Special Comment

Moody's
International Public Finance
Higher Education

June 2009

Global Recession and Universities: Funding Strains to Keep Up with Rising Demand

Higher Education Is Countercyclical Stimulant to Economic Growth, But Faces Capital Shortage

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Summary

As global recessionary trends persist in many nations, universities are proving to be an appealing investment for government stimulus efforts due to the sector's stabilizing, countercyclical nature in the short-term, as well as its potential to stimulate long term economic development. Despite these heightened expectations, many higher education institutions face their own financial challenges in managing through the recession. Some will likely struggle to become more creative to meet increased public pressure to fulfill economic development and social goals, while others may need to develop more independent revenue and capital sources to fulfill their public mandates when government funding is too limited.

Moody's credit opinion for leading public universities is generally favorable compared to many other sectors. Most universities demonstrate countercyclical ability to increase student enrolments during recessions, receive relatively strong support from sponsoring governments, and offer long term potential for increasing revenue diversity. Moody's ratings on universities and university-affiliated financings cover securities issued in Australia, Canada, Singapore, Mexico, the United Kingdom, and the United States. The vast majority of these ratings apply to U.S. universities which have been accessing the capital markets directly for a longer time than universities in other nations.

In this report, we will review the major current influences on our key rating factors for universities. The rating factors and our methodology for rating public universities are outlined in our report, "Public Universities Outside the US", August 2007 (103498) and "U.S. Public University Rating Methodology", November 2006 (100363).

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Throughout this publication, we will discuss general credit issues facing universities globally. We note that individual credit ratings are heavily reliant on the particular country, market, and regulatory environment facing individual universities. Key issues described below may apply to a greater or lesser extent in particular countries or regions. Where relevant, we have included references to examples from particular countries and institutions in order provide some context to the more general comments. For research focused on particular markets (U.S., Canada, and Australia), see the list of recent related research at the end of this report.

Key Ideas:

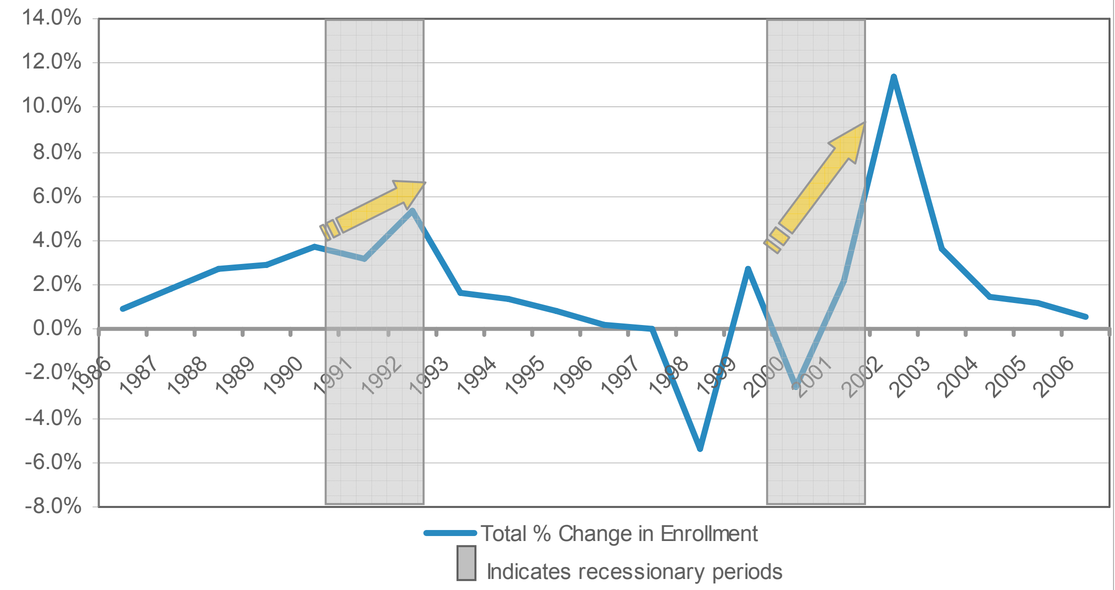
- Universities are expected to experience some stress, but be more sheltered than other sectors from the effects of the global recession. This is due to their counter-cyclical business aspects, government support, and growing role in economic development and rebuilding.
- Public university credit quality will likely be steadier than private universities because of higher reliance on government funding which provides a relatively more stable source of revenue in most countries than earnings from gifts and endowment funds. Public university economies of scale and subsidized activities frequently allow for lower tuition costs than private universities.
- Many private universities can nevertheless achieve high rating levels if evidence of sustained demand, financial strength and liquidity is clear.
- Given rising pressure on governments' balance sheets and limitations on public funding growth, Moody's anticipates that the university sector will, over the long term, seek more independent sources of funding to finance growth and expansion. We anticipate that endowment fund building through philanthropy, enrolments of international students and borrowing will rise in some countries.
- Despite funding diversification efforts, Moody's believes that public sector funding will continue to play a central role in this sector given its strategic importance to a nation's long-term economic growth and wealth levels.

