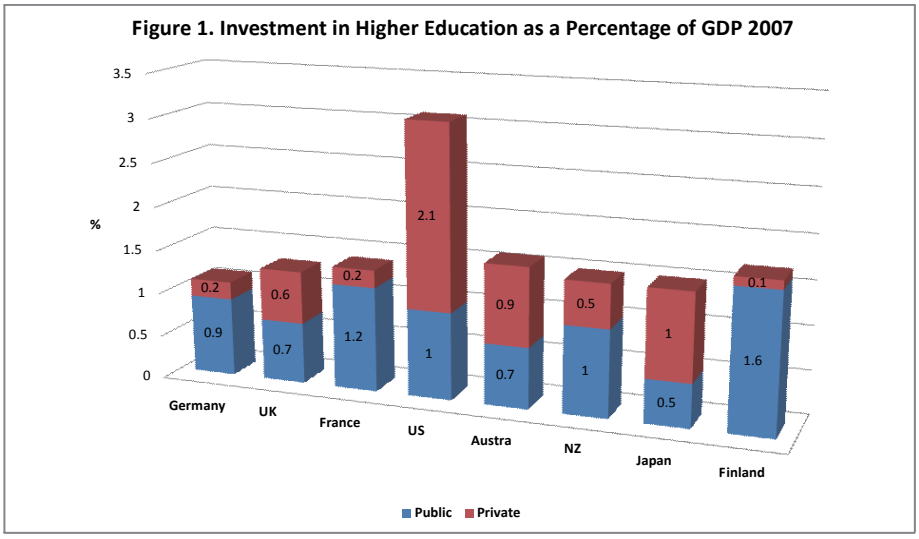
Financing Universities in Japan

Fumihiro Maruyama

1. The Extent of Public Expenditure on Higher Education

In Japan, more than 50 per cent of 18 year olds advance from high school to college or university and more than 75 per cent of those young people attend some type of higher education institution. There are 2.8 million students enrolled in the 86 national universities, 89 other public universities and 580 four-year private universities. These figures are not necessarily small relative to the higher education populations of other developed nations, and total expenditure on higher education as a percentage of GDP is 1.4 per cent, which is about the average of OECD countries (Figure 1). However, public expenditure on higher education relative to GDP is only 0.5 per cent, which is the lowest among OECD countries (OECD, 2008). It is private expenditure that pushes total expenditure on higher education up to the OECD average. This distribution of higher educational expenditure is different from that of

Figure 1. Investment in Higher Education as a Percentage of GDP 2007



other countries, especially Europe where most of the cost of higher education has traditionally been taken from the public purse. The percentage of total expenditure in the cases of the UK, France and Germany is almost the same as that of Japan, but public expenditure in these countries is about twice that of Japan (UK 0.9 per cent, France 1.1 per cent, Germany 0.9 per cent).

Although public expenditure is the lowest among the OECD countries, annual expenditure per student is essentially above average. As shown in Figure 2, the annual cost of higher education per student in Japan is US$12,326, which is almost the same as in the UK (US$13,506), Germany (US$12,446) and France (US$10,995). Likewise, the cumulative expenditure per student over the average duration of higher education is the same among the four countries. In Japan, students continue to stay at college for 4.07 years on average, with expenditure for the duration costing US$50,167, compared to US$66,758 in Germany (average duration 5.36 years), US$58,654 in the UK (4.34 years) and US$44,202 in France (4.02 years). Thus, compared with these countries with a similar level of total expenditure on higher education per student, students in Japan are uniquely supported by private contributions to higher education spending rather than public ones.

Figure 3 shows the longitudinal change in public expenditure on higher education as a percentage of GDP since 1960. Public spending was recorded at lower than 40 per cent on three occasions: in the early 60s, early 90s, and at present. After a rather stagnant early 70s, it reached a peak—at over 57 per cent—in 1979 before returning to under 40 per cent in the early 90s and remaining stable thereafter. The lack of growth in government revenue due to the economic slump experienced since the early 90s and the government's priority shift towards social security expenditure such as medi-care and pensions might be serving to maintain public expenditure on higher education at the present level. This is in contrast with the increase in public expenditure to social security as a percentage of GDP, which has risen from 17 per cent in 1995 to 27 per cent in 2009.

