

# Investigating Ways of Financing in Islamic Azad Universities

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## Abstract

*The most important purpose of universities is to provide educational and research services. In addition, universities in any society under take the duty of adding human capitals. Obviously, if universities lack enough funding to achieve their purposes, they would meet problems such as not being capable of operating the economic developmental cycle. Growing demand for higher education during the last quarter of the twentieth and probably twenty-first century had made limitations for the higher education, particularly in the field of public financing of higher education. The paucity of financing resources has constrained responding to the expectations of higher education, particularly in terms of the quality of higher education. Therefore, the credit and sustainability of universities are questioned. The shortage of university financing is a problem faced by all countries; this problem has been exacerbated in the last two decades. In this paper we investigate the ways of financing in Islamic Azad University, and we state the most important ways of financing.*

**Keywords:** financing, Azad University, endowment

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## 1. Introduction

All universities often use five resources to supply budget including: 1. Public budget 2. Sales training and research facilities 3. Student's fees 4. Endowment (donation) and 5. Foreign assistance, so that if they confronted with financial difficulties, they would be able to use other

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resources to compensate for their defects. As the output of higher education is neither short-term nor objective, so the universities provide budget with difficulty. Thus, the actual budget of students would be met with negative growth. In developing countries, universities are the only institutions that would enhance its work force with knowledge and they are the only institutions that can support the science-based economy. In addition, they are the only institutions which act in the birth of novel knowledge and the transfer of technology (Haez, n.d.). Most economists would agree that human resources finally determine the characteristics, social and economic development of the country. Human resources constitute the foundation of the wealth of nations. Therefore, the role of education has long been considered as a means of creating human capital (Milke, & Todaro, 1985). In today's changing world, the most critical factor of development is the issue of how to use the status of information, knowledge, and the position of efficient man power (Aliahadi, 1997). Today's the world is meeting drastic changes in technology and man power training, which has a leading role in creating and directing the national development toward the national and industrial development.

That would be performed through the relationship among industry, university and training. Higher education has important tasks and missions to provide human forces for the economic growth and the development of any country. The public resource limitations imposed on higher education, due to the general economic and social conditions, the pressure of public costs and the rapid increasing of social demands (Gharon, 1995). Over time, it is necessary to consider the need for rational and sustainable relationship between the industry and university, since they are important factors of growth and prosperity in various aspects. In addition, it is a means of financing universities. In fact, one of the most valuable resources is university which is available for community development. Universities and research institutions have achieved a great validity, since they are considered as leaders of science and progress. Peter Drucker, one of the experts in management and economics (the father of modern management) states a key economic resource and the most important factor of our time is not capital, nor natural resources, nor labor workers, but only knowledge remains. Thus research must be an inseparable element of university culture. Furthermore, universities should leave the limited islands of education instead; they should control the functional evolution of economic, social and cultural development.

## 2. The Ways Of Funding The Universities

### 2.1 *Direct Or Indirect Financial Support*

In general, the support of higher education is feasible through two ways of direct assistance to institutions of higher education and direct grants by students. The prevailing theory is that the assistance must be given indirectly. The advocates of this theory believed that funding requires controlling the process of spending and this monitoring follows another costs. If we consider the consumers of higher education as cognizant people, regarding the theory of Siadat the consumers of higher education is directed toward market demands and possibilities of employment. In particular, the failure of manpower planning caused the rejection of central planning methods and toward a market-oriented system (Sakharopolus & Vavdehal, 1990). However, this subject matter is not in contrast with, the issue that the government's support should be directly allocated to the institutions. On the contrary, the opponents argued the transition of public assistance by students may lead to consumerism of higher education (Draker, 1994).

The reasons of financial support from universities as the main important foundation of knowledge growth: In developing countries, there are not many academic institutions abroad. Thus university is the most important base of knowledge growth and the government is responsible for higher education. The depression of government's ability in subsidizing universities is indicated through the decreasing the number of accepted students or reducing the quality of higher education. There are various reasons to focus on the presence of government which is necessary for universities. To express in an economical language, the external positive effects of higher education on community and economy is one of the main reasons to justify government's support of education. In addition, if the community reach to this conclusion that, educated citizens benefits society then, continuity of subsidy for educational activities is defensible. General advantages of higher education includes participation of educators in economic development, strengthening democracy, political stability, social enlighten and improving general quality of life. Those who believe in the primacy of higher education interests over private interests state that, since all people benefits higher education, thus all must pay the costs of higher education. In addition, as the higher education has external interests, so it must be back by government and tax payers. Therefore, the private interests of higher education should impose students to undertake a significant portion of their costs. From another point of view, universities compete in terms of creating various disciplines with each other that depends on the rate of demand of students and the cost of disciplines. For example, disciplines such as economics, law, and business management are popular and the social demand is high for