Role in Employment Preparation and Long-Term Economic Development Leads to Higher Enrolments

In most countries, universities are key facilitators of employment and economic advancement for individuals. Although, the method and practices employed to determine enrolment eligibility and matriculation patterns (i.e, examinations, application processes, importance of residential experiences, etc.) vary greatly between countries. Increasingly, completion of tertiary education has become a minimum standard for certain types of employment, especially in growing technological and research-oriented sectors of developed and developing countries. Therefore, as recessions play out and unemployment grows, there is frequently an increase in enrolment in higher education overall. Students that may have previously completed secondary education and moved directly into the workforce may be less able to do so and face greater incentives to continue education as a method of waiting out the poor employment environment. Likewise, individuals that are laid off may choose to either complete previous tertiary coursework or pursue additional advanced degrees as a way to improve skills and employability when economies improve. While enrolment declines are possible at individual institutions due to particular market, reputation, and management challenges, we expect higher education overall to enjoy a significant "tail-wind" in student demand for spaces over time. This is especially likely for universities that are "access" oriented with less restrictive academic requirements and a mission focused on skill development. Many prominent universities that function as comprehensive research institutions focused on maintaining strong academic quality reputations and high entrance standards may see the greatest impact in their advanced degree programs.

Global Recession and Universities: Funding Strains to Keep Up with Rising Demand

Figure 1: Enrollment Impact of Recessions: Enrollment Grows More Rapidly During and Year After Recession; Largest Dips in Boom Years



Footnote: OECD Education at a Glance Data, available at http://stats.oecd.org; Percentage Change in Total Enrollment for Canada, France, Italy, Spain, United Kingdom, and United States. Group chosen as only countries with complete data going back to 1985 in OECD countries.

The degree of impact on particular institutions and within particular countries may vary to some degree. The impact of economic challenges on enrolment trends may be largely offset by weak demographic issues in some countries (eg. Japan and portions of the U.S.). Below we highlight likely impacts in particular countries:

- **CANADA:** In most Canadian provinces, governments establish universities' enrolment targets and provide funding in line with these targets. Universities must fund enrolment in excess of government-established targets from sources other than government operating grants, thereby reducing the incentive to enroll additional students. In Canada, we have observed a long-term trend of increased enrolments resulting from increased government funding. Despite the ongoing recession, we expect this trend to continue over the medium term.
- **UNITED STATES:** In the U.S., the majority of public universities are seeing significant increases in student applications and we anticipate that enrolments will rise at most campuses this fall. Some of this increased interest reflects a shift in demand from higher cost private universities. Budget constraints in a few U.S. states may be so severe that federal stimulus funding will not be able to prevent some universities from reducing their enrolments even in the face of increased student interest due to inadequate funding. But in many states, universities are free to recruit more students and charge higher tuition to compensate for any public funding cuts. Most U.S. research universities are seeing increased applications for graduate programs and also benefiting from increased federal stimulus finding for research.
- **MEXICO:** In Mexico, undergraduate enrolment rates for public and private universities increased by a strong 3.7% compound annual growth rate (CAGR) between 2003 and 2008 as a reflection of expanding participation rates, surplus demand backed by positive demographics and sustained increases in government funding for public institutions. Mexican graduate schools experienced a more pronounced upward trend over the same period, with country wide enrolment rates increasing at a CAGR of 4.1%. We expect recent upward trends to be sustained in 2009, given that Mexican university enrolment continued to expand during previous periods of economic stress, including the 1995 Tequila Crisis and 2001 recession.