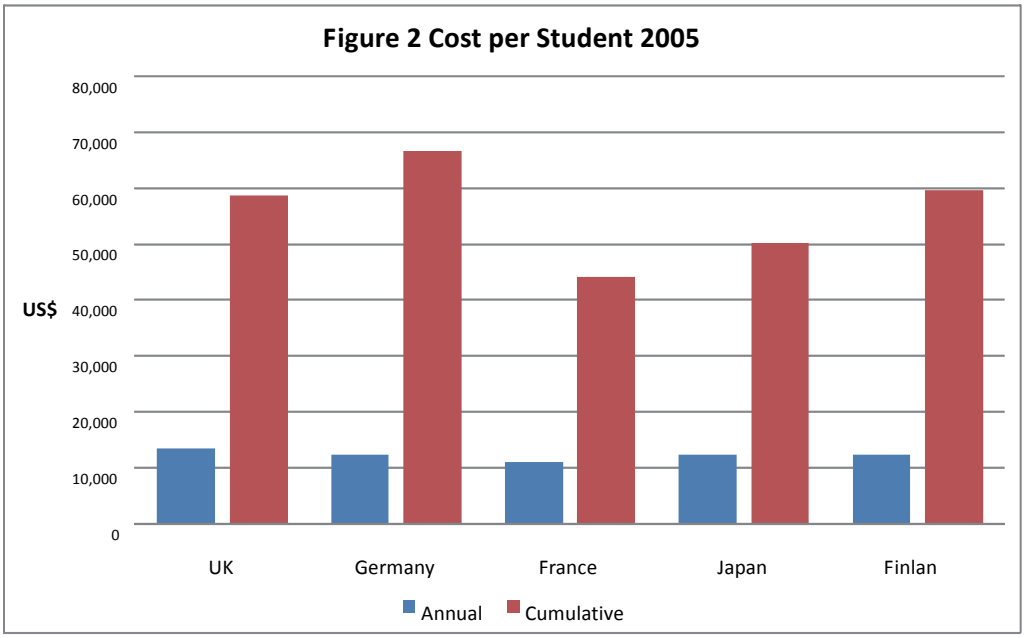
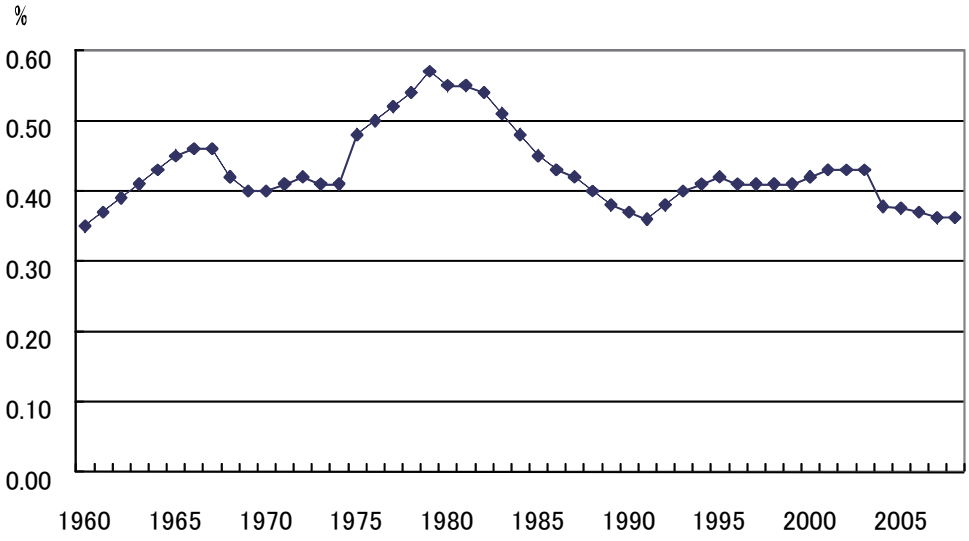


Figure 3 Public Support as a Percentage of GDP



There are five types of government expenditure on higher education in Japan;

- the operational grant to national universities, which is directly granted to institutions by the Ministry of Education, Culture, Sports, and Technology (hereafter MEXT);
- a subsidy for capital investment in the national universities which is provided by both MEXT and the Center for National University Finance and Management

(CNUFM), a semi-governmental organisation;

