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Evaluating Private Higher Education in the Philippines: The Case for Choice, Equity and Efficiency

Charisse Gulosino
MA Student,
Teachers College, Columbia University

Abstract Private higher education has long dominated higher education systems in the Philippines, considered as one of the highest rates of privatization in the world. The focus of this paper is to provide a comprehensive picture of the nature and extent of private higher education in the Philippines. Elements of commonality as well as differences are highlighted, along with the challenges faced by private institutions of higher education. From this evidence, it is essential to consider the role of private higher education and show how, why and where the private education sector is expanding in scope and number. In this paper, the task of exploring private higher education from the Philippine experience breaks down in several parts: sourcing of funds, range of tuition and courses of study, per student costs, student destinations in terms of employability, and other key economic features of non-profit /for-profit institutions vis-à-vis public institutions. The latter part of the paper analyses several emerging issues in higher education as the country meets the challenge for global competitiveness. Pertinent to this paper's analysis is Levin's comprehensive criteria on evaluating privatization, namely: choice, competition, equity and efficiency.

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If you are interested in submitting a paper, please contact:

National Center for the Study of Privatization in Education
Box 181, Teachers College,
525 W. 120th Street,
New York NY 10027-6696
www.ncspe.org
email: ncspe@columbia.edu

I. Introduction

The Philippine higher educational system is distinctive in the preponderance of investments of private capital in educational institutions. The heavy reliance on private sector provision is considered the highest rate of privatization in the world – approximately three quarters of students in the Philippines are enrolled in private colleges and universities.[1]

A close examination of the history of tertiary education in the Philippines depicts the different state of affairs that prevailed in the sector during specific periods. The heterogeneity of the private sector that has emerged in higher education – in terms of financing and provision – represents the development of access to education amidst the interweaving problems of scarce public resources, rising poverty and slow economic growth. For analytical purposes, the term "privatization" in higher education, as in the case of Philippines, refers to private provision on the one hand and private funding on the other. The inclusion of private funding in terms of household education spending and contributions is particularly relevant in developing countries in which access to tertiary-level institutions depends to a significant extent on private resources. Concomitantly, a review of the different, successive tides of privatization shows the active role of private educational provision that has contributed to the economy's stock of knowledge and to the productivity of its labor force. As the paper demonstrates, this extreme reliance on private provision and financing to increase higher education opportunities has failed to deliver a socially optimal level of investment. The responsiveness of the different private higher institutions has fostered institutional growth, but this growth has produced educational outcomes with significant implications for choice, equity and efficiency.

A number of interesting studies have been written that describe the economic characteristics of higher education in the marketplace. For example, the student-as-supplier (i.e., tuition payments) and student-as-input model (i.e., individual financial aid

[1] The role of the private sector is relatively limited in primary education, where private schools account for about 8% of enrollments, although preschool education in the Philippines is almost entirely privately funded. See Jimenez and Sawada (2001).

grants) of Rothschild and White (1995) assumes a fully informed, perfectly competitive, profit maximizing, and market-driven interaction between students and higher education institutions. The donative-commercial nonprofits analysis of Winston (1999) articulates the degree of competition for quality students in the educational marketplace and the level of access to donative resources, which defines the institution's capacity for academic excellence and prestige. For developing countries, Birdsall (1996) demonstrates the need to distinguish broader economic and social returns from private returns to higher education. As appealing as the studies may be, there are well known reasons why higher education, and the market for higher education in particular, may not achieve an optimal allocation of capital investment. Pertinent to this paper's analysis is Levin's (2001) comprehensive framework on evaluating privatization, namely: choice, efficiency and equity. In exploring the expansion of private higher education in the Philippines, Levin's framework finds relevance in the analysis of muted competition across a hierarchy of educational institutions, which results in highly unequal provision across student groups.[2]

The paper reviews the higher education in the Philippines and a rationale for its immense growth - showing how, where, and why the private education sector is expanding. The review proceeds in several steps. First, it shows the different successive tides and heterogeneity of the private tertiary education sector in the Philippines. Second, it deals with the economic circumstances of higher education, in particular, the shifting costs from the public to the private sector. Third, it identifies the challenges for higher education. Finally, it offers a brief summary and conclusion.

II. Higher Education Institutions

Emergence of Sectarian and Non-Sectarian

The first generation of private schools was church-affiliated higher education institutions, founded by the Catholic religious congregations that came out with the Spanish regime. During the colonial period, the churches played a major role in primary and secondary

[2] The criterion of social cohesion is not considered in this paper.

schooling. That provision was extended to higher education, at least in part to help train new members of the clergy (Gonzalez, 1997:5-6). The University of Sto. Tomas (1611) is the oldest surviving university in the Philippines and in Asia. The earliest private higher institutions are also Christian-affiliated: Ateneo De Manila University (1901) and De La Salle University (1911) are considered the best private universities in the country today (Asiaweek, 2000). Another type of sectarian institutions founded by Protestant mission boards came into being with the American occupation. American Protestant missionaries established several educational institutions within the country such as the Presbyterian Silliman University (1901) in Dumaguete City, the Central Philippine University (1905) in Iloilo City, Methodist Wesleyan University-Philippines (1948) in Nueva Ecija, and the Philippine Union College (1957), now Adventist University of the Philippines in Silang, Cavite (Isagani, 1997).

In 1900, a new generation of private tertiary institutions sprung up with the emergence of educational institutions owned by individuals, often family dominated, or closed group of businessmen through boards of trustees, that were not affiliated with religious organizations, either Catholic or Protestant, and were either for-profit or non-profit. These educational institutions are called non-sectarian. Several prominent Filipino families and businessmen founded schools such as Colegio Filipino, Instituto de Mujeres and Liceo de Manila. Other universities founded include: Centro Escolar University (1907), Far Easter University (1919), University of Manila (1913), Philippine Women's University (1919), Jose Rizal College (1922), and Mapua Institute of Technology (1925) (Dalmacio, 1980). The somewhat contradictory drives of philanthropy, for-profit and the practical need to contribute for a better educated and disciplined work force led to the gradual expansion of a network of private colleges and universities in metropolitan centers. There was strong drive for such institutions to provide educational options, which at the time was closely linked to the Roman Catholic and Protestant Churches. These institutions were usually very small, usually well under 100 students, and charged only low fees. They survive through fee-paying students. There was a strong drive among parents to pay tuition and fees, so that the option of starting a fee-paying scheme outside the 'faith-based' educational institutions was considered.

Non-sectarian institutions in this period share several common characteristics. First, proprietary institutions became pioneers of democracy and national development goals with strong academic orientation and English as the medium of instruction. For example, Centro Escolar University became the first Filipino college for women and the first non-sectarian university to offer the degrees of Doctor of Philosophy and Doctor of Education. Second, proprietary schools started out small-scale by offering primary and secondary education, and then developed by expanding academic offerings into undergraduate and professional courses. A case in point is Liceo de Manila that began as primary and secondary school in 1900 and later specialized in Pharmacy and Dentistry courses. It was renamed Manila Central University in 1948 after the school received university status. Third, non-sectarian institutions made great efforts to start banner programs in one academic field or discipline in response to educational demand. For example, architect Tomas Mapua founded an onsite training school Mapua Institute of Technology - the first school to offer evening classes in architecture and engineering which specifically catered to working and part-time students. Non-sectarian institutions of this type multiplied after 1917 with the passage of the American-sponsored Private School Law (Act No. 2706), which granted private colleges and universities full autonomy both in funding and control. By 1930, there were 37 private institutions offering college and professional courses, with a total enrollment of 13,981 students (Isagani, 1997). Finally, these educational institutions were concentrated in the wealthy districts of metropolitan Manila area.

The Japanese occupation of the Philippines from 1942-1945 was a bleak period for private tertiary education. Among those institutions destroyed were the University of San Carlos in Cebu City, St. Paul University in Tuguegarao City, and Manuel Enverga University in Quezon Province. Shortly after the declaration of independence in 1946, restoration of basic infrastructure, social services, and economic needs became the central priority of the resource-depleted republic. Government bureaucratic requirements, together with the dearth of government funding for public education, meant that private sectarian and non-sectarian schools spearheaded the growth in higher education. The

emergence of the new republic also generated a great national demand for education. The demand for schools from across all social spectrum- namely, students from poor, rich, religious and intellectual families - created the supply. Many new colleges and universities were established. By 1948, there were 259 private colleges and universities in the country (Isagani, 1997).

From 1945 to the Present: Dominance of Private Higher Institutions

There were several trends that characterized higher education in the post-war period. First, private institutions that initially specialized in one academic field expanded into other disciplines. For example, Arellano University was founded in 1938 as the Arellano Law College and reopened in 1945 as Arellano Colleges after the war with several curricular offerings in education, commerce, foreign service, and arts and sciences. Second, affluent families and prominent educators responded to the need for a higher education institution in the rural areas and invested in education in different provincial capitals. Popular among private schools in this period was the scheme known as "study-now-pay-later plan" where students could enroll with minimal down payments. Their accounts were settled only when they needed their clearances after graduation and their transcript of records subsequently released. This financial scheme, for example, was adopted by Zamboanga Arturo Eustaquio Colleges (1948) in Southern Philippines, Mindanao. With the government encouraging private contributions and investment in education, non-sectarian schools surged in number. Finally, a major trend in private tertiary education during the post-war period was the establishment of branches or other campuses by several universities. The increase of population outside the main university area in Manila paved the way for the 'branching out system' in conjunction with curricular offerings that expanded according to student demand.