them but start up costs is low for them. Thus, universities compete to attract students and the market mechanism operates automatically. But, instead some of the art disciplines confront with low social demand and high start up costs, thus most universities are not eager to offer the fields. As a result, in the second condition the government must act to support such fields of study. In fact, when the government faced with problems to provide the financial burden of higher education, they provide it by the adding of tuition paid by students. Some substitutions for the public funding or at least for the further increasing of public funding are considered such as students' fees, sales of goods and services, intellectual services. Thus, it is evident that the combination of public and private funding resources would provide a better budget. Moreover, students should also be involved in the financing of universities. However, this contribution can be minimum. Higher education contributes to improve the personal development, social cohesion of growth and prosperity and transmit of value. Students can take advantage of them as well. However, the government is the main supplier of funds in most countries. Hence, public funding is a major source of financing for higher education to ensure the strength and success of the multiple roles of higher education in community. Governments should consider the long lists of benefits of higher education and takes it into account as an investment, not a cost.

## ***2.2 Sales of Training and Research Services***

To provide new funding in Azad universities some planning has been made including commercializing scientific products and contract with industry for the required activities of the society. In addition, other planning to provide funding in Azad universities is to flow the cash for incomes through making insurance and banking. Another part of Azad university revenues is provided through the sale of educational services and researches. These types of revenues are apparently similar to research contract revenues, but they are different in terms of time spectrum. Furthermore, it includes the incomes of short-term courses, health services. In some countries no distinction is made between revenues and the research contract revenues (Gharon, 1995). During the twenties, the government financing has a fundamental role in higher education, moreover, up to date, the government proceeds effectively and maintains its financial mechanisms. However, during the last two decades supplying educational services is inclined toward the market or clients, so that the share of the educational resources obtained from applicants has been the growing trend. The developments has been mentioned in two areas, the first one is the reduction of the financial power of the government to provide educational financing and the other one is, the increasing in the capital private interests of individuals and families. In addition, private firms have sufficient incentive, as applicants of educational services, trade with educational institutions. Thus they can act as an financing partner. But, Iran universities failed to offer adequate services for marketing.

The key factor of a university success in this type of revenue is an effective marketing, done through a comprehensible investigation about the types of manufacturing activities, business components and services. Different methods can be used for marketing, but the experience of some countries has indicated that face contacts and discussions between deans of universities and firms are the most effective way. The most important factor of universities to success is flexibility in adapting the content of educational programs with the needs of clients, fast reactions and high quality of training. Thus, obviously the above factors depend on the strong financial and administrative management(Gharon, 1995).

There are several models for cooperation in performing training programs. Azad universities contract with an industry or organization in some of the models. Azad universities design the content of training programs, course periods and date of that regarding the position of the applicants. In addition, these courses are both applicable both locally or within the universities. In another model, university and other community organizations jointly undertake the performance of training courses. Thus, this model is more concerned with establishing training centers such as the centers promote health education. A central committee composed of representatives of all the partners monitoring the quality and the training. In fact, this kind of cooperation leads to the establishment of a common training or research center and in some cases may take advantage of the government's assistance. The present companies or centers are well known as the title of developmental and research centers. The pattern in which a particular organization or a group joins the universities has the advantage of flexibility. Hence they can change the content of normal courses periods.

The history of financial problems of Iran universities indicates public universities should not be involved in non-public activities. Thus this mental ground has been internalized in the university administrations. But some universities such as Sharif University of Technology ignored this issue and they do not meet any financial difficulty. The very university contract with automotive companies; therefore, they research for the company and solve their technical affairs. Moreover, it helps to fulfill the purpose of university that is to develop knowledge.

### ***2.3 Students' Fees***

The transfer of funds from students to universities (regardless of gifts, endowments and alumni donations)is performed through tuition and fees in two forms of fixed and variable. Advocates of fees mentioned the reasons which were the same as what advocates of indirect subsidies stated. Thus, they stated using fees to enhance the capacities of higher education is a good solution for the

budget constraints and high demands. The opponents of obtaining fees referred to the subject matters such as the probability of low demand, lack of training volume and the violation social justice.

Totally, the utility of fees system takes effect in two dimensions, the impact on the total volume of financial resources and the impact on enhancing the efficiency of higher education institutions. In different countries fee experiences are different. Some countries do not receive any fee; other countries get all the fee or just part of the fee. But most countries receive fees and supply students' assistance plans. Needy students can continue their educations through using the assistance. Students' support is performed through two ways of students' Assistance and student's loan. Student's assistance has long been common, but by increasing the number of student's, granting has been a problem for universities. As a result, student's loan is an alternative to reduce universities costs (Gharon, 1995). In some countries, Pr-Paid tuition plans are developed and implemented, in which the students receive discount instead of that. In fact, this action is a kind of stock purchase for educational institutions so that, the respected university would commit to pay interests to students as a differentials of Pre-Paid and received fees. Facilitating or implementing the project (which is common in private universities of U.S.) requires the following conditions (Hart, 1987).