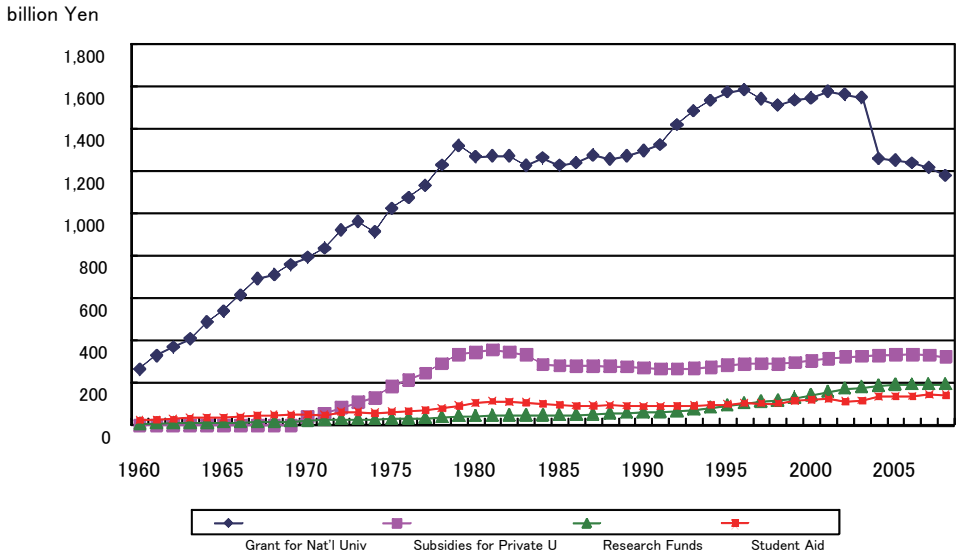
- research funds provided through the Japan Society for the Promotion of Science (JSPS; this is also an independent administrative corporation) and MEXT;
- the Subsidies for Current Expenses for Private Universities which are allocated by the intermediate body, the Promotion and Mutual Aid Corporation for Private Schools in Japan; and
- student aid provided by the Japan Student Service Organization, which is also an independent administrative institution.

Figure 4 shows the longitudinal trends in these expenditures since 1960 except capital investment for national universities. As can be seen, the operational grant to national universities accounts for the largest part of public spending, more than 60 per cent of the total expenditure. While this percentage increased in the 1960s and 1970s when higher education as a whole was continuously expanded, it has not grown further except in the late 1990s and early 2000s. The second largest part of public spending is the subsidy to private universities, which grew rapidly in the late 1970s but has been stable since the 1980s. Over this 50-year period, the number of private universities has grown, as have the number of students they accept. As a result, public support per student at private institutions has decreased even though total public spending to private universities has been stable. Both research funds and student aid have shown a constant increase over the 50-year period.

2. Operational Grant to National Universities

The largest part of public expenditure to higher education is the operational grant to national universities, which also covers personnel costs and facilities maintenance. It accounted for US$12.3 billion and comprised around 56 per cent of total revenue of the 86 national universities in 2005. This operational grant can be categorised as a ‘formula-based’ budget allocation since it is allocated to institutions according to the government’s calculation which includes objective indicators such as number of students, number of faculty members and square metres of campus (for details of the calculation, see Mizuta, 2008).

Figure 4 Public Expenditure on Higher Education: 2008 Price



The operational grant as a method to allocate budget to national universities was introduced in 2004 as part of the reform of national universities known as the 'Corporatisation of National Universities'. Prior to the system reform, the national universities were one of many government agencies and whose regulations and other legal constraints were often pointed out in order to prevent the universities from behaving autonomously. Upon corporatisation, each national university was given independent corporate status, empowering it to act more autonomously and manage its operations more efficiently and with the aim of the reform of activating research and teaching.

Since this reform, which instilled the concept of a contract between the government and university, the Minister of Education mandates and prescribes the different mid-term targets put forward by individual institutions across the country, and all universities must report and make public their strategic plans and targets. The term lasts for six years. The first mid-term began in 2004 and ended in 2009. The second mid-term then began in 2010. The most controversial issue for the national universities is the reflection of institutional performance for the first mid-term in the grant allocation for the subsequent mid-term. In other words, a certain amount of block grant for the second term will be determined taking into account the evaluation result of the university's performance in the first term in the areas of teaching, research and management. The National University Corporation Evaluation Committee, whose members are mainly academics, is engaged in the evaluation. Thus, from the second term, the 'formula-based' block grant also has the nature of performance-based funding.

The national universities have been able to retain revenue from tuition charges since 2004; under the former system the tuition fees paid by students and other miscellaneous revenue collected by the university went directly to the government's Special Account of National Schools. The national universities can also make a surplus and carry it over into subsequent years. Each of 86 national universities can make a decision on internal allocation of the grant after MEXT calculates and delivers the grant to each institution. This is now, therefore, a discretionary fund for individual institutions, whereas before corporatisation it was an itemised budget in which money was earmarked for spending, all of which should be spent within a single fiscal year. Once the university receives the grant, it can use its own discretion as to how the monies are spent within its mid-term plan on teaching, research, social services and management including campus maintenance.

This operational grant appears to be positively evaluated by campus leaders. CNUFM conducted a questionnaire survey of university presidents and administrators in 2009 and the result suggests that presidents of the national universities tend to find that block grant funding with discretion positively influences the efficiency of university management, teaching and research activities, and provision of university social services. The vice presidents of finance also tend to prefer the present block grant system owing to the discretionary freedom permitted and the ability to carry over surplus into following years, helping them use their budgets more efficiently and effectively (CNUFM, 2009).

