the use of income, special trust fund and programs of receipts and expenditures of the SUCs	2011	Establishes and institutionalize uniform fiscal policies and guidelines in the use and disposition of all internally generated funds accruing to the SUC and integrates a system of accountability for all fund administrators.	x			x			Public HEIs (SUCs)
CHED Memorandum Order No. 3	Enhanced policies, guidelines and procedures governing increases in tuition and other school fees, introduction of new fees, and other purposes	2012	Provides policies, guidelines, and procedures for increase in tuition and other school fees including introduction of new fees, in both public and private HEIs	x						Private and Public HEIs
CHED Memorandum Order No. 8	Amendment on CMO No. 3, series of 2012	2012	Amended CMO 3, series of 2012 on Section 7.2.2 and 7.2.3 on the Certificate of Intended Compliance (COIC).	x						Private and Public HEIs
CHED Memorandum Order No. 46	Policy-Standard to enhance Quality Assurance in Philippine higher Education	2012	Provides the policy standards to enhance QA in Philippine Higher Education through an outcomes-based and typology-based QA			x				Private and Public HEIs
Joint Memorandum Circular No. 1	CHED-DBM-DSWD-DOLE	2016	Provided guidelines for the expanded students' Grants-in-Aid program for poverty alleviation (ESGP-PA) under UniFAST.	x				x		Public HEIs
CHED Memorandum Order No. 4	Guidelines on the implementation of flexible learning	2020	Provided guidelines on the implementation of Flexible Learning			x				Private and Public HEIs
CHED Memorandum Order No.9	Guidelines on the allocation of financial assistance for SUCs for the development of smart campuses	2020	Established guidelines on the allocation of financial assistance for SUCs for the development of smart campuses provided in Section 10(i) of RA 11494 (i.e. Bayanihan To Recover As One Act) of which an appropriation of PHP 3.0 Billion to assist SUCs thru investment in ICT infrastructures, acquisition of learning management systems and other appropriate equipment to full implement flexible learning modalities and as approved by the Commission through Resolution 768-2020 on October 27, 2020.		x			x	x	Public HEIs (SUCs)

Statutes	Description	Year	Provisions	Funding	Allocation	Quality	Accountability	Compliance	Equity	HEI Type
CHED Memorandum Order No. 41	Guidelines for the grant of support for the development of learning and teaching resources for HEIs	2021	Provides guidelines for availing support grant for the development of learning and teaching resources for higher education and increase the existing open educational resources (OERs)			x		x	x	Private and Public HEIs
Citizen's Charter 3rd Edition	Summary information of CHED services (including procedures, requirements and timelines)	2022	In compliance with RA No. 11032 or the "Ease of doing business and efficient government service delivery act of 2018", CHED issued this updated Citizen's Charter to provide information about the services offered by CHED, together with procedures, requirements and timelines.				x	x		All
CHED Memorandum No. 7	2022 Revised Implementing Rules and Regulations of RA 8292	2022	Provides a revised IRR of RA 8292 and amends CMO No. 3/s. 2001.				x			Public HEIs (SUCs)
Department of Budget and Management (DBM) and CHED Joint Circular No. 1	Guidelines for the implementation of the 8 <sup>th</sup> evaluation cycle of the National Budget Circular (NBC) No. 461, series of 1998	2022	Provided guidelines on the implementation of the 8th evaluation cycle applicable to all faculty members with permanent plantilla positions in SUCs, except for the University of the Philippines and the Mindanao State University System.		x			x		Public HEIs
Philippine Accounting Standards	Generally Accepted Accounting Principles	N/A	Higher education institutions are required to follow the Philippine Accounting Standards in their financial reporting. These standards provide guidelines for the preparation and presentation of financial statements, including the balance sheet, income statement, and cash flow statement.					x		All
General Appropriations Act	Annual National Budget	Yearly	Provides for the annual budget of the government including the budget for higher education institutions. It sets amount of funding that each HEI will receive from the government as well as the specific purposes for which the funds may be used. In 2010, the GAA provided for the direct allocation of funds to SUCs under the DBM's budget. This shifted funding responsibilities to DBM from CHED.	x	x					Public HEI and TVI

Source: Authors' compilation