How 'social financing' could help fund higher education for under-represented students in Canada

March 20 2024, by Shelley Legin and Heather M Hachigian

Credit: Pixabay/CC0 Public Domain

Canada's new international student cap will likely have a significant impact on universities, which are already facing financial pressures and other challenges related to artificial intelligence and climate change—all while attending to calls for equity, diversity and inclusivity.

Among these issues, one priority is including under-represented learners in higher education. There is risk that the revenue loss from this cap will undermine progress made in recent years towards the inclusion of under-represented and equity-seeking learners in higher education.

This decline could worsen if universities compensate for this loss by reducing investment in much-needed supports for under-represented learners.

The participation rates of immigrants, rural youth, people with disabilities and Indigenous Peoples in higher education lag far behind Canada's overall rate.

Of the 7.7 million job openings forecast from 2022 to 2031, more than two-thirds are expected to require post-secondary education. Given these educational demands, we need to increase participation equity to address broader societal inequities.

The social finance solution

Research and experience both show that increasing the participation of under-represented learners requires more than offering waived tuition—it requires comprehensive, wrap-around supports.

The current funding model, which relies on a mix of tuition, fees, grants and donations, is failing under-represented learners.

Beyond financial and non-financial supports, a systemic approach is needed to transform education. Publicly funded grants and corporate or charitable donations are poorly suited to this task on their own. Social finance presents an alternative approach.

Unlike philanthropic contributions or traditional scholarships where donors provide funds that programs can invest or disburse, social finance involves private money being used to finance programs that create positive social or environmental impacts.

Social finance funding is repayable with interest, often at or below market terms. Lower returns are acceptable because of the positive impacts generated by these programs. Often, governments will cover the initial investment and financial return in hopes of reaping later benefits through things like future tax revenue from employed graduates.

Social finance is also unique because the invested money is repayable with interest based on outcomes of the program. Firms that supply this funding are motivated to work with organizations like universities to achieve these desired outcomes which, in turn, trigger the repayment and financial returns alongside positive social impacts.

The supply of possible social finance funds is estimated at over $1 billion in Canada. To boost the social finance market even further, the Canadian Federal Government recently launched a $755 million Social Finance Fund.

But social finance has faced slow uptake in sectors usually funded by governments like higher education, with the exception of a few pilots.

Barriers to social finance

To find out why social finance isn't widely used to fund higher education in Canada, Shelley Legin, the lead author of this article, conducted research involving 25 in-depth interviews with leaders in the higher education and social finance sectors.

The data showed two key barriers to the use of social finance in higher education. First, leaders in higher education expressed a lack of familiarity with social finance. Secondly, there has been limited pressure to explore innovative financing approaches.

On the social finance side, there is a lack of exposure to the issue of participation inequity. This is in part from the myth that opportunity exists for all with the delivery of a public good.

Adding to the challenge is that, until recently, public funding of higher education has not been a household topic. During interviews, one university president said,

"The university sector is not well understood, particularly the funding model. And that is why you do not see a lot of impact investment."

In addition to creating awareness and providing education about the opportunity among the sectors, there is a need to connect the vast supply of capital with demand.

But this first requires growing demand for social finance in higher education. Colleges and universities do not have the capacity or expertise to do it on their own and existing social finance experts do not understand the complexities of higher education.

It is clear that a specialized intermediary is needed who knows both higher education and social finance. As one interviewee said,

"You have a supply and demand thing here, but there's no one in the middle. And in the absence of that, there's no one to bridge these worlds."

A scalable opportunity

To substantially increase investment activity social finance interviewees believed that this would require creating new investable products. These products would be designed to specifically address the lower participation rates of under-represented learners.

One example could be a program designed to financially support under-represented students in pursuing in-demand degrees. This investment could be backed by philanthropy or governments to repay the principal and provide a financial return. The return would be outcomes-based, such as the number of degrees awarded or time to employment.

However, there is a risk that such prescribed programs would stream under-represented populations into strictly defined occupations and reduce the chance for them to explore education more.

With this risk in mind, the success of any such programs would hinge on funders and educational institutions working together. This collaboration would serve to meet the needs of beneficiaries and help achieve positive outcomes.

There is a real opportunity for institutions to create products that could be offered at many institutions and at scale to investors. This would solve a significant problem facing impact investors by having a deal size large enough to cover transaction costs.

With social finance, hundreds of millions of dollars could be deployed to intentionally increase participation equity. Higher education institutions and social finance leaders need to work together. When they do, they will open doors to a promising future for the under-represented.

This article is republished from The Conversation under a Creative Commons license. Read the original article.

Provided by The Conversation