Although the universities indicated their preference for the discretionary grants under the new system, central government has been decreasing the total grant amount by one per cent annually since 2004 due to the financial difficulties it faces; its government bond liabilities exceed 170 per cent of GDP, the highest among developed countries. Moreover, the Ministry of Finance, which has cut budgets in every sector, naturally desires budgets to be used efficiently and effectively, and prefers competitive and project-based funding to the basic grant system such as the operational grant to national universities, which is allocated annually based on formula calculations without application or request. The relevant committees of both the Ministry of Finance and central government tend toward competitive and project-based funds as stimulators of teaching and research activities at the national universities.

3. Research Funds

In most national universities, faculty members are apportioned research funds from the operational grant through university administration. Around 16 per cent of the operational grant is reported to be spent on research, not including the personnel costs for faculty members and researchers. In addition to the grant from the university, faculty members can

apply for and secure research funds from several sources. The largest amount of research funding is available from the Grant-in-Aid for Scientific Research Programme, which has a 90-year history. MEXT and the JSPS provide these grants-in-aid, which cover a wide range of research forms. They cover studies in the humanities by a single researcher, through small research studies which will be completed within one year, to large-scale studies in natural or medical sciences conducted by international research teams which often continue for a number of years and require huge amounts of funding. Not only national university faculty members but also researchers in private universities, non-profit organisations, public institutions and even researchers in private industry can apply for these grants-in-aid. The success rate for receiving research funding is not necessarily high, at less than 20 per cent of all applications made. The applications are screened and 'winners' selected through peer review, and then granted. Therefore, more than 80 per cent of the grants are distributed to faculty members and researchers in national universities, which focus more on natural sciences, engineering and health sciences and are research oriented.

As Figure 4 shows, the total amount available for these grants-in-aid has substantially increased over the last decade; US$1.4 billion in 2000 to US$1.9 billion in 2008. The total amount of research funds available, including monies from other competitive project-based funds, exceeded US$3.5 billion in 2006. As remarked earlier, the share of these funds to the basic operational grant in public funding to both public and private institutions has grown, from 14 per cent in 2001 to 27 per cent in 2007. Given the fact that the operational grant is decreasing while the grants-in-aid are increasing, some university leaders are strongly encouraging their faculty members to acquire grants-in-aid and sometimes provide awards to grant recipients by offering additional research funds from the university's discretionary funds. University administration also benefits from the grant-in-aid awards since 30 per cent of the grant as indirect costs are automatically attached. In 2007, 612 universities earned US$250 million as indirect costs allocated to the grant-in-aid programme.

The governments of European countries implement policies to enhance the international competitiveness of universities (Amaral, 2009) or to strengthen economies through university research. In the UK, research funds are concentrated within a small number of universities. In Germany, the government passed the bill, 'Excellence Initiative', in 2005 to establish up to ten selected universities as competitive research and training institutions. Japan's MEXT has also provided similar project-based funds to both research and teaching activities. The Centers of Excellence programme (COE programme), which was implemented in 2002, provides research funds to reward and foster world-class research universities in Japan. In 2005, this programme supported 273 research bases at 91 universities. The programme fund has been increasing year on year and amounted to US$615 million in 2007. The outcome of research

funded by the COE programme is subject to third-party evaluation and its results are disclosed. The fund is partially curtailed or even nullified in the subsequent research term by unsatisfactory results. In the area of teaching, MEXT started several Good Practice programmes to improve teaching practice in universities (GP programme) in 2003.

4. Capital Funds for National Institutions

During the expansion era of the 1960s and 1970s, new campuses were opened and new campus buildings and other facilities were constructed across the country. Almost 40 years later, most of these buildings and facilities have become decrepit and obsolete, and require rebuilding or renovation. Both public and private universities are now facing the problem of how to secure capital funds for such work. This can be viewed as a legacy cost of the rapid economic growth and the same is true about infrastructure, highways, bridges, large comprehensive hospitals, the high-speed train system and public housing facilities in metropolitan areas.

Private universities receive public subsidies to fund their capital development, although the amount is quite small relative to the subsidies received for current expenditure. They manage to build new campus buildings and renovate others through use of savings, loans and donations. Private universities mainly concentrate their activities on teaching in the humanities and social sciences rather than in the natural sciences, engineering and health sciences, on undergraduate rather than graduate education, and on teaching rather than research, and thus need fewer capital funds for large-scale and high-cost facilities and equipment than the national universities. In addition, most private universities have reserved funds for the depreciation of their own buildings and other facilities. Specifically for campus renovation, private institutions can make use of lower interest loans from the Promotion and Mutual Aid Corporation for Private Schools of Japan, a semi-governmental agency, as well as loans from commercial banks.