The opening of branches inevitably led to the establishment of consortia of schools managed by religious orders or corporations that work as independent and self-sustaining entities under the consortium. Eventually, sectarian schools such as Assumption College, College of the Holy Spirit, and Saint Paul's College established branches in different

provincial capitals of the country. The government's thrust to develop areas outside Metro Manila served as an impetus for businessmen and religious corporations to set up colleges and universities outside the capital. Such universities included: University of Baguio, Holy Angel University, and Rizal Memorial Colleges.

The post-war boom in the late 1940s and the early 1950s and 1960s was followed by an international recession.[3] The private sector provision deteriorated in the sense that they suffered severe budget constraints. In this period, the policy was one of *laissez faire* to the point at which more than 60% of students that attended private universities were entirely financed from fees. Meanwhile, two waves of an international oil crisis in the 1970s, coupled with fiscal mismanagement contributed to a bleak economic scenario for the Philippines. As revenues plummeted, private institutions found themselves in the throes of an economic crisis, since the government regulated the tuition fee increases from 1970s onwards. They also had to cope with increasing overhead expenses from government-mandated wage increases and the spiraling cost of power, utilities and school supplies. Specifically, the twin-policies of import substitution and domestic orientation by the government during the 1960s and 1970s fulfilled the demand for easily-trainable college graduates who were then provided with the needed technical training in the companies.

Non-sectarian higher education, which took an increasingly important role from the mid-fifties, grew very rapidly during the 1980s and 1990s. By 1999, it accounted for about 85% of all students outside of the public institutions. Private universities tended to specialize in few fields that have a greater rate of employability. The generation of non-sectarian schools, mostly for-profit, that sprung up in this period concentrated on four-year undergraduate programs, usually in business or the professions,[4] i.e., business administration, commercial design, hotel management and tourism, and secretarial

[3] During this period, the Philippines emerged as the 'educational capital of Southeast Asia,' with a number of its universities generally considered the best in certain fields such as social sciences and agriculture. See Isagani (1997).

[4] The service sector (non-agricultural, non-industrial productive and distributive activities) of the economy is a major source of employment for the Philippines' labor force. See Tullao (2000) for discussion of the role of professional services in the economy and higher education sector.

studies. In the current economic climate of privatization, private higher education institutions that show immediate employment possibilities of their graduates attract students even if they have to pay higher tuition fees. As the unemployment rate increases among traditional Arts and Sciences graduates, private institutions that provide training in professional fields have gained increasing relevance.

What emerges from this brief historical review is that there are different successive tides of privatization that demonstrates the heterogeneity of the private sector. As summary, following are the three important features of higher education in the Philippines:

a) Scale of higher education dominated largely by the private sector

As earlier noted, the higher education system in the Philippines has been able to keep pace with the strong growth in demand driven largely by private institutions. For decades, the Philippines led most countries in private education growth, as the sector jumped from 259 colleges and private universities in late 1940s to 1,665 private tertiary institutions in 2002. Tables 1A and 1B show that the rapid growth of the private tertiary institutions has accommodated much of the fast expansion in student numbers (along with the effect of population growth) and has spearheaded the development of access to higher education.[5] On the other hand, both public and private institutions of higher education in the Philippines charge tuition that covers a sizeable proportion of the costs of running their academic programs. Tuition is a smaller but still significant part of the revenue collection for public institutions. This shows a strong reliance on private resources (i.e., household) for private colleges and universities that function largely without government funding, as well as for public institutions that function with government funding.

[5] Texeire and Amaral (2001) noted that private institutions in most countries in Europe, Latin America and Southeast Asia, including the Philippines, have typically responded to strong demand by duplicating the existing public provision. This point, however, needs to be clarified with the expansion of state colleges and universities (SUCs) in the Philippine in recent years. Studies have shown that SUCs offer academic programs that duplicate those provided most cost-effectively by private institutions. This has led to the problem of 'crowding out,' that is to say, SUCs tended to draw away students who would otherwise have attended private institutions. See Jimenez and Sawada (2001) for estimates of 'crowding out effect' in the Philippines. For a fuller discussion, see Asian Development Bank and World Bank (1999).

b) Private higher institutions serve as either non-profit or for-profit firms

The EDCOM Report (1993) presented a useful distinction to describe the governing structure of private tertiary institutions in the Philippines: First, 'non-stock/foundation' consists of non-profit institutions where share of ownership is not sold, and where surplus are reinvested back to the institutions. Second, 'stock institutions' are proprietary businesses that distribute dividends to stockholders. Sectarian institutions are strictly non-stock/non-profit, whereas non-sectarian institutions are either for-profit or non-profit. However, the border between nonprofit and profitmaking of educational provision seems rather cosmetic, as private institutions inevitably operate in a manner that revenues should never exceed expenditures. The only difference is that the non-distribution constraint of educational provision is associated with nonprofit firms (i.e., nobility of purpose, absence of opportunism, trust market, dedication to equal opportunity and access). By contrast, for-profit firms maximize profit gains because information asymmetries are pervasive (Winston, 1999).

c) High private benefits held to be attached to certain degree programs or to certain institutions

One argument is that markets are best left to regulate themselves in order to secure the optimum balance of quality and prices. Like other Asian countries, the Philippines has relied on private provision and financing to increase tertiary education opportunities, both to decrease the burden on taxpayers and to give market forces greater rein. With collegiate enrolment of 241,650 in 1959-1960, the school population in private tertiary institutions burgeoned to 1,174,118 in 1990-1991 and with a total of almost 2 million in 2000-2001, or an increase of more than eighty times over a span of four decades. Of the 2 million enrollees, 85 percent are in the private institutions in some 978 academic programs in the undergraduate and graduate levels (CHED, 2001). Sectarian institutions, which are administered by religious sects, registered 635,110 enrollments. Non-sectarian institutions registered 1,292,829 enrollments in the same period. This figure is far above figures registered in both developed and developing countries. For enrollment in private

higher education, Korea had 78.3% (2000), Japan 75% (1999), Indonesia 63% (2000), Columbia 61%(2000), India 60.5% (2000), Chile 28.4%(2000), United States 22.6% (2000), and Argentina 20% (1999) (World Bank, 2000).

Enrollment figures, however, are lopsided and high only in some tertiary courses such as teacher education, business and management studies, and engineering, with some targeted provision of more costly courses in areas with a guaranteed market, such as computer sciences and health-related areas such as medicine and nursing (See Table 2). Private institutions account for majority of the enrollments in education and teacher training (81%), business administration and accountancy (88%), medical fields (92%), mathematics and computer science (85%), and engineering (66%). These private institutions tend to compete for the same potential students in public institutions by expanding in areas with strong enrollment demand. By contrast, public institutions account for most of the enrollment in high-cost programs such as agriculture and fisheries (90%) and natural sciences (60%). Low cost, popular and high-volume teaching programs directed toward marketable certificates in professional fields where private rates of return are expected to remain high, therefore, became the golden rule that guides private sector development in the Philippines. As will be noted below, the lack of balance in the distribution of enrollment by areas of knowledge / discipline that has characterized much of the private sector plays a critical role in understanding the current deficiencies of educational provision.

III: The Economic Circumstances of Higher Education in the Philippines

In many countries, while elementary and secondary education funding schemes have been based on a significant share of private sector finance, the most widely adhered means of financing higher education has been largely on public sector expenditures, along with smaller proportions of nongovernment revenues (i.e. tuition and fees). Yet, cross-national statistics show that the Philippines belongs to the group of low-income countries with public expenditures on education at 2-4% of GNP (UNESCO, 1995: 155-157).

Review Evidence

What follows are the key economic features of higher education in the Philippines analyzed within the process of shifting higher education costs from the public to the private sectors.

1) The overwhelming reliance of higher education financing on private sector sources has produced mixed results on the demand for higher education as well as on how private institutions have chosen to 'price' their educational services and who can afford these services.

Several studies (EDCOM Report, 1993; PCER Report, 2000) noted the problem of unbalanced regional distribution of higher education institutions, particularly, the mushrooming of private institutions that tended to concentrate on the wealthiest areas of the country, away from isolated and rural areas. In terms of geographical distribution, almost 31% of the students enrolled in higher education are enrolled in the National Capital Region (Table 12). Noteworthy is the small number of tertiary educational institutions in areas with high percentage of families below the poverty threshold.[6] The unfortunate state of affairs is that the demand for higher education follows the income distribution of students/families. This point is reflected in the tuition fee structure, with many tertiary institutions relegated at the bottom heap of the fee structure. Some of the studies point out that it is essential to distinguish the various types of public and private tertiary institutions for proper comparison and to adjust for the cost of living. One study compared tuition fees of private institutions in Greater Metropolitan Manila (GMA) to be especially higher than those of public universities, out of reach of all except a small minority. The annual tuition fees of these private universities are nearly half the average income of Filipino families (Php123,168 / $10,154 in 1997).[7]

[6] The percentage of families below the poverty threshold in the country as a whole was 32% - ranging from 7% (lowest) in the National Capital Region (NCR) to 50% in Bicol (Region V) and 59% (highest) in the ARMM.