- **AUSTRALIA:** Australian universities operate with limited flexibility on enrolment. Until recently, the Commonwealth government set the number of domestic student places at each institution based on a per-student funding formula, and universities were required to fund enrolment exceeding the target beyond a certain percentage. The government now plans to eliminate the cap over several years, although tuition limits will remain in place which is likely to lessen the institutions' immediate incentive to hike enrolments. The central government allocates specific targeted enrolment levels for domestic students, allowing each university to enroll international students according to the organization's desires, market position and strategic plan. We expect domestic enrolments to remain relatively steady, although the Commonwealth government's goal to increase participation rates could have an impact on trends. International student enrolment is a risk factor and may face pressures due to the recession; however, preliminary figures indicate continued growth in this market segment, despite higher tuition levels and the costs of studying abroad.
- **SINGAPORE:** In Singapore, university enrolment is determined by national government, which sets student spaces through subsidies provided for each domestic and international student. Given that demand greatly exceeds supply of spaces the government is planning to open a fourth university. We do not expect significant change in this approach for the near term.

Likewise, in countries where the participation rate in tertiary education is climbing rapidly from a relatively low level, the recessionary growth in enrolment may be hard to distinguish from longer term trends. However, even for these institutions, the recessionary economy is most likely accelerating enrolment demand further.

The global higher education sector is comprised of a wide variety of organization types, ranging from small, private undergraduate colleges to very large research-oriented universities. For highly selective research universities, trends in enrolment patterns are somewhat less critical in the near term because these universities frequently turn away large numbers of students and do not seek to grow rapidly. Their policy and mission focus is to increase research and faculty activity—rather than enrolment per se—to advance their economic development and scientific discovery mission. Universities, both large and small, whose primary focus is teaching and education, are more directly impacted by macroeconomic and societal trends. However, these more enrolment-driven universities also vary widely by organization and mission. Some play an open access role, serving nearly any qualified student and absorbing much of the increases in enrolment. Others, however, seek to distinguish their reputation and attractiveness by limiting enrolments, becoming more selective and enhancing their overall reputation for quality. Typically these universities have very limited growth plans and seek out enrolment stability, a position which allows more focus on reputation-building.

Government Relationship Remains Key Credit Influence

Public universities, account for the vast majority of enrolment and spending on higher education globally, most likely accounting for between 80-90% of all students enrolled in tertiary education, although private universities are growing in many nations and offer a significant alternative to public tertiary education. The level of government funding, oversight, and supervision is a fundamental starting point to our credit analysis of public universities. For example, increased government oversight may imply a decreased likelihood that an institution could get into financial difficulty without the government being aware, and an increased likelihood that the government may take early steps to ensure that financial health is maintained. However, lack of strong government oversight does not necessarily preclude a strong rating if the university's own governance and financial strength outweigh this lack of oversight. In fact, several of our highest rated public universities receive a relatively small share of revenues annually from direct government funding.

Government funding also frequently directly impacts operating performance and balance sheet strength of universities. Outside the U.S., most public universities still garner a large share of revenues from annual support from a sponsoring government. Significant declines in this support can impact the operating results of universities and, over time, their competitive position nationally and globally. This is particularly true if limited operational funding is combined with constraints on the university's ability to raise other revenues, including tuition.

The level of governmental support for capital also influences the strength of a university's balance sheet in all nations. Canadian universities have relied on government grants to fund infrastructure maintenance and capital expansion. However, following a period of constrained provincial funding, a backlog of infrastructure needs opened the door to the issuance of debt as part of a more mature capital financing plan in the late 1990s and early 2000s. Canadian universities' foray into the capital markets, therefore, is a relatively recent development, and universities remain cautious about their reliance on debt as a source of financing, relying predominantly on more traditional funding sources such as government grants.

In Australia, the Commonwealth provides the primary source of university funding with transfers, including student support grants, amounting to 54% of budgets. International student enrolments generate a significant portion of the non-Commonwealth funding. Most Australian universities traditionally funded the bulk of their capital expenditures from their own source revenues and Commonwealth grants, resulting in a very low debt burden compared to schools in the US. The Commonwealth has recently announced an increase in infrastructure funding over the next four years as part of its economic stimulus program.

In Mexico, higher education has been identified as a priority spending area by the current federal administration. Higher education policies are focused on increasing annual operating transfers, providing earmarked grants for capital projects, and developing national systems to monitor education quality. Federal transfers, which account for more than three-fourths of all public sector university revenues, increased by 17.1% in 2008 and are budgeted to increase by an additional 13.6% in 2009.

In the U.S., demand for university capital investment has outstripped state government's capacity to provide funding, which has led to significant independent borrowing by public universities to fulfill their mission and accommodate growing student demand. For U.S. public universities rated by Moody's, the median amount of outstanding debt has grown from $101 million in FY2003 to nearly $162 million in FY2007. In other countries where borrowing has been infrequent, but capital support also limited, we believe deferred maintenance and competitive attractiveness of facilities may be long-term concerns in attracting leading faculty and students. This is more likely to become an issue for universities seeking to attract students across borders from other nations.