The depreciation of national university facilities is recognised and registered in the financial statement of each university. However, none of the universities hold back funds for facilities development since it is still considered to be the government's responsibility even after the universities acquired autonomous and independent corporate status (Shibata, 2008). The sources of capital expenditure for the national universities are mainly Capital Development Funds from MEXT and loans from CNUFM. Capital Development Funds are financed from national construction bonds, which are issued in a somewhat haphazard manner every year. The CNUFM provides a loan programme for constructing university hospitals through use of the government's Fiscal Investment and Loan Programme.

Based on the national universities' budget request applications, MEXT determines the priorities for allocation of the Capital Development Funds in consultation with a third party. In 2008, only 12 per cent of the total requests for funding of construction and renovation projects — amounting to US$0.4 billion — were selected to receive funding for refurbishment and construction of new facilities. This is around one-quarter of the total value of the annual depreciation of all facilities owned by national universities (Shibata, 2008). Since the universities are not sure whether their applications will be accepted and fully funded, their strategic plans are sometimes delayed or unachieved.

National universities receive their operational grant for current expenditure on the one hand and capital funds for capital expenditure on the other. They can forecast the approximate amount of operational grant to be received and take this amount into consideration when implementing their goals and plans. However, it is more difficult for them to predict the amount of capital funds that can be acquired because the source of these funds is unstable. This dual funding system causes annoyance to national university management. National universities must make their mid-term goals and plans for teaching and research, but in the case that rebuilding or renovation work is a necessary condition to achieving these goals and plans, they might fall short on the planned achievements unless the university is fully funded by the Capital Development Funds. Alternatively, the national universities must unwillingly provide ambiguous statements of their goals and plans, which need financial backing. This need for obfuscation is one of shortcomings of the present funding system for national universities.

5. Public Subsidies for Private Universities

Before the 1970s, private universities received no government subsidies, and their main sources of revenue, even to the present day, are the tuition and other fees received from students. In the 1960s and early 70s, private universities increased their revenue by raising tuition on an annual basis and accepting more students than their registered capacity permitted by the Ministry of Education. However, student unrest which was spreading across the country at that time prevented the private universities from raising tuition fees since student political groups were typically opposed to the tuition hike. However, many private institutions were struggling with financial deficits caused by soaring personnel costs and large debts incurred from rapid and huge capital investments. Private universities also faced the problem of quality of teaching resulting from their acceptance of a greater number of students in excess of the standard teacher-student ratio prescribed by the Ministry of Education. Private universities, often through the associations of private universities, asked for public institutional aid from

the government in order to mitigate their financial difficulties and to halt the student movement opposed to increased educational fees, based on the argument that private higher education contributes to the public good.

In 1975, in the face of such requests from the private university associations and considering the issues of a tuition hike, financial struggles and teaching quality, central government decided to subsidise private universities for the first time in Japan's history of higher education. The legislation, 'Promotion and Subsidization for Private Schools' (The Private School Promotion and Assistance Law), stipulated that the government could subsidise up to 50 per cent of the current expenditure of private universities through the Promotion and Mutual Aid Corporation, a quasi-public body. However, the level of subsidy has never reached 50 per cent even in the peak year of 1980 when subsidies reached 30 per cent of current expenditure. At present, private universities receive about 12 per cent of expenditure, a figure which has changed little in the last decade.

Public subsidies for private universities are supposed to have three purposes: to improve the quality of education in private institutions; to reduce household burden in relation to higher education costs; and to improve the financial management of private universities. There is consensus for the first two purposes but not for the last, which remains controversial. In addition, some argue that public support for private institutions violates Article 89 of the Constitution of Japan, which prohibits public spending on religious, charitable and educational organisations not under public control. Following policy implementation, subsidies for private universities have been shown to have improved educational conditions (the student-teacher ratio gradually decreased from 31.5 to 1 in 1975 to 24.6 to 1 in 1985) and financial management of the institutions (staff salaries have been improved). Despite private universities receiving public subsidies from the government, tuition fees have never been cut.

There are several possible explanations for the tuition fee hike that occurred at private institutions, which will be discussed elsewhere in more detail. However, briefly, the Accounting Standard for School Juridical Persons Japan (the Accounting Standard for Private Schools) might be one such cause. The special accounting system, the Accounting Standard for Private Schools, was introduced in 1971 at the initiative of the Ministry of Education and has been adopted only for private institutions. This accounting standard, while unique, remains controversial. It is designed to improve the financial independence of those private institutions that consistently experience financial difficulties. In this system, the concept of transferring the Basic Fund, which functions as an augmentation of endowment, is somewhat peculiar and rarely seen in other accounting systems. There are four types of Basic Fund: fixed assets for academic activities already purchased; fund reserves for future acquisition of fixed assets for education facilities; fund reserves for scholarship and research; and preserved assets

for operation (one-twelfth of annual current expenditure) in certain periods.