[7] On this note, see http://www.gse.buffalo.edu/org/IntHigherEdFinance/region_asia_Philippines.html

There are indeed considerable gaps in the fee range. Compared with public sector tuition, on average, the expenditure per student at an expensive private university costs three times or more, between $1,600 and $4,000 per term (Table 3). There are only a handful of highly expensive educational institutions since only a small proportion of the population is well off and can afford them. In most of the public tertiary institutions tuition typically amounts to between $400 and 1,000 per term and any additional fees are usually less than what students would pay at a private institution.

A useful measure of socioeconomic status of employed graduates that is tied to the income distribution is father's educational attainment (Clotfelter, 1999). In this regard, CHED Tracer Study (popularly known as HELMS III or Higher Education and a Labor Market in the Philippines) conducted data on parental income of graduates in public and private institutions (FAPE, 1998). Table 4 indicates that the percentage of a group whose fathers completed a given level of education corresponds to a certain income bracket in the system (Johanson, 1999). As expected, public and private institutions serve students from very different socio-economic backgrounds that have a different capacity on educational spending, particularly for parents with higher educational attainment. Approximately 75% of the graduates of public institutions come from bottom quartiles (<99,000Php), 22% from middle quartiles (<299,000) and 3% from higher quartiles. This is compared with almost 61% of the graduates of private institutions come from bottom quartiles, 33% from middle quartiles and 6% from high quartiles. In both institutions, a very disproportionate number of graduates are from low-income families- thus demonstrating the very large differences in private educational spending among households. Another similar study analyzed student backgrounds and found wide disparities within and by type of institutions.

> The University of the Philippines draws from the wealthiest and most educated families in the population, in which 58% of the fathers have finished college and 77% are professionals or administrators, while only 18% of fathers of other state college students have finished college and 22% are professionals or administrators. Within the private sector, the Catholic schools are almost as skewed toward the wealthy as University of the Philippines, the secular non-stock institutions draw from a less advantaged subgroup and the proprietary schools are in between these two extremes…. Institutions vary in selectivity, which can introduce an even greater income bias than does price (Tan, 1995: 119).

In particular, students from higher socio-economic backgrounds (such as higher-income, educated parents and urban families) spend more than families from lower socio-economic backgrounds (i.e., lower income and rural). The private costs of education can have a negative impact on the demand for education, especially for families from lower socio-economic backgrounds.

The above findings have implications for the relative cost of public and private institutions. To the extent that private institutions serve proportionally more students from higher socio-economic backgrounds, direct private costs are relatively higher for private higher institutions (Table 5).

2) Students and their families confront more directly the entire burden of higher education costs.

Two recent studies provide an analysis of household spending on higher education in the Philippines. In the first study, Maglen & Manasan (1999) used data collected by the National Statistics Office from surveys of family income and expenditure by level of education. Table 5A and Table 5B show the combined household and government expenditures on education as a proportion of GNP between 1986 and 1997.[8] Public expenditures on higher education as a percentage of national income (a measure of 'national effort') increased from .46% to .69% but declined from 18.27% to 17.34% of public recurrent expenditures on higher education as a percentage of total public recurrent budget on education. Overall, while funding sources increased over the same period, the largest increase was in private spending which rose from .8% to 1.16%. For the period 1986-1997, the results show that: 1) household financing increased between 49.29% and 56.19% in private higher education; and 2) household financing in public higher education grew only between 7.31% and 13.78%, a comparatively low proportion vis-à-vis financing of elementary and secondary education. Thus, per student household

[8] In the context of these policies, it is interesting to note that the proportion of student or household expenditure on higher education is much higher in developing countries like the Philippines than in countries like the United States. Specifically, household costs on higher education as a proportion of GNP per capita are much higher in developing countries than in developed countries. See Ziderman and Albrecht (1995).

financing on private higher education are almost seven times greater than for public higher education. This goes to show that if households want tertiary education of even minimum quality, they must provide the resources themselves.

The other study (Johnstone & Shroff-Mehta, 2000) provides more detailed breakdown of total higher education costs borne by students and parents in various countries, including the Philippines. The study finds that low-income families increasingly share the burden of instructional costs of higher education, even in the acknowledged 'public institutions.' Table 3 documents the underlying instructional cost differences attached to certain institutions: the variability in the cost of tuition narrows for low-cost tertiary institutions and widens for high-cost tertiary institutions. Households with children from high-cost institutions pay several times the annual tuition and fees, especially for elite private institutions with a good reputation.

On the whole, the lifeblood of private tertiary institutions depends mainly on student fees and to some extent on alumni donations, grants, subsidies, and other auxiliary income. As private institutions do not receive financial assistance from the government, they are subject to less rigorous control, and they enjoy considerable freedom in formulating financial policies – in generating revenues and in their spending. This measure of autonomy also extends to the allocation of resources as well as in the flexibility in the implementation of curricular programs,[9] and in the selection of teachers and students, which is mostly left to these institutions (Tullao, 1993). In addition, it is interesting to note the flexibility of government regulation on the setting of tuition fees; i.e., rules against excessive charging of fees or requirements for a ceiling on tuition increases. For example, the passage of the Education Act of 1992 allowed private institutions to administer their own rates for tuition, although increase of private fees are not done at will and must subscribe to minimum regulatory procedures from Commission on Higher Education (CHED). That is to say, private tertiary institutions are required to allocate 70

[9] This deregulation has been granted recently to top private higher education institutions with Level 3 accreditation in 3 program areas, high over-all performance in licensure examinations, and strong academic reputation. Overall, CHED adopts a minimum standard policy as part of its quality control function. See CHED (2000) and (2001).

percent of any tuition fee increase for teacher compensation, 20 percent for overhead costs and 10 percent for return on investment.[10]

3. Cost-recovery is seen to be higher in private education institutions. Several caveats, however, must be considered in the interpretation.

The school-level cost, on a per-student basis, (or total unit costs, as used interchangeably) is divided into two parts: institutional operating costs and direct social costs. Operating costs refer to educational production spending per student based on cost and enrollment. Fee-related spending by households in private institutions is often the major source of support for operating costs, while private contributions and government subsidies are subsidiary components. Table 6 shows that private tertiary institutions have lower operating costs than public institutions. This finding seems consistent with the assertion of cost analysts (Jimenez and Lockheed, 1995) that private institutions have stronger incentive to lower costs as one way of improving cost-effectiveness and have more freedom than public institutions in decisions regarding the appropriate mix of educational inputs. For example, the main cost-cutting opportunities lay in cutting courses with low matriculation. Internal market discipline, consequently, develops because few colleges and universities can afford to maintain programs or courses in which student demand is limited. According to Maglen and Manasan (1998), many private institutions charge full cost-recovery fees because they receive no funding support from the government. A big chunk of the tuition fees is used to cover the operating expenses at the private institutions. As a result, they almost always experience the necessity of ensuring sufficient enrollments (particularly in popular academic offerings) to provide the needed income. However, a close examination of institutional diversity among public and private educational institutions unmasks an equivocal comparison of their cost differentials.

Studies on the relative cost and the relative cost-effectiveness of public and private tertiary institutions point out a twin-emphasis on total costs and their funding sources (Tsang, 2002). To illustrate, an important feature of private education in the Philippines

[10] Colleges and universities are required to organize public meetings with student councils, parents, faculty, or alumni before imposing tuition fee increases for any given academic year.

has traditionally been colleges and universities operated by religious missions who receive a small but steady flow of donative funds from their organization. They are similar to private institutions in other countries in their affiliation with non-profit organizations and their access to donated capital and alumni contribution, which decrease their costs (Altbach, 1999). These institutions are known to charge middle-level fees and a large number from the middle class can afford them. The advantage of private religious institutions, therefore, appears in their de facto affiliation with the not-for-profit. For this reason, this privileges private tertiary institutions (sectarian institutions, in particular) as cost-effective because of the unreported self-generated income, the non-market contribution of religious orders and lay teachers at below-market salaries, and the omission of donations and church-provided facilities as financial transactions. In addition, donative funds may be used for upgrading the buildings and other school facilities, while maintaining their fees at a level to cover all running costs. Critics contend that comparing the costs of public with private institutions in this way is inherently biased because the latter "use different accounting systems and do not adjust for the different output mixes" (Levin, 1991: 173). Hence, the disclosed operating costs by these private tertiary institutions will not correspond to the genuine institutional cost for maintaining such institutions.