In most European countries, public universities display a very high fiscal dependence on public sector contributions and relatively low ability to increase tuition and fees. Whilst the reliance on government's funding constrains fiscal flexibility, it also protects universities from revenue volatility risk associated with enrollment changes. Should a more rapid expansion of university capital facilities become a public priority, it is possible that some nations may gradually allow moderately more financial independence to universities to encourage them to acquire additional capital.

Government Support during Financial Crisis and Recession Reaffirmed; Future Need for Capital and Revenue May Outpace Government Ability

As policy-makers pursued initiatives to dampen the impact of recession and the financial crisis on economies, higher education is often a recurring theme in spending debates. Universities have positioned themselves well as key contributors to the long-term economic competitiveness of nations. In most countries, policy makers increasingly view universities as possessing the capacity to improve educational attainment of their populations to provide a more skilled and adaptable labor force. The ability to grow and sustain enrollments in science, engineering, and math oriented programs is seen by many as a particularly strategic competitive challenge. In the U.S., President Obama has already articulated new goals for participation rates in higher education, including a goal of at least one year of higher education or similar experience for every adult, with significant implications for federal spending in this area. The U.S. stimulus bill included $30 billion of new funding for Pell Grants, grants to lower income students to encourage higher enrollment levels. In addition, $54 billion was provided to support public education (both tertiary education and primary and secondary education).

In Canada, the federal government's 2009-10 budget included C$2.0 billion over two years to improve infrastructure in universities and colleges as part of the government's stimulus package. Canada's largest province, Ontario, is also transferring significant funds to universities for capital repairs and other infrastructures expenditures, with a view to providing stimulus to the provincial economy. Overall, Canadian governments are not cutting capital and operating expenditures in the higher education sector as a result of the ongoing recession, but rather increasing them.

In addition, general acceptance that research and development spending are key to economic health has boosted the attention paid to primary research activities of universities and their ability to spur private activity and investment. Large comprehensive research universities contribute to the growth of small and large businesses and can help attract multi-national corporations to co-invest in particular geographies. Developing countries are also increasingly viewing higher education as a necessary investment to transform their economies from heavy dependence on natural resources to technological and service-based economies.

Many nations are spending significant sums to develop more complete and robust higher education systems. The U.S. stimulus bill included $16 billion of additional dollars for research funding through the National Institute of Health (NIH), National Science Foundation (NSF), and other governmental agencies. Canada's 2009-10 federal budget provided for modest but continued growth in subsidies to the three federal granting councils, the Social Sciences and Humanities Research Council (SSHRC), the Canadian Institute of Health Research (CIHR), and the Natural Sciences and Engineering Research Council (NSERC).

Australia is in the process of implementing a reform of its higher education system with a central goal of increasing the participation rate of 25 to 34 year olds from 32% to 40 % by 2025 and increasing access among disadvantaged groups to 20%. The commonwealth's 2009/10 budget provides new funding to increase indexation of grants, indirect cost of research, and fund costs associated with lifting the cap on student places. In addition, as part of its economic stimulus package, the Commonwealth has announced an increase in infrastructure grants of A$3 billion over the next four years.

Universities Not Immune to Financial Crisis; Large Investment Losses and Capital Capacity Needs are New Challenges

Some universities have embraced the concept of an endowment – that is holding investments in perpetuity to support operating costs such as faculty salaries and student funding assistance. These universities have tended to invest more aggressively with a higher tolerance for short-term value fluctuations in hopes of returning larger gains over a long time horizon. This trend is most pronounced in the U.S., but has been increasingly pursued in other countries as well. Most Canadian university endowments are relatively young, except for a few well-established universities that have been raising funds for over a century. In the UK, the practice of significant alumni contributions is new and growing, but from a base that is very small. Outside of Oxford and Cambridge (and particularly amongst their colleges), endowment funds have been relatively small and contribute only marginally to operational funding.

While there appears to be a growing recognition among educators and within government policy that increasing endowment funds would be desirable, the recent economic downturn may dampen the fledgling efforts that colleges and universities have sought to build in the past few years. In 2008 and 2009, as financial markets were hit dramatically, even endowment asset classes thought to be more protected from downside risk have plummeted in value. Balance sheets of endowed universities have been weakened commensurately. In the U.S., most universities are reporting investment losses of approximately 30% due to high exposures to equities and alternative investments. We generally expect the impact of investment losses to be less pronounced outside the U.S. due to lower exposures to equity markets and higher proportions of conservative operating fund investments compared to endowment funds. The impact will still be meaningful for many, however.