The accounting system encourages the reservation of funds that are expected to contribute to the financial strength of the private universities so that they can continue to provide higher educational opportunities to the population at large. Private institutions can transfer a portion of revenue to the Basic Fund before finalising the balance. The amount transferred is completely at the discretion of the institution. In 1980, the ratio of transfer from revenue to the Basic Fund rose to a staggering 25 per cent, but recently decreased to less than 15 per cent (Morozumi, 2005). After deductions from the Basic Fund, institutions can finalize their balance and determine whether they are in the black or red in a certain fiscal year. Institutions can have no net surplus because total income is computed after deducting the transfer from the total revenue. When revenue exceeds costs, private universities initially make a transfer to the Basic Fund so that they can finalise their balance while reserving profits in the Basic Fund. Accordingly, the net surplus or deficits in the statements of income and expenditure of private institutions should be interpreted with caution. The accounting system allows this manipulation of the accounts to help institutions have appropriate reasons for raising tuition fees and suppressing wage increases, enabling the private universities to insist that they are not in a satisfactory financial situation even if, in reality, they are. Private universities are classed as non-profit organisations but reserve their ‘profits’ in the Basic Fund.

Although the teaching and research performance of private universities are never evaluated, they are financially audited and the financial statements must be submitted to MEXT. If the financial conditions are judged to be not viable, the subsidies will cease or be reduced.

The population of 18-year olds has declined by 40 per cent over the past decade or so, from more than 2 million in 1992 to 1.2 million in 2009. Private universities that cannot successfully attract a sufficient number of students are facing financial difficulties. This has placed MEXT in a difficult position implementing private higher education policy: should subsidies be kept from institutions with fewer students than the capacity, when they are clearly not fulfilling their social function properly by failing to meet current student needs? Or should subsidies be offered to financially weak institutions with fewer students in order that they can continue to provide higher education opportunities? As it stands now, the Mutual Aid Corporation does not offer subsidies when the number of enrolees is less than 50 per cent of the designated student capacity, and it provides a special subsidy programme to revitalize financially weak private universities with fewer enrolees.

6. Student Aid

Until the mid 1970s, tuition fees for the national universities were kept low, at US$120 a year, in order to attract academically outstanding students who were expected to become future national and local leaders in various fields. This policy contributed, therefore, to the provision of higher education opportunities for bright students from less affluent families. However, this social contribution was limited by the national universities recruiting only a restricted number of such students. In fact, it has mainly been the private universities that have provided higher education opportunities to students from various family backgrounds, through use of the grant-type scholarship programme of a non-profit foundation. However, the amount granted has been quite small. Thus, there is a structural contradiction in that private universities charging higher tuition fees have been functioning to provide higher education opportunities for the masses while a smaller number of students learn at the less expensive national universities. In this contradictory situation, reducing the difference in tuition fees between national and private institutions (estimated to be a ratio of 1 to 6 in the 1960s) has been a political issue for a long time.

To close this gap in tuition fees between the two sectors, the first policy the Ministry of Education adopted in 1975 was the provision of institutional aid to private universities instead of individual aid through scholarships. This policy did not work well however, partly because the private universities chose to spend the subsidy on improving teaching quality rather than lowering tuition fees and partly because the amount of subsidy was too small to decrease the tuition fees. This meant that the tuition fee gap continued to exist.

From the late 1970s, the policy of low tuition fees for national universities changed to a more equal charge between the national and private universities, and the government adopted a policy of raising tuition fees for the national universities. Tuition fees have risen substantially from US$360 in 1975 to over US$5,000 in 2008. Thus, the tuition fee gap has been successfully reduced. The difference in the ratio of tuition fees between the national and private universities has improved from 1 to 5 in 1975 to 1 to 1.6 in 2008. Although the gap has clearly been reduced, the raising of national university tuition fees has been criticised because it impinges on the opportunities for higher education and, more importantly, it has affected the tuition fees private universities which determine their own tuition fees by taking into account the tuition fees of national universities.