On the other hand, direct social costs are costs of education other than tuition fees, such as books, writing supplies, and other instructional expenses that may formerly have been assumed largely by government. Table 6 illustrates that education in private institutions is much less expensive than in public institutions despite the high public-private ratio of direct social costs.[11] The figures, however, are not adjusted for quality to distinguish the types of educational institutions in the national capital, urban centers and rural areas. To illustrate, a number of stand-alone (for-profit) non-sectarian institutions are known to serve students across different socio-economic backgrounds in rural or urban areas, charging a broad range of non-tuition spending, and offering academic courses of

[11] Most SUCs require minimal tuition fees, and these are not distinguished according to the income-level of students although many of them are from high-income to middle-income households. Despite this, much of the government funding for higher education goes to the operation of the SUCs, which accounted for 80% of public spending in higher education in 1999. Thus, it is asserted that cost recovery is higher in private institutions. As convincingly explained in FAPE (1994) and ADB and World Bank (1999).

variable quality (Amaral & Teixeira, 2001). As pointed out by Tsang (2002), proper cost accounting of these direct social costs has crucial consequences for educational quality and equity, particularly the inevitable heavy economic burden on some households from low-income and rural backgrounds.

Another similar analysis of educational inputs focused on operating costs is the FAPE (Fund of Assistance to Private Education) database on cost-effectiveness of public and private tertiary institutions in the Philippines (Borromeo, 1995). The empirical study involved a random selection of 223 public and private institutions across regions of the country, sourcing-out data such as audited reports, questionnaire of private institutions, and survey of household educational spending. Similar to research studies on education costs, the findings illustrate the relative cost-effectiveness of private institutions vis-à-vis public institutions (Maglen & Manasan, 1998). As in other studies, the most obvious shortcoming is that the FAPE database does not provide adequate information on private resources to tertiary institutions, as well as other funding sources such as property rents, sales of educational and non-educational goods and services, and auxiliary income.[12] Thus, a number of measurement errors could potentially lead to an underestimation of institutional operation costs or an overestimation of effectiveness of private tertiary institutions. Understandably, information on some of the institutional costs of private schools is absent or not readily available. It is not surprising to find research that declare a higher relative efficiency for private institutions are subject to similar criticism (Jimenez and Lockheed, 1995).

[12] Tsang (2000) found that majority of cost-effectiveness studies in developing countries focus largely on estimation of direct private costs. His analysis classified private resources into three categories: direct private costs, private contributions, and indirect private costs. In regard to direct private costs, FAPE conducted a household survey in each of the college/university catchment area to collect relevant information on education-related expenditures. The reliance on enrollment school fees without the attendant non-tuition direct private costs could result in severe underestimation of total private costs of private institutions. See Table 4 for estimates of non-tuition school fees across types of institutions. In addition, lacking in the research methodology are private contributions such as philanthropic assistance and alumni donations, which can be estimated by collecting information directly from tertiary institutions. As expected, this approach will not work if the college/university officials are reluctant to disclose such information.

4. The Philippines prides itself on its well-educated and comparatively low-cost work force. In light of the challenges of the global economy, persistent issues of declining quality and relevance of training in higher education, and low economic returns are seriously threatening this comparative advantage.

In view of the poverty in the Philippines, where 35% of households live below the poverty threshold and those not considered poor still have poor earnings, relatively few students can freely choose the best tertiary education options (James, 1991). This defect in higher educational system is attributed to imperfect capital market, that is to say, students' choices are primarily limited by their financial resources; i.e., they could only pursue low-quality inexpensive fields of study and institutions that their families can afford. There have been relatively few students availing of the loan scheme due to what is considered a high interest rate, the short repayment period, and the fact that low-income families do not have access to credit system (Table 7). Other research, however, acknowledges the willingness of low-income students[13] (and their families) to pay for private higher education; yet, because of the capital market imperfections a large number of students are forced into the low-quality, low-cost programs and institutions.

The trend in the number of graduates of higher education follows the direction of the enrolment in higher education. The number of families, therefore, that spent little or nothing on education was huge. It is striking to note that National Capital Region (NCR) with only about 15% of the total population has more than one-third share of the total higher education graduates. Of the 385,349 graduates in 2000-01, NCR produced 105,813 graduates – the highest among all the regions (CHED, 2001). Business programs (27%) produced the most number of graduates followed by teacher training (13%), engineering programs (12%), and medical and allied disciplines (10%). Except for

[13] Johnstone and Shroff-Mehta (2000: 13) argue that willingness of parents to make financial contributions may be a function of culture. Most Filipinos regard education at tertiary levels as good investment. Implied in this is the desire for a degree and subsequent entrance into the ranks of the white-collar workers or the professions that are considered prestigious occupations in the country. This insistence has been further fueled by the widespread opinion that education is an insurance policy against poverty. The high prestige placed on the profession is a value acquired during the Spanish colonial occupation when entrance into a college or a university was considered a highly coveted goal. Moreover, there is the prevailing assumption for many Filipinos that high quality education amount to high tuition fees.

teacher education, employment demand remains sturdy for graduates in these fields. Among them, however, only engineering programs and medical-related disciplines have a high percentage of emplo yment in a job consistent to academic preparation. The demand for employment is conspicuously low in optometry, foreign service, and accounting-professional fields with perennial records of very low passing rates. Other academic programs with low level of employment are in science-related fields, including mathematics. A study by Tan (1995) noted, "The poor utilization of science facilities is largely due to the poor demand for science graduates in the labor market. The slow rate of economic development, accompanied by a stagnating industrial sector, has led to the slow growth of demand for scientists."

The tracer study shows that academically elite private institutions led by De La Salle University and private sectarian institutions have clear advantages in terms of employment,[14] contributing more in the overall production of qualified graduates than the University of the Philippines and other state universities. The advantage of private sectarian institutions also extends to the placement of graduates at high-level occupations (administrative, executive and managerial positions), as against graduates of non-sectarian institutions who occupy the lowest-level positions (transportation, construction and production). Among the state colleges and universities, the University of the Philippines led the list of public institutions that contributed the biggest share of graduates to the total labor force. This confirms that different institutions create mixed advantages in employment among graduates, but the institutional advantage is a composite one. It includes the type of occupation, their relevance to the labor market needs, and the institution's accreditation status. The latter deserves emphasis, as accreditation is recognized to have a clear relationship to employability. Accredited institutions – those that comply with more than the minimum standards established by CHED - have an employment rate of about 75% of their graduates compared to 67% for

[14] The CHED Tracer Study (1998) indicated that the waiting period to enter the workforce is linked to the type of institutions which one graduates.

non-accredited institutions.[15] The academic program that gives the highest income is Law, followed by Medicine and other allied health specializations. Although engineering as a specialization should result in high income, when it is grouped with the other engineering specializations it falls below the overall mean across academic programs. This goes to show that private returns to higher education investments are unequal as reflected in wide variations in employment rates, earnings and position among graduates.

a) A problem of inadequacy of employment opportunities

The inadequacy of employment opportunities is attributed to the long period of slow growth of the country's economy, along with decreased levels of capital inflow from multinational companies and bilateral and multilateral organizations, and decreased levels of private investment. In spite of the previous trends of graduates entering the labor force, there persists a high turnover of college graduate job seekers in the number of available college-level jobs. The narrow base of growth is skewed toward the service sector of the economy (which includes the non-industrial and non-agricultural activities in the transportation, finance, communication, real estate, private services and government service industries) where most college graduates seek employment.

For most graduates, it means that they would either experience a waiting period for employment, or be employed in areas where they did not have the required professional grounding. The waiting period for employment is linked to the type of institution: graduates of the University of the Philippines have the shortest waiting time (4.2 months), followed by the private sectarian institutions (4.8-6.4 months) and private non-sectarian institutions (7.0) (CHED, 1998). In most cases, however, employment appears to be elusive to many graduates.

The tracer study also showed that the foremost reason for unemployment is the graduate's failure to find a job requiring his academic background, such as no jobs in specialization (10.9% of sample unemployed and no job opening for anyone at 9.6%).

[15] External private accrediting bodies that measure the quality of school's programs are doing the accreditation. In most cases, the college/school initiates the request for accreditation. But this can be done only after the school's tertiary programs are duly recognized by CHED.

This was followed by the graduate's lack of eligibility, such as the failure to pass the board exam (10.7%) and graduate of non-prestigious institution (10.2%). The latter one is important; results of the tracer study indicated that the level of unemployment is also highly dependent on the perceived adequacy of the higher education background that produced the graduates. With the exception of the University of the Philippines, the graduates of other state colleges and universities had the highest level of unemployment (37.98%). In addition, existing jobs did not fulfill the search criteria of the job seeker, such as no openings in vicinity of resident (9.1%) and starting pay too low (10.5%). Finally, about one fifth of the respondents were simply out of the job market, such as family situation (9.8%) and lack of interest (10.6%).

b) Mismatch and oversupply of graduates

The over expanded higher education sector has caused the mismatch of graduates compared to the needs of the economy. A striking feature of the tracer studies is that a large proportion of graduates do not enter professions in the fields in which they have been trained. For example, most advertised positions in the newspapers and Internet-based job vacancy matching systems (Phil-JobNet) require a minimum college degree regardless of occupation. The requirement for college degrees has created an artificial demand for higher education in the country. According to CHED (1998) and PCER Report (2000), the alarming mismatch in employment of graduates is supported by several cases of accounting and commerce graduates that work as office clerks, bank tellers and sales representatives; of engineers that work as technicians for local and overseas jobs; of doctors and nurses that work as medical representatives; while teacher education graduates, doctors and other professionals (i.e., lawyers, dentists) join the overseas labor market for low-level employment, or in some cases, equivalent jobs.[16] Noteworthy, too, is the stagnating employment share of professionals in non-agricultural employment at about 12% and 13% – an indication of the shortfall of the economy to absorb labor force participants that are highly skilled and with higher educational qualifications. This gap between the supply of graduates from educational institutions, on

[16] The Philippines is known for its skilled low-wage workforce. For a thoughtful discussion of this issue, see Tullao (2000). He elaborates on the issue whether Filipino professionals are equipped with the skills and human resource competencies needed by local and overseas companies in the use of various services.

one hand, and the demand of the labor market, on the other hand, forces many skilled and educated workers to search for employment overseas.