In Canada, most universities have reported losses in the 20% to 30% range, reflecting slightly more modest, albeit growing, exposures to equities and alternative assets. While investment losses are expected to have some impact on operating budgets, we do not expect the recent market drop to have a measurable impact on near-term operating performance or financial flexibility given Canadian universities' relatively low reliance on investment income for their operations (on average 3% of revenue in 2007-08 for universities rated by Moody's).

Universities in Australia are also experiencing significant investment losses. The State of New South Wales in Australia—the country's largest state--reported that the 10 universities within its boundaries have lost 23.8% of financial assets in 2008 as result of the market volatility. However, while some universities generated operating losses in 2008 as a result of investment performance, similar to Canada, most institutions do not heavily rely on endowments for operations or liquidity purposes.

For universities in general, we expect investment losses to slow the general trend toward more aggressive investment styles we had seen in some countries as governing bodies and policy makers seek to limit downside risks and to focus more on preservation of capital. Closer review and rethinking of governance and management oversight of investment strategies may be likely as well.

Fundraising as Source of Capital May Grow Outside of U.S. but is More Challenging in the Near Term

Many universities in different countries have begun to pursue private fundraising initiatives with success. We expect most universities that have begun investing in development and fundraising initiatives will continue to do so, even though the decline in asset values globally will make it more difficult to cultivate new donors. Fundraising from private donors to support operating initiatives or capital expansion at universities has long been a focus of institutions in the U.S. A strong philanthropic tradition has been developed with alumni and others to support continual giving to universities and this effort has been supported by tax incentives.

In Canada, Australia, Singapore, Europe, and elsewhere except for the U.S., most universities are relatively new to fundraising. Some universities in Canada and the United Kingdom, despite focusing more heavily on fundraising in just the last decade, have been successful at raising funds to build their endowments. In 2004, the British Department for Education and Skills published a report encouraging the development of fundraising staff at universities and reforming laws to facilitate growth in fundraising.[1] Oxford University has instituted the Campaign for the University of Oxford which is approximately halfway to its £1.25 billion target. Donations may go either to the University itself or to one of the colleges, which have endowments totaling more than twice that of the University. Notably, Christchurch College of Oxford received over £25 million for its endowment.

In some countries, explicit government policy has encouraged development of fundraising as an additional source of revenue and capital for universities. Governments in Singapore, Hong Kong, the United Kingdom, Canada (Ontario), the United States (several state government programs), and Norway have implemented some form of government matching for private contributions.[2] In Australia and Singapore, some universities are augmenting their fundraising organizations and activities which, over the long run, is expected to produce positive results in selected cases.

We have frequently seen fundraising accelerate and slow along with financial markets and the overall economy and we would expect the downward pressure to be that much more substantial given the magnitude of the current recession and the substantial declines in wealth of potential donors. For universities that were just beginning to pursue fundraising initiatives, the speed of success and cultivation is likely to slow. However, most universities understand the need to remain committed to investing in fundraising and the donor cultivation process in order to see fruits of the investment over time as the economy improves.

Over the Longer Term, Gradual but Fundamental Changes in Higher Education Management and Funding are Possible

Moody's believes that the magnitude of economic changes in some countries may place pressure on historic funding and financing patterns of higher education. This would likely be driven by two conflicting trends--increased policy directives to expand university programs and more limited ability of governments to fund the