At the same time, the government started a student aid programme in order to compensate for the higher educational burden on households. Thus, the previous policy of ‘‘lower tuition fees and less student aid’’ has changed to one of ‘‘higher tuition fees and greater student aid’’. Student aid is made available mainly by the student loan programme provided by Japan

Student Services Organization (JASSO). There has been strong criticism of JASSO's policy of expanding the student loan programme while abolishing the ex-existed grant scholarship programme which is considered to have more robustly promoted college education for students from less affluent families. In 2008, approximately 1.2 million students—or 40 per cent of all students—are using the programme and the loan amounts to a total of 982 billion yen or 9.5 billion US dollars. There are two types of loans available under this programme: one is an interest-free loan and the other is an interest loan whose rate is dependent on market conditions and is set at less than three per cent at maximum. Students who wish to apply for the former loan must achieve a certain GPA standard at high school and there is income contingency in both types of programme. The student loan programme is sourced from Governmental General Account expenses, credited repayments from student borrowers, Fiscal Loan Funds and Fiscal Investment and Loan Programme Agency Bonds.

7. Intended and Unintended Consequences of the Shift in Funding Allocation

Public expenditure on higher education cannot be expected to increase easily due to the nation's protracted economic slump and the shift toward an aging society. Higher education is no longer a political priority ahead of economic recovery, employment, medical/nursing care and pension plans. Therefore, securing the amount of as well as inventing new the method of allocation for public funds to higher education remains an important and critical policy issue to pursue.

The recent trend in public funding can be described as ''from institutional to individual aid'' and/or ''from basic grants to competitive and project-based grants''. The government seems now to be shifting the methods of public funding toward individual aid by providing funding directly to researchers, research teams and students and away from institutional aid such as operational grants for national universities and subsidies for private universities. The basic funds that institutions are automatically given have been decreasing and institutions now have to make clear compensatory efforts by acquiring other external funds, most of which are acquired competitively. The government also emphasizes 'selection and concentration' in its allocation of budget, selecting and concentrating on specific institutions, research teams, researchers and study fields.

This shift in funding allocation intentionally creates winners. Those who benefit most are the research-oriented universities which have a long tradition and reputation in outstanding research and study fields and which can attract bright young scholars and catch the attention of industry and both central and local governments. Following the shift in allocation, it is these institutions and study fields that can receive more funds. Unintentionally however, this

shift in funding also differentiates the losers from the winners. Local universities—either national or private—which tend to lack sufficient human as well as physical capital suffer most and are more likely to lose basic funds for teaching and research. Some study fields such as philosophy, history, archaeology and other humanities suffer from keeping research funds, and non-money-making study fields experience difficulties obtaining administrative and other support.

This change in the funding system also creates winners and losers on campuses themselves. Professors in revenue-making study fields are winners and earn more research money from campus funds. But, at the same time, they might be losers: they lose more research time than before because they must spend more time preparing applications for research funds, being involved in the peer review process of judging research applications and expending energy on preparing reports on research evaluation for not only academic but also administrative purposes. In the good old days when professors were provided with sufficient basic funds, they could be less involved in such activities.

Another shift in public funding is 'from lower tuition fees and fewer scholarships' to 'higher tuition fees and more scholarships'. Heavy household burden with respect to the costs of higher education has been a critical issue over the long term, especially for families with students enrolled at private universities. This shift will serve to impinge still further on equal educational opportunities for higher education in the future. Opportunities for higher education have historically extended from students from richer families to poorer families. Now, more than 50 per cent of youngsters attend colleges and universities, which means that higher education institutions are accepting more and more students from less affluent backgrounds. It is doubtful, therefore, that the present policy of 'higher tuition fees and more loan-type scholarship' will be effective for promoting equal opportunities for higher education. Indeed, one study suggests that as lower income families are more likely to avoid future debt, the availability of loan-type scholarships will not improve the possibilities for students from such families to attend college or complete their college education.

Finally, it should be pointed out that the amount and methods of allocating capital budget for national universities are hot political issues. Although national universities have been given autonomous status, they cannot develop their own campus planning as far as building construction is concerned. National universities by themselves cannot reserve capital investment sources that are totally under the control of MEXT. Even if MEXT were to undertake campus planning for all of the national universities, the amount of capital funds needed would hardly be enough to renovate or create campus facilities with advanced earthquake-proof construction.

Glossary

Accounting Standard for School Juridical Person Japan (the Accounting Standard for Private Schools) was stipulated by the Ministry of Education in 1971. The School Juridical Person who receives Subsidies for Current Expenses for Private Universities must prepare the statement of income and expenditure, the cash flow statement, and the balance sheet according to the Accounting Standard for School Juridical Person.

Capacity of student number or **capacity of enrolment** in both national and private institutions is stipulated by MEXT. The Operational grant to a National University is calculated on the basis of the capacity number; thus, accepting students over the capacity has no benefit as far as the grant is concerned. Acceptance over the capacity at private institutions is subject to a curtailment in subsidy for the purpose of inducing better teaching quality.