Within the Asian region, the Philippines is considered rich with a well-educated workforce. According to a recent Asian Development Bank study, about a fifth of the labor force in 1996 had completed some university education or had graduated (1999). English is used as the medium of instruction in educational institutions, an important factor for employment both locally and abroad. For college graduate entrants who have ventured in high-end fields such as computers, telecommunications, and biotechnology, prospects for employment are high abroad. Lanzona (2001) provides some evidence on how labor mobility can reduce the debilitating effects of domestic unemployment and labor dislocations. He also noted that this has deleterious consequences for the country because this brain drain reduces the supply of highly skilled or educated manpower in the domestic economy.[17]

There is a growing recognition that private tertiary institutions have largely developed fields of study of low investment and of low running costs, and academic offerings mainly in areas that are already saturated in the labor market. What emerged from this is the widely recognized acute imbalance of graduates by disciplines. Accordingly, the oversupply of graduates in certain disciplines has led to the cheapening of their market value. This is exacerbated by the fact that the quality of outputs of higher education institutions leaves much to be desired. As succinctly noted by Tullao (2000), despite the high supply of qualified Filipino graduates in both domestic and international markets, more than half of the graduates fail the licensure examinations of various professions.

[17] Brain drain occurs when domestic university graduates seek 'greener pastures' through employment abroad. The reason for this is that these job opportunities, with their high income, can augment the private return on education. These substantial private investments in higher education are not utilized in the domestic economy but aid the overall economy by bringing in over remittances (about $5 billion a year) from overseas contract workers. The Philippines' Professional Regulations Commission (PRC) accounts the total number of professionals deployed overseas to be within 9% of the total stock of licensed professionals. These leading professionals working overseas include: doctors, nurses, pharmacists and other medical technicians. A good number of surveyors, geodetic engineers and architects are also working overseas. See PRC (1997) and Tullao (2000).

For taking national licensure examinations for various professions, the average passing rate in 2000-2001 was recorded at 37.23%. This alarming low average passing percentage illustrates the declining state of higher education in the Philippines.[18] More significantly, state colleges and universities generally perform well in expensive disciplines unpopular in the private education sector such as agriculture, veterinary medicine, marine sciences, forestry, and natural sciences (See Table 7). Indeed, the demands of national development and the challenges of international competition as commercial and economic globalization process dictate the importance of these fields.

III. Challenges in the Higher Education Industry

Since the early 1970s it has generally been perceived that the quality of higher education in the Philippines has steadily declined.[19] The decline is manifested in falling scores in professional licensure exams, reduced rigor in staff recruitment and promotion criteria, diminished research output, and complaints by students regarding the ability of faculty to perform effectively in their jobs. Prima facie, the privatized, competitive higher education system does not appear to offer a high quality, efficient education. Rising graduate unemployment, inadequate performance on the job, and weak research production combine to bring the relevance of higher educational institutions to national needs under growing public scrutiny. These issues are discussed in the next section.

Staffing

Several studies of higher education in the Philippines have revealed the relative inadequacy of academic staff (Acedo, 2000; EDCOM, 1994). The fact that the surge of student numbers has not kept pace with the number of qualified academic staff has reinforced the skepticism. Table 10 estimates the number of faculty at about 90,000 for both public and private institutions all over the country in 1996-97.

[18] The programs with the top five average passing rates for the period 2000-2001 are mining engineering (76.92%), geology 70.21%, environmental planning (66.67%), medicine (65.03%), and metallurgical engineering (64.52%). The programs with bottom 5 average passing rates are Optometry (15.35%), Accountancy (18.82%), Physical Therapy (24.91%), Aeronautical Engineering (27.59%), and Forestry (28.96%).

[19] For example, see EDCOM Report, 1993; The Task Force on Higher Education 1998.

The large percentage distribution of Associate Professors and Assistant Professors in public institutions suggests that their academic staff is predominantly employed on full-time contracts, while staff in private institutions are predominantly on part-time contracts. The unknown information of other academic staff at 13.8% is probably the outcome of 'moonlighting' by faculty from public institutions, or the result of holding a notion of the role of an academic career as a part-time activity, which is mostly rigorous in teaching activities and very seldom in research. One other feature of Table 10 is worthy of note: only about 7% hold doctoral degrees while a large majority do not have advanced degrees.[20] What this means is that public and private institutions compete from a limited pool of academic experts.

Because of the dearth of qualified faculty even at public institutions, private institutions face a major hurdle in this area. Both institutions are finding it difficult to keep qualified academics in the face of marginal salaries and poor facilities. To overcome staffing difficulties, some private institutions employ their own graduates, who may have internalized the institution's vision and come from the elite graduates of the institution.[21] In addition, they have academics from public universities to teach selected courses per semester. Elite private universities, on the other hand, also often provide attractive salaries and working conditions to help retain them.

Lack of Research Activities

While some tertiary institutions have maintained a high level of instruction, many of them have remained substandard (Tan, 1995). Teaching methods have remained didactic, instructor-oriented, while opportunities are limited for student to avail themselves of multi-media and Internet-based learning. These institutions have neglected the facilities for libraries, laboratories, and research, and have not kept up with scientific and technological advances. Thus, some institutions have earned for themselves the name "diploma mills." What is particularly disconcerting is that the research activities and academic quality of even the most respectable tertiary institutions (both public and

[20] The recent data from CHED (2000) indicates that 34% of tertiary-level faculty holds master's degrees for both public and private institutions.

[21] The danger in this arrangement is that college graduates with low educational qualifications lack the needed teaching /industrial experience and may have not passed the board examinations.

private) have been conspicuously low. Table 11 provides a comparative data on the performance of top multidisciplinary universities in Asia vis-à-vis the top universities in the Philippines. The benchmarks used by Asiaweek assume that high educational quality exists when resources like excellent students, well paid, highly qualified and research productive faculty, and modern equipment and facilities are prevalent. In terms of research output, the four elite universities in the Philippines are at the bottom (Asiaweek Survey, 2000). Seen in the global context, the Philippines is also a very small player in terms of the number of research and publications cited in the sciences and social sciences, with an output of 2,893 from 1993-1997 (OECD, 2000).

Universities are often considered as a significant source of research and development expenditures for scientists and specialists in various disciplines and leaders in the different professions. It is important to emphasize, however, that almost all higher education enrollments in the Philippines are in undergraduate education. Higher educational institutions have a weak tradition of research and writing, either for establishing refereed journals or in helping faculty link with appropriate refereed journals abroad. Added to this is the dearth of 'science-based' and 'high technology' research linkages between the business sector and the university. Because research and development expenditures produce quasi-public and pure public good outcomes, the relative costs and returns are not attractive for private sector support. Another critical constraint is the severe lack of public funds allocated for improving higher educational institutions in general (Table 5A). Moreover, public expenditures for research and experimental development are well below 1% of gross national product. This dearth of scientific culture in higher education hinders not just developments in the basic or applied sciences, but even the higher-level acquisition of such knowledge and skills. As a result, faculty competencies are weak for direct independent studies worthy of publication, and there is little output of science and technological research at the university level.

Accreditation

The Commission on Higher Education (CHED) was created in 1994 to foster a national system of higher education assessment by drawing up criteria, general guidelines, and proposals for policies and actions to improve the current state of higher education. The Commission was to create and implement an evaluation process for appropriate incentives as well as impose sanctions, set down a permanent base for the assessment of higher education, and to suggest quality criteria and standards for higher education functions, tasks and responsibilities.[22] To carry out accreditation status for academic programs, the Commission authorized the Federation of Accrediting Agencies of the Philippines (FAAP) to supervise the overall institutional accreditation. The type of accreditation currently fulfilled by various national associations of private colleges and universities to select their members may be considered as fostering the improvement of higher education. To be considered a member of these organizations, certain issues of quality, development and academic consolidation must be met. Basic indicators showing the degree of institutional and academic resource development, such as teaching and extension programs; physical plant and equipment supporting substantive functions, regulating provisions, and institutional organization, are employed.[23] To date, only 38 private institutions have attained Level III undergraduate programs, 124 private institutions have achieved Level II undergraduate programs, and 16 private institutions have reached Level II graduate programs.[24] Combining all these academic programs

[22] Accrediting organizations are based on institutional affiliation: the Catholic institutions have the Philippine Accrediting Association of Schools, Colleges and Universities (PAASCU); the non-sectarian institutions have the Philippine Association of Colleges and Universities-Commission on Accreditation (PACUCOA); the other religious institutions have the Association of Christian Schools and Colleges-Accrediting Agency, Inc. (ACSA-AAI). See FAAP (2001).