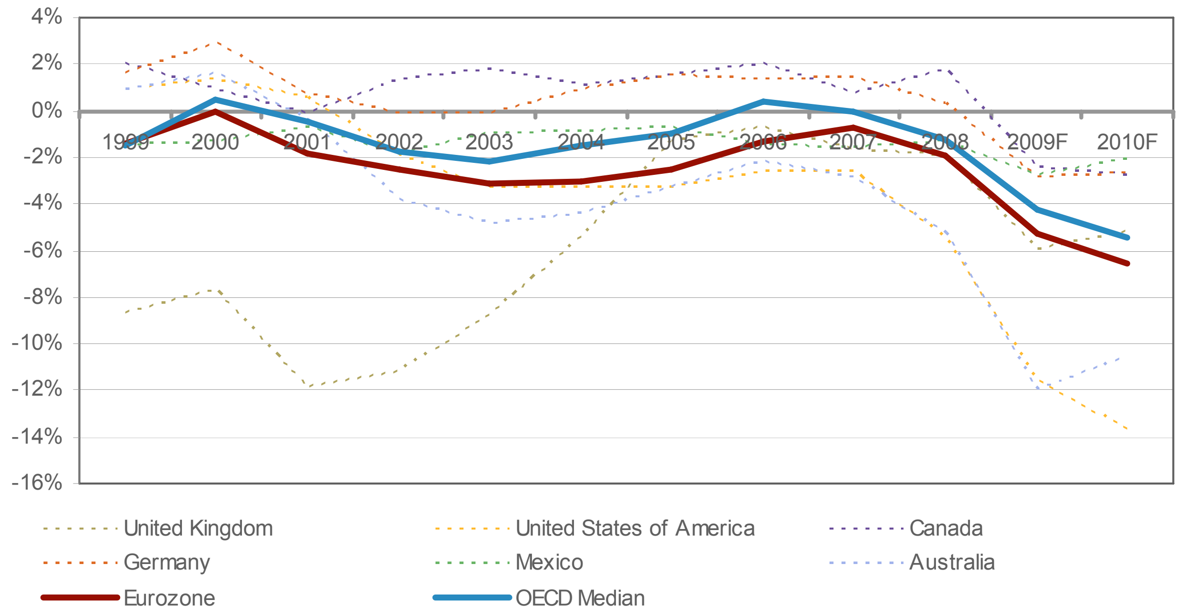
[1] "Increasing Voluntary Giving to Higher Education," http://www.dcsf.gov.uk/hegateway/uploads/Increasing%20Voluntary%20Giving%20to%20Higher%20Education%20-%20Task%20Force%20Report%20to%20Government.pdf

[2] "Select Government Matching Fund Programs: An Examination of Characteristics and Effectiveness," Councile for Advancement and Support of Education, found at http://www.case.org/files/Europe/pdfs/Select_Government_Matching_Gift_Programs_with_Addendum.pdf.

desired expansion   Not surprisingly, many countries now face significant budgetary challenges with large competing demands on government dollars.

While some aspects of spending on higher education have been temporarily boosted through stimulus spending, this is largely financed by government deficits and may be difficult to sustain beyond the near term. At the same time, the desire for rapidly rising investment in higher education to support higher participation rates and expanded research capacity suggests the need for significant new operating and capital dollars over an extended period. These trends may well become clearer as the ability to fund higher education comes under greater pressure.

Figure 2: Are Larger More Permanent Cuts Coming to Universities?: Trend in General Government Budget Balance for Select OECD Countries



In some countries, we have already seen signs of rising independence of universities through reformed governance structures and introduction of non-governmental revenue streams, such as tuition deregulation or expanded capacity for non-domestic students. In the United Kingdom, the impact of permitting universities to charge student fees, currently £3,175 per year, has allowed sufficient revenue growth over the past two years to keep pace with nationally negotiated wages and other costs. But high demand for places and long-term cost pressures will continue to keep total funding within the frame of educational standards and standing within a competitive international marketplace. Many of the leading universities are seeking reconsideration from their governments of limits on student fees to be raised further. For example, in Australia, while caps on the number of student spaces--which had been very tightly regulated--will be removed over the next few years, no changes have been announced regarding tuition. The Commonwealth government recognizes that cost burdens on students are relatively high and the government will be funding the increased student spaces.

As is the case in all nations, including the relatively less-state directed U.S., raising student fees is usually a politically sensitive decision. Significant changes in fees are much more likely to happen gradually over time, rather than quickly over a short period. For example, in the U.K, the higher tuition fee proposal became one of the strongest challenges to the current government Parliamentary majority, making it unlikely that the proposal will be adopted in advance of elections that must occur in 2010.

Australia's recent "Review of Higher Education" developed a number of proposals to both increase government funding, but also deregulate certain areas of educational provision such as the cap on number of domestic students. Despite these recommendations and others that would have led to significant increases in core operating and capital funding, recent budget announcements have focused on phasing increased funding in over a greater time horizon in light of significant constraints on the central government's funding.

Pressure on government funding may lead to shifting approaches to debt and capital investment. For universities with highly residential populations, borrowing to construct residence halls has already gained some popularity outside of the U.S. These projects typically have defined revenue streams from charging room and board fees and can be more easily separated from the politically sensitive tuition pricing question. Many of these financings have taken the structure of off-balance sheet public-private partnerships. In fact, several for-profit companies have emerged over the last decade focused exclusively on developing and managing student residence halls globally.