1. Broad participation of all Azad universities in the country.
2. Possible transfer of interests in a limited way (using the interests by the second child).
3. Flexible schedules to pay fees.
4. Unlimited participation in the number of people applying it.
5. The possibility of paying instalment for prepaid fees in advance.
6. being flexible in paying in advance of full tuition.

Obviously, the performance of very plan requires the guarantee of developmental training capacity. The other applications of the plan are, to direct students towards certain areas and to contribute the higher education to be regional. In addition the collected investment funds can be new sources for universities.

#### ***2.4 Endowment And Granting Public Assistance To Azad University***

The main aim of universities is to present educational and research services to the community. In other words, it undertakes the task of enhancing human capital to any community. Obviously, if universities do not provide adequate funding to achieve their goals, they would meet difficulties in performing their duties. Moreover, they can't correctly operate the economic developmental cycle. Therefore adequate funding is one of the most important challenges for universities.

Dedication (endowment) has been emphasized in Islam religion. But unfortunately, higher education has not been successful in attracting funding through dedication although; the Ministry of Education has operated successfully.

Benefactors usually have strong religious grounds, which causes to devote their assets and properties. Thus, the religious motives lead people to devote their properties to the mosques. Hence, people dedicates to the holy themes that is approximate to their religious beliefs rather than devoting to a phenomenon which is virtually west oriented. Thus, this problem requires a broader cultural work. Building school was a controversial issue too but, finally they came to this conclusion that this issue is as important as building mosques. In universities this belief that, just the government is responsible for undertaking this duty, causes obstacles. Cultural works and scholar's guides can contribute to universities to achieve their goals.

Most universities and higher education institutions particularly private and open universities have various assets and dedicated properties including financial assets, industrial properties. They preserved their original assets and only the income is used for general purposes.

The dedicated assets are called any property or fund that the following principles apply about that:

1. The original property must be unusable.
2. To Generate revenue from property.
3. To apply the income for the expenditure of specific institutions.

Devoted assets are divided into two categories regarding the authority of institutions: the first one is property or the unbound funds and the second is the property and bound funds. It is evident that,

the first type of assets is more prefer. One of the duties of the board of the directors of each university or institute is, to convince the donors to share their properties unsoundly for the use of institutes. The main advantage of collecting dedicated assets is, to provide a stable and firm source of income for the institutes and as it makes autonomy for universities thus, it keeps universities safe from sudden pressures (Gharon, 1995).

### ***2.6 To Invest In The Stock Market***

Another way of university financing is to generate income through investment in stocks and bonds. If the Azad University invests its surplus funds derived from fees, services, grants and dedicated assets it can generate another income through its revenues and outputs (Gharon, 1995).

### ***2.7 The Use Of Credit Facilities***

The use of credit facilities is another means of funding from financial markets. This source in comparison with other sources of institution's income (transfer incomes or current incomes) allocates fewer contributions. Basically, this method of financing is often used in private higher education institutions and Azad universities but public institutions resorts less to that method (Gharon, 1995).

## **3. Discussion and Conclusion**

Important plans of providing new financing resources include commercializing scientific products, contracts with industry activities. The plans are required for generating cash flows and adding values to make incomes with making or cooperating with insurances and banks. Also, regarding the discussions on the various aspects of research, the general policies of Islamic Azad University finance can be summarized as follows:

1. Recovering the costs of training courses which have low demands, can provide financial resources for Azad universities.
2. Regarding the experience of different countries student's loans are not appropriate means for universities to reduce costs. So if the reduction of cost is a priority, recycling the costs is not in priority in this way. Therefore, student's loan is the only means of financial supporting of students.

3. As Azad university is not supported directly by the government. They receive subsidies regarding the number of students. Therefore Azad university increases the number of students so that, they can enhance their public share through student's discounts, not increasing fees for under graduate courses, granting student's loans,

4. Azad University must attract experienced teachers to enhance academic ability of students. In this way factories and companies would cooperate with universities. Thus university would be successful to generate income through research contracts.

5. To solicit donations, dedicated assets, the establishment of certain institutions ( preferably under the supervision of a committee of the board of trustees), collecting coherent data from donors, informing them from available facilities in the tax law of inheritance, holding special ceremonies and granting partial independence to Azad university to use cash and non-cash gifts would be effective and useful. Cultural problems are the main obstacle to assign endowments to universities. Therefore advertising and informing people have important roles done through political and religious leaders, endowment organization and media

6. Centres must be build in the university to undertake the duty of finding clients, marketing for training services, researching and counselling.

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