[23] On the other hand, for institutions to be considered for accreditation status, a process of assessment (self-evaluation and institutional visit) based on the following guidelines has been established: purposes; planning and effectiveness; education programs; academic staff; student; academic support; student services; physical resources and financial resources. See Isagani (1997).

[24] Higher education institutions that intend to improve the quality of their program offering may decide to go through voluntary accreditation where they undergo self-evaluation and peer evaluation. "Applicant status" is considered Level I accreditation. The benefits to Level II accreditation include: full administrative deregulation, financial deregulation, partial curricular autonomy, and priority on funding assistance. Level III accreditation provides full autonomy including full curricular deregulation. In other words, institutions whose programs are accredited are given incentives and priority funding assistance and greater independence in curriculum development and setting tuition fees.

results in only 178 accredited private institutions at various levels of accreditation (FAAP, 2001).[25]

The major challenges to accreditation are captured succinctly by Nebres (2001): "The first is how to institute common or comparable standards among the different accrediting agencies; the second is how to inform and win over the public so that they will choose accredited institutions and programs." The former focuses on improving the efficiency of the system and of the institutions making up such systems. The latter emphasizes the value of accreditation in providing the users of educational services (students and employees) with data on academic quality of educational institutions. Efforts are now starting in the Asia-Pacific to bring in methods and measures for equivalence and comparability of higher education credentials in the midst of an ever-growing flow of trans-border migration of qualified workers and professionals (Nebres, 1997). These challenges call for the need to underwrite the credibility of higher education institutions and their professional training programs - both domestically and abroad.

Centers of Development / Excellence

The Higher Education Act of 1994 provides for the identification, support and development of potential centers of excellence and development among higher education institutions. For CHED to carry out the technical application of the assessment process, peer-based inter-institutional assessment of academic programs and higher educational institutions was organized for different functions and disciplines. This assessment processes have led to the channeling of support for innovative research, new programs of study, computerization, and upgrading of staff and facilities among the different universities and colleges considered to be outstanding in certain key disciplines. If these institutions can carry out the academic leadership, innovation, and research among the other colleges and universities, there is promise for the educational system in preparing the needed human capital for global competition. In addition, the CHED has prepared a

[25] Graduate studies in the Philippines are basically limited to a handful of programs, namely, teacher education, business administration, public administration, social work, and art studies. Accreditation has, therefore, made only partial inroads in the area of graduate studies.

national research agenda for higher education to emphasize research activities in academic institutions and provide the necessary funding for this educational priority.

Of the 109 programs listed as 'Centers of Excellence' and 161 programs listed as 'Centers of Development,' 35 higher institutions are state colleges and universities while 44 institutions are private sectarian and non-sectarian schools. Moreover, private institutions excel in medicine and allied programs, whereas public institutions dominate in sciences (biology, chemistry, geology, mathematics, marine sciences and physics). Among them, only 8 institutions have nine or more programs granted as center of excellent and center of development status. These are: University of the Philippines-Diliman, Ateneo De Manila, University of Sto. Tomas, De La Salle University-Manila, University of San Carlos, Xavier University, Mindanao State University-Iligan Institute of Technology and St. Louise University. This goes to show that these schools have a variety of program offering and exhibit potential for academic development. These universities, however, make up only .09% of the FAPE accredited institutions and .02% of the total number of higher education institutions in the country today. In addition, only four universities are identified as the best universities in the Asian region (Asiaweek Survey, 2000; Table 11).

The improvement of higher education through the selection of centers of excellence and centers of development may be inequitable since students from high-income families populate many of these private educational institutions. Hence, possible beneficiaries may be affluent families rather than those from the low-economic classes. Another poignant consideration is how to maximize the returns to student scholarships from academic centers of excellence/development if subsidized students will end up working abroad (i.e., brain drain).

Section IV: Summary and Implications

This paper has reviewed the historical patterns and key economic features of higher education in the Philippines, within the process of shifting higher education costs from the public to the private sectors. The review has provided the basis for explaining as to

why such unrestrained dominance of the private sector in higher education is essentially characterized as a demand-absorbing growth, or market-driven rather than government-designed. Thus, it is useful to return to the conceptual framework of Levin (2000) because it confirmed this paper's discussion on the sharply hierarchical nature of higher education industry with a variety of institutions from better off to worse off, a reality that has relevance for costs, equity, choice and competition. The positional 'race to the bottom' amply describes the current state-of-affairs of private higher education in the Philippines.

The comparisons between public and private higher institutions show: 1) There are regional differences in the proportions of students in public versus private colleges and universities. ARMM is mainly served by public institutions; Regions VII, X and XI are mainly served by private institutions (see Table 12); 2) The faculty in public higher education tend to be promoted to professor at a greater extent than in private institutions (Table 10); 3) Students in public universities are much more likely to pass the licensing examinations than students in the private institutions (Table 9); 4) Students in private universities tend to be of higher socio-economic status (Table 4); 5) The costs incurred at private universities are lower than at public institutions (Table 6).

Indeed, private higher education in the Philippines is noteworthy because it shows how education markets cater to consumers (namely, parents and their children) who exercise choice in a system with many private higher institutions, and where private higher institutions operate with little or no regulation. When 'choice' is about privatization, there is a need to analyze the consequences that a market of competitive choices has on equity and quality of educational options available to consumers from different socio-economic backgrounds. The reality is that households with more resources have more choices than households with least resources, in both education sectors. For-profit institutions, for example, sprang up like mushrooms in big cities and tended to concentrate in higher income regions- away from isolated and rural areas (Table 12). The range of alternatives (i.e., mobility) available to students appears to be quite sharply constrained by their income under existing arrangements. Letting market forces determine the composition of

students (i.e., ability to pay) who study at private colleges/universities have far-reaching consequences to the degree of access to educational opportunities, the quality of those opportunities including institutional resources and student's peers, and the probable educational outcomes for students from different family backgrounds or regions.

Viewed in terms of equity, household spending on education is a significant part of total resources for higher education and is part of the source of inequity in education. To the extent that private provision encourages cost sharing with households, private higher education increases inequity as their share of household spending is associated with the level of household income and parental education. The obvious effects of privatization are increased advantage of those graduates from elite private institutions in terms of better job placements and higher earnings. The fact that students at the top academic private institutions tend to come from wealthier families is noteworthy. Whether students from disadvantaged backgrounds have an opportunity to attend good-quality private tertiary institutions is a matter of concern.

A poignant argument for proponents is that privatization could lead to a more efficient deployment of educational resources (Jimenez and Lockheed, 1995). To assess the validity of this claim, questions should be raised about whether costs are properly accounted for in the production of public and private higher education. Many of the published studies on cost-effectiveness of public versus private institutions have a deficiency in cost estimation that is more likely to lead to an overestimation of the effectiveness of private institutions relative to public institutions. As shown in the paper, a major feature of private higher education is the significance of private sources, particularly household spending. In the case of Philippines, it is necessary to carefully analyze the distribution of total education costs (and output) by student background, as well as their funding sources, in order to assess the cost-effectiveness impact of privatization. On the other hand, a major reason to aim for high levels of cost recovery is that the private rate of return to investments in higher education is high (students share significantly in the burden of the costs of their education). A final reason for wanting to see more cost recovery in higher education is to guide high education institutions in

deciding which programs to expand for global competitiveness. Whereas achieving a greater degree of cost-efficiency should be an objective, complementary measures will need to be adopted to ensure that students from poor families are not financially constrained from attending higher education courses for which they are academically qualified.

From competition and efficiency standpoint, the private higher education growth, being highly dependent on demand and ability to pay, have tended to concentrate in low-cost and popular academic disciplines such as commerce, medicine, teacher education and engineering. Consequently, the oversupply of graduates in these disciplines has led to the 'cheapening' of their market value. In particular, returns to education have been low for Filipino graduates facing prospects of continued unemployment, mismatch between academic degrees and labor demand, and oversupply of graduates. This skew is amplified by full dependence on tuition fees as the primary funding source. The system has also suffered from the emergence of problems typically associated with the establishment of institutions that are overwhelmingly concerned with teaching and where research activities are strikingly lacking. Thus, the market has been left to private institutions that have managed to produce similar products and keep tuition fees low (competing on price alone), at a level that would allow full cost recovery, but with little opportunities for innovation in education, institutional efficiency, and diversity in the delivery of educational services. To the extent that private tertiary institutions in a market-driven economy are given substantial autonomy to set their own programs and spending, these institutions have not created channels to enhance the quality of the programs offered and research produced. The quality control procedures established by the different accrediting bodies have only exemplified the hierarchies dominated by a handful of academic elite and a large number of private institutions that cluster at the bottom of the system - offering low-quality and low-cost programs at low-end profits. The dominance of a handful of older, established and high-status academic institutions has done little to stimulate change or aid the development of newer, less-well-endowed academic institutions.