Funding for capital construction related to research is heavily influenced by a nation's specific policy model for funding and allocating research dollars. In some countries, research grants effectively include additional funding beyond direct costs to cover the maintenance of facilities and administrative overhead costs. Many universities believe this portion of government support is woefully under-resourced. In the U.S., federal grants for recoveries of overhead costs for research have been a source of significant capital funding for research universities. Many U.S. research universities have financed construction of research buildings by borrowing and identifying a future stream of indirect cost recoveries as the repayment source, often supplemented by fundraising and other resources.

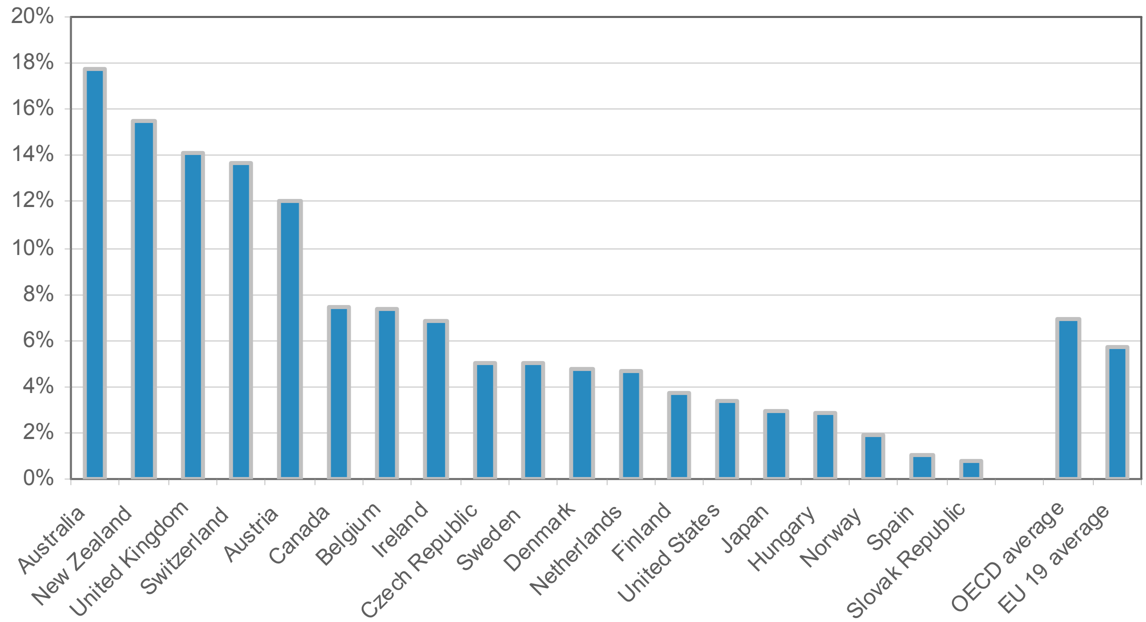
In Australia, the government has begun discussions on reaching a full costing methodology for research funding. The Commonwealth government recently announced its intention to increase its contribution to the indirect cost of research to 50% by 2014, which is important to maintaining the country's global competitiveness. Similarly, Canadian universities have begun to receive increased transfers from the federal government through the Canada Foundation for Innovation (CFI), a corporation founded by the federal government to fund research infrastructure, as well as funding to help cover the indirect costs of research—a move that represents a shift in policy. This increased federal funding helps Canadian universities expand the scope of their research activities and increase enrolment capacity at the more research-intensive graduate level.

Competition Globalizing for Faculty and Students

In general, we also believe the level of global competition and pooling of talent for faculty and students will continue to increase. As U.S. universities cut back significantly on hiring and capital spending (see research on the U.S. Higher Education Sector), non-U.S. faculty and students may be susceptible to recruitment to other leading universities or home countries. Over the past three decades, the number of students enrolled outside their country of citizenship has risen dramatically, from 0.6 million worldwide in 1975 to 2.9 million in 2006, a more than four-fold increase.[3] Developments like the Bologna Process in the European Union, and similar efforts in other regions, may further encourage the trend of crossing borders to enroll in higher education. China recently announced an effort to support the recruitment of 2,000 foreign scholars to boost research activity.[4]

3 www.oecd.org
4 http://www.universityworldnews.com/article.php?story=20090528175524756