Center for National University Finance and Management (CNUFM) is an independent administrative institution, which provides loans to national universities to support them in the construction of university hospitals. The Fiscal Loan Fund is a source from which the CNUFM draws the loans.

The Centers of Excellence Programme (The 21st Century COE Programme) started in 2002 as part of the reform of university education. The goal of the programme is the establishment of world-class research and education bases in the national, public and private universities. The programme assists research groups by subsidizing the expenses for developing centres of academic and scientific excellence. The budget was 380 million US dollars in 2008.

Fiscal Investment and Loan Programme is one of the major services provided by the Ministry of Finance and can be seen as 'secondary governmental budgeting'. The Programme raises funds by issuing government bonds and through their use provides loans to local governments and independent administrative institutions for the support and financing of public projects.

Fiscal Investment and Loan Programme Agency Bonds are issued by local government and independent administrative institutions which are funded by the Ministry of Finance's Fiscal Investment and Loan Programme and are used to develop projects and services which are less likely to be advanced by private enterprises.

Fiscal Loan Funds are raised by the issuing of governmental bonds through the financial market. Fiscal Loans, one of the sources of funding provided by the Fiscal Investment and Loan Programme, are available with long-term, fixed, low interest rates since the Fiscal Loan Fund is guaranteed by the Government.

Japan Student Services Organization (JASSO) is a semi-governmental institution that was

established in 2004 as a Ministry of Education initiative for merging ex-existed five organisations. It is engaged in operating student loan programmes and providing various forms of support to overseas and Japanese students.

The Legislation, 'Promotion and Subsidization for Private Schools' (The Private Schools Promotion and Assistance Law) was established in 1975 at the strong request of private colleges and universities. The Legislation stipulates that the State may subsidise the school juridical person (the founding body of a private university) up to 50 per cent of current expenditure including personnel and teaching and research costs.

Promotion and Mutual Aid Corporation for Private Schools of Japan was originally established in 1970 and assumed the role of a third party organization allocating government subsidies to private institutions. It also provides a loan programme for campus development, a training programme for administrative staff, management consultation for private schools, and a mutual aid programme for employees of private schools, among other services.

School Juridical Person is one of the school founding bodies other than the state, local government, and recently admitted for-profit corporations. It must have its own endowment and operating funds for purchasing land, teaching facilities, and equipment in order to establish and operate a school(s). The School Juridical Person can establish one or all of an elementary school, junior high school, senior high school, college and university. It is exempted from property tax, corporation tax, and other taxes due to its nature of providing public benefit.

Special Account for National Schools was one of the government's accounts and existed until 2004 when the reform of national universities was completed. A Special Account could be established and separated from the General Account if there were special revenue sources. In the case of national schools, revenue such as tuition fees from students and hospital income went directly into the Special Account. The total budget for the national universities was provided from the reserves of the Special Account, and deficits of the Special Account were compensated by a transfer from the General Account.

Subsidies for Current Expenses for Private Universities consist of ordinary subsidies and special subsidies. The former is a formula-based grant basically related to staff and student numbers and the latter is allocated based on the university's performance in teaching and research. Since the formula includes various coefficients such as inducement of better quality of teaching, the more students the institution has over the designated capacity, the fewer subsidies would be granted.

References

Amaral, Alberto, 'Recent Trends in European Higher Education', paper presented at Reforms and Consequences in Higher Education Systems: An International Symposium, held at the Center for National Finance and Management, Tokyo on January 26, 2009.

Center for National University Finance and Management, *National Survey on Finance and Management of National Universities: Results of Questionnaire Survey to University Presidents, Vice-President for Finance, and Department Chairpersons*, 2009 (in Japanese).

The Ministry of Education, Culture, Sports, Science and Technology, Higher Education Bureau, *OECD Thematic Review of Tertiary Education, Country Background Report of Japan*, 2006.

Mizuta, Kensuke, 'Public Funding Schemes for the Higher Education Sector in Japan: Their Objectives and Characteristics' in *Japanese National University Reform in 2004,* Center for National University Finance and Management, 2008.

Morozumi, Akiko, 'Changes in Finances of Private Institutions in Japan', paper presented at the International Seminar on University Management and Higher Education Policies – Trends, Issues and Prospects – held at The University of Tokyo on September19-20, 2005.

OECD, *Education at a Glance 2008*.

OECD IMHE-HEFECE Project on International Comparative Higher Education Financial Management and Governance, Financial Management and Governance in Higher Education Institutions: Japan 2004.

Shibata, Masayuki, 'Capital Investment in National University Corporations' in *Japanese National University Reform in 2004,* Center for National University Finance and Management, 2008.