Finally, the need to strengthen tertiary education policies, establish agreed-upon strategies between the private and public institutions, and modify long-standing imbalances, while taking into account the need to strengthen the domestic and international productivity are among the Philippine's current challenges. So too is the training of professionals to forward the economic and social development of the country, as well as to improve distribution of professional courses and thus favor social equity of educational opportunity. The lack of additional economic resources to carry out these changes serves as a serious obstacle because the higher education industry is shouldered largely by private provision.

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Table 1A: Share of Private Higher Education (% Total)

	1955	1965	1975	1985	1995	1999
Institutions	**93**	**94**	**83**	**72**	**79**	**81**
Students	96	89	86	85	75	75

Source: Commission on Higher Education (CHED) Statistical Bulletin, various years; Johanson (1999).

Table 1B: Number of Higher Institutions in the Philippines, 1990-1998

Public Institutions	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
National universities and colleges with independent charters*	138	138	136	140	200	204	207	219	219	266	328	335	349
Institutions supervised by the Commission on Higher Education	59	58	57	92	110	105	105	102	102	71	3	1	1
Local universities and colleges	34	34	33	29	28	34	34	38	38	35	40	40	42
Others	-	-	-	-	-	35	34	18	18	18	18	15	15
Subtotal public	**231**	**230**	**226**	**261**	**338**	**378**	**380**	**377**	**377**	**390**	**389**	**391**	407
Private Institutions													
Non-sectarian	412	412	412	522	684	728	764	830	830	875	909	926	942
Sectarian	225	224	224	245	266	281	281	288	288	298	305	309	316
Subtotal private	**637**	**636**	**636**	**767**	**950**	**1,019**	**1,045**	**1,118**	**1,118**	**1,173**	**1,214**	**1,235**	**1,258**
Total	868	866	862	1,028	1,287	1,397	1,425	1,495	1,495	1,563	1,603	1,626	1,665
*Includes satellite schools													

Source: Commission on Higher Education Statistical Bulletin, various years.

Table 2: Philippines: Distribution of Enrollments by Field of Study, 1990-2001

FIELD OF STUDY	1990-1991		1996-1997		2000-2001	
	Public	Private	Public	Private	Public	Private
General	Na	Na	20,341	87,010	29,116	96,652
Education and Teacher Training	87,220	170,418	150,143	151,005	199,150	277,645
Fine and Applied Arts	Na	Na	2,604	8,318	2,501	5,320
Humanities	Na	Na	9,629	4,385	7,104	4,172
Religion and Theology	-	4,711	-	8,397	-	7,285
Social and Behavioral Science	Na	Na	19,757	22,116	16,623	20,931
Business Admin. And Related	53,812	326,679	92,301	683,054	126,384	699,159
Law and Jurisprudence	1,357	13,224	1,640	14,252	1,716	17,010
Natural Science	Na	Na	13,794	9,237	15,409	8,260
Mathematics and Computer Science	Na	Na	22,391	131,114	28,897	189,778
Medical and Allied	Na	Na	16,071	184,051	19,878	172,095
Trade, Craft and Industrial	Na	Na	273		7,108	36
Engineering	47,284	181,473	105,209	200,634	129,546	221,118
Architectural and Town Planning	Na	Na	5,193	17,075	8,799	17,227
Agricultural, Forestry, Fisheries, Vet Med.	41,776	8,230	63,802	7,426	75,399	6,210
Home Economics	Na	Na	4,511	315	6,751	583
Service Trades	Na	Na	2,509	5,660	2,498	5,132
Mass Communication and Documentation	Na	Na	6,390	5,614	8,504	6,182
Other Disciplines	Na	Na	13,912	130,705	23,717	173,144
TOTAL	**298,529**	**1,251,110**	**550,470**	**1,670,368**	**709,100**	**1,927,939**

*Not available

Source: Commission on Higher Education (CHED) Statistical Bulletin, various years.

Table 3: Estimates of Total Higher Education Costs Borne by Households

		Public		Private	
		Low	**High**	**Low**	**High**
Instructional Expenses	Special "One Time" or "Up Front" Fees	P200 ($16)	P350 ($29)	P400 ($33)	P500 ($41)
	Tuition	P8,400 ($692)	P12,600 ($1,039)	P19,300 ($1,591)	P50,000 ($4,122)
	Other Fees	P4,850 ($400)	P8,000 ($660)	P12,000 ($989)	P24,000 ($1,979)
	Books & Other Educational Expenses	P2,000 ($165)	P3,000 ($247)	P3,000 ($247)	P4,000 ($330)
	Subtotal Expenses of Instruction	P15,450 ($1,274)	P23,950 ($1,974)	P34,700 ($2,861)	P78,500 ($6,472)
Student Living Expenses	Lodging	P7,200 ($594)	P36,000 ($2,968)	P7,200 ($594)	P36,000 ($2,968)
	Food	P8,000 ($660)	P26,000 ($2,143)	P8,000 ($660)	P26,000 ($2,143)
	Transportation	P7,500 ($618)	P2,500 ($206)	P7,500 ($618)	P2,500 ($206)
	Other Personal Expenses	P8,800 ($725)	P13,200 ($1,088)	P8,800 ($725)	P13,200 ($1,088)
	Subtotal Expenses of Student Living	P31,500 ($2,597)	P77,700 ($6,406)	P31,500 ($2,597)	P77,700 ($6,406)
	Total Cost to Parents & Student	P46,950 ($3,871)	P101,650 ($8,380)	P66,200 ($5,458)	P156,200 ($12,877)

Source: http://www.gse.buffalo.edu/org/IntHigherEdFinance/region_asia_Philippines.html

Table 4: Socio-Economic Status of Graduates

Annual Income (Php'000s)	Public		Private		Total Number
	Number	% Total	Number	% Total	
<50	438	48.1	1,353	37.3	1,791
50-99	236	25.9	871	24	1107
100-149	109	12	597	16.5	706
150-199	60	6.6	310	8.5	370
200-250	28	3.1	185	5.1	213
250-299	11	1.2	105	2.9	116
300-350	11	1.2	52	1.4	63
350-399	3	0.3	36	1	39
400-449	4	0.4	23	0.6	27
450+	10	1.1	96	2.6	106
Total	910	100	3,628	100	4,538
Mean Income (Php'000s)	114.6		92.3		

Source: CHED, Tracer Study (1998); Johanson (1999).

Table 5A: The Public / Private Mix in Education in Finance in 1986, 1994 and 1997

	Source of Financing								
	Government			Private			Total		
	1986	1994	1997	1986	1994	1997	1986	1994	1997
Distribution of Financing by Source (%)	**18.27**	**19.36**	**17.34**	**34.13**	**36.05**	**39.46**	**25.88**	**27.85**	**26.79**
Distribution of Financing by Level: (Higher Ed. %)	36.72	34.14	37.1	63.28	65.86	62.9	100	100	100
% GNP	**0.46**	**0.53**	**0.69**	**0.8**	**1.03**	**1.16**	**1.26**	**1.56**	**1.85**
% of Total Budget	12.98	12.66	15.8						
Higher Ed./Ed. Budget		17.7	14.9						

Source: Maglen and Manasan, 1999.

Table 5B: Household Financing of Higher Education, 1986-1997

	1986				1994				1997			
	School Fees	Voluntary Contribution	Other Private Costs	Total	School Fees	Voluntary Contribution	Other Private Costs	Total	School Fees	Voluntary Contribution	Other Private Costs	Total
Public Tertiary Education	**99.82**	**1.37**	**266.17**	**367.36**	**355**	**3**	**939**	**1,297**	**1,109.72**	**10.72**	**2,933.91**	**4,054.35**
% Distribution by Level (Higher Ed.)	11.17	1.35	6.61	7.31	17.65	1.89	9.61	10.85	21.97	2.47	12.26	13.78
Private Tertiary Education	**2,385.37**	**7.57**	**1,987.58**	**4,380.51**	**8,647**	**26.11**	**7,103**	**15,776**	**13,903**	**41.99**	**11,420**	**25,364.72**
% Distribution by Level (Higher Ed.)	52.9	17.96	45.84	49.29	54.98	23.12	48.85	51.93	59.17	26.38	53.15	56.19

Source: Maglen and Manasan, 1999.

Table 6: Private/ Public Unit Cost Ratios

	Operating Cost			Direct Social Cost			Total Unit Cost		
	1986	**1994**	**1997**	**1986**	**1994**	**1997**	**1986**	**1994**	**1997**
Public Tertiary	14,590	20,931	24,777	1,583	3,773	5,025	16,173	24,704	29,802
Private Tertiary	2,443	5,931	8,067	1,987	4,843	6,450	4,430	10,774	14,517
Private/Public Ratio	**0.17**	**0.28**	**0.33**	**1.26**	**1.28**	**1.28**	**0.27**	**0.44**	**0.49**

Source: Maglen and Manasan, 1998.