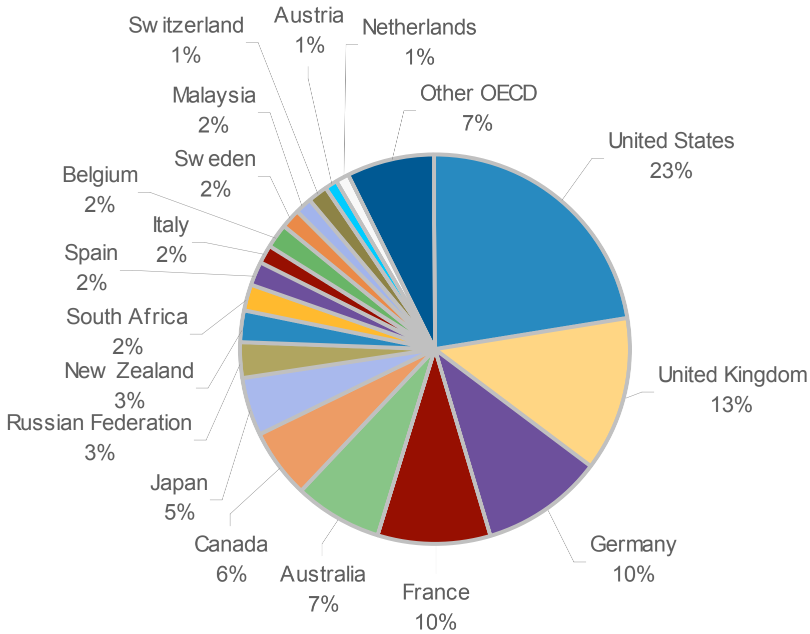
Figure 3: Percent of Enrollment that is Non-Resident



Source: OECD Higher education at a glance 2008

This rising competition across borders for faculty and students may lead to a greater need for capital investment by universities to enhance attractiveness and competitiveness. As universities face constrained government funding and rising competition in coming years, we expect some universities to increase borrowing and leverage to support these investments. In some countries, we have seen borrowing take the form of public-private partnerships or off-balance sheet financings. In others, the borrowing has been more direct. However, regardless of the structure, given the large demands on universities to grow enrolments and increase research and development activities in an environment of constrained government funding, we expect borrowing in some countries will rise after the expenditure of stimulus dollars is concluded. Most universities outside the U.S. have been limited users of debt and generally have a significant amount of debt capacity, a clear strategic advantage.

Figure 4: Students Enrolling in Foreign Nation by Destination



Source: OECD and UNESCO Institute for Statistics for most data on partner countries. Table C3.7 (available on line at the link below).
See Annex 3 for notes (www.oecd.org/edu/eag2008).

The rising competition will also be a focus as a source of potential additional income. For universities in the U.K., Canada, Australia, and the U.S., foreign student populations have become important sources of revenue. The need to continue to invest in global marketing initiatives will be important to sustaining this revenue stream, which sometimes represents one of very few unencumbered or government controlled revenues. In other cases, like Italy, the marginal proportion of foreign students and low inter-regional mobility of resident students may limit incentives for competition among universities, particularly the public ones.

This internationalization trend is particularly notable in Australia where foreign students comprise more than 25% of the entire student body, the highest proportion of any OECD country. Offshore students continue to increase, rising by more than 20% alone in 2008. However, while this provides an important source of income for Australian institutions it also exposes these universities to potential declines in enrolment should students decide to remain in their home countries during the global economic downturn.

Conclusion

Universities play a unique role in the economies and public policy of their countries. Many face conflicting pressures of rising demand for their services, especially during recessions, while also needing to adjust to a weaker outlook for operating and capital funding from their traditional state sponsors. Student enrolment levels are likely to generally rise, as alternatives to schooling are less attractive. Policy makers will also continue to seek out competitive gains through expanded participation rates and research investments. For some of the most prominent universities, financial losses in investment markets and rising global competition will depress balance sheet strength and increase spending pressures. We expect university relationships with sponsoring governments to remain strong and possibly evolve gradually toward more independent university funding sources. Overall, given growing fundamental demand for services and state support and oversight that is likely to remain a fundamental credit factor regardless of future developments, we expect public university credit quality will remain relatively stable and healthy in most cases.

Related Research

Special Comment

- Government Policies Support Canadian Universities' Creditworthiness, December 2008 (112905)
- Profile of Australian Universities, February 2009 (113510)
- U.S. Colleges and Universities Rating Roadmap, April 2009 (117008)

Rating Methodology

- Rating Methodology: Public Universities Outside the US, August 2007 (103498)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Global Recession and Universities: Funding Strains to Keep Up with Rising Demand

Report Number: 117983

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