Table 7: Support for Living and Other Educational Expenses

	1995						1991	
	Employment Status of Graduates							
	Employed	%	Unemployed	%	Total	%	Employed %	Unemployed %
Family	3,712	95.08%	1,469	96.70%	5,176	95.53%	86.54%	91.04%
Scholarship	37	0.95%	9	0.59%	46	0.85%	1.67%	0.91%
Loans	11	0.28%	1	0.07%	12	0.22%		
Family & Scholarship	127	3.25%	32	2.11%	159	2.93%		
Family & Loans	13	0.33%	7	0.46%	20	0.37%		
Scholarship & Loans			1	0.07%	1	0.02%		
Family, Scholarship & Loans	4				4	0.07%		
Self-support							8.60%	6.22%
Government Scholarship							1.41%	0.42%
Government Loans							0.33%	0.25%
Other Non-Gov't. Loans							0.32%	0.25%
Others							1.13%	0.91%
Total	**3,904**	**100%**	**1,514**	**100%**	**5,418**	**100%**	**100%**	**100%**

Source: CHED, Tracer Study (1998).

Table 8: University/College Typography of Graduates

Type of School	Employment Status of Graduates					
	Employed	%	Unemployed	%	Total	%
Elite Institutions						
Ateneo De Manila (private)	67	82.7	14	17.3	81	1.2
De La Salle University (private)	169	82.4	36	17.6	205	3.1
University of the Philippines (public)	117	79.1	31	21	148	2.2
Other Private Sectarian	1,596	76.1	502	23.9	2,098	31.1
Private Non-Sectarian	2,057	66.2	1,050	33.8	3,107	46.4
Other State Universities	662	62.3	400	37.7	1,062	15.9
Total	**4,668**	**69.7**	**2,033**	**30.3**	**6,701**	**100**

Source: CHED, Graduate Tracer Study, draft, 1998.

Table 9: Licensure Examination by Discipline and Sector, 1994-1998

Discipline	Public HEIs			Private HEIs			0
	No. of Examinees	No. of Passers	% of Passing	No. of Examinees	No. of Passers	% of Passing	Difference (Public - Private)
Chemical Engineering	683	427	**62.52%**	4,762	1,453	30.51%	32.01%
Chemistry	771	401	**52.01%**	1,005	346	34.43%	17.58%
Dentistry	190	190	**100.00%**	22,992	5,711	24.84%	75.16%
Environmental Planning*	30	24	**80.00%**	12	4	33.33%	46.67%
Forestry	3,429	1,481	**43.19%**	439	123	28.02%	15.17%
Geodetic Engineering	80	68	**85.00%**	2,016	779	38.64%	46.36%
Geology	83	67	**80.72%**	49	17	34.69%	46.03%
Landscape Architecture	43	32	**74.42%**	9	3	33.33%	41.09%
Library Science	451	298	**66.08%**	1,072	519	48.41%	17.66%
Medicine	1,678	1,529	**91.12%**	12,147	8,866	72.99%	18.13%
Metallurgical Engineering	93	73	**78.49%**	78	24	30.77%	47.73%
Mining Engineering	8	6	**75.00%**	188	70	37.23%	37.77%
Occupational Therapy	81	72	**88.89%**	965	394	40.83%	48.06%
Pharmacy	307	306	**99.67%**	10,166	6,594	64.86%	34.81%
Veterinary Medicine	1,042	598	**57.39%**	790	181	22.91%	34.48%

Source: Professional Regulation Commission, 1996-1998 data.

Table 10: Faculty in Higher Institutions, 1996-1997

	Below Instructor	Instructor	Asst. Professor	Assoc. Professor	Professor or Higher	Not Known	Total
Public	3,997	10,663	6,139	4,026	2,315	4,372	31,512
%	**12.7**	**33.8**	**19.5**	**12.7**	**7.3**	**13.8**	**100**
Private	6,182	32,664	9,261	4,343	3,689	2,024	58,163
%	**10.6**	**56.1**	**15.9**	**7.4**	**6.3**	**3.5**	**100**
Total	**10,192**	**43,361**	**15,419**	**8,382**	**6,011**	**6,410**	**89,775**
%	11.4	48.3	17.2	9.3	6.7	7.1	100

Source: Acedo, 2000; CHED Statistical Bulletin, 1996/97.

Table 11: Performance of Top Multi-Disciplinary Universities in Asia and Performance of the Four Philippine Universities (2000) Criteria and Ranking

Institutions	Overall Score & Rank	Academic Reputation Rank	Faculty Resources Rank	Student Selectivity Rank	Financial Resources Rank	Research Output Rank	Graduate Students as % of Total Students & Rank	Citations in International journals per teacher/research & Rank	Internet bandwidth per student (kbps) & Rank
Kyoto University (Japan)	83.17% (1)	1	6	1	11	4	35.32% (7)	1.49 (7)	14.17 (8)
Tohoku University (Japan)	83.05% (2)	11	3	4	4	1	33.39% (11)	1.34 (9)	11.84 (10)
University of Hong Kong	82.55% (3)	9	1	7	2	7	23.77% (24)	1.07 (11)	2.05 (38)
Seoul National University	81.96% (4)	2	7	3	14	2	29.16% (17)	.69 (23)	17.14 (6)
National University of Singapore	77.96% (5)	3	12	12	13	9	25.10% (19)	.71 (20)	7.10 (13)
University of the Philippines	**53.79% (48)**	**18**	**61**	**44**	**67**	**60**	**16.15% (49)**	**.02 (68)**	**.03 (70)**
De La Salle University	**43.54% (71)**	**56**	**67**	**67**	**63**	**58**	**8.26% (70)**	**.02 (70)**	**.60 (54)**
Ateneo de Manila University	**43.51% (72)**	**58**	**71**	**65**	**60**	**63**	**34.72% (8)**	**.01 (74)**	**.27 (56)**
University of Sto. Tomas	**41.69% (74)**	**71**	**73**	**48**	**71**	**76**	**5.82% (76)**	**.01 (75)**	**.01 (72)**

Source: Asiaweek Survey, 2000.

Table 12: Tertiary Graduates By Region, By Sector and Academic Year

Region	1994-1995			1995-1996			1996-1997			1997-1998*			1998-1999*		
	Public	Private	*Total*	Public	Private	*Total*	Public	Private	*Total*	Public	Private	*Total*	Public	Private	*Total*
I	7,062	12,814	*19,876*	4,959	14,205	*19,164*	5,494	16,380	*21,874*	6,886	14,957	*21,843*	7,391	15,109	*22,500*
II	2,163	5,128	*7,291*	2,609	5,301	*7,910*	3,970	7,909	*11,879*	3,315	6,302	*9,617*	3,558	6,348	*9,906*
III	4,440	16,098	*20,538*	5,151	17,304	*22,455*	6,295	17,657	*23,952*	6,065	17,876	*23,941*	6,510	18,150	*24,660*
IV	4,344	16,218	*20,562*	8,527	18,350	*26,877*	8,405	20,981	*29,386*	7,965	19,345	*27,310*	8,549	19,582	*28,131*
V	4,208	10,853	*15,061*	4,150	11,332	*15,482*	5,696	11,184	*16,880*	5,394	11,592	*16,986*	5,790	11,706	*17,496*
VI	6,611	21,132	*27,743*	8,082	22,285	*30,367*	11,493	18,963	*30,456*	9,938	21,772	*31,710*	10,667	21,997	*32,664*
VII	2,564	20,445	*23,009*	2,800	27,292	*30,092*	5,987	22,451	*28,438*	4,288	24,777	*29,065*	4,602	25,337	*29,939*
VIII	5,153	3,409	*8,562*	6,236	3,384	*9,620*	5,266	3,442	*8,708*	6,395	3,244	*9,639*	6,864	3,064	*9,928*
IX	2,767	9,700	*12,467*	2,777	8,734	*11,511*	1,192	5,860	*7,052*	2,644	8,630	*11,274*	2,838	8,775	*11,613*
X	2,671	14,377	*17,048*	1,666	9,152	*10,818*	1,699	10,240	*11,939*	2,394	12,100	*14,494*	2,570	12,360	*14,930*
XI	1,699	15,268	*16,967*	1,053	15,428	*16,481*	2,550	14,432	*16,982*	2,050	16,067	*18,117*	2,200	16,462	*18,662*
XII	2,366	6,988	*9,354*	3,504	7,809	*11,313*	4,397	6,338	*10,735*	3,873	7,347	*11,220*	4,158	7,399	*11,557*
NCR	18,632	59,055	*77,687*	20,914	66,526	*87,440*	18,360	77,577	*95,937*	22,304	70,918	*93,222*	23,940	72,085	*96,025*
CAR	1,871	5,471	*7,342*	2,225	5,872	*8,097*	1,773	7,363	*9,136*	2,258	6,518	*8,776*	2,424	6,616	*9,040*
ARMM	1,988	1,050	*3,038*	11,921	549	*12,470*	1,073	183	*1,256*	5,458	467	*5,925*	5,858	245	*6,103*
CARAGA				1,161	6,862	*8,023*	1,760	8,887	*10,647*	1,041	8,500	*9,541*	1,117	8,711	*9,828*
Total	**68,539**	**218,006**	**286,545**	**87,735**	**240,385**	**328,120**	**85,410**	**249,847**	**335,257**	**92,268**	**250,412**	**342,680**	**99,036**	**253,946**	**352,982**