



# HIGHER EDUCATION

## Learning to Reimagine Education

February 2024



## M Capital Group

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## EXECUTIVE SUMMARY



### Outlook

Rapidly evolving and adapting, the higher education (“HE”) industry is swiftly learning to reimagine itself. While the challenges are numerous, long due, and disruptive, quickly evolving opportunities are redefining higher education.

In the world every year, over 250 million students graduate from high schools, vying for an affordable quality education, possibly at home, online, or at one of the major metropolitan educational centre magnets

While Chat GPT in 2023, went within months from being banned by regulators in classrooms and campuses to integrating it into their curriculum and even offering training classes to their faculty. All around the world, the chat-bot has fired the discussion around until what point should government regulation go in controlling new technologies, not only in education but also in life in general.

The fact is that online and hybrid education are still finding their space in an industry where both professors and students are quickly adapting to new formats. Nevertheless, the pandemic fostered a shift in the HE paradigm, propelling students to “Learning from Everywhere”.

According to M Capital Group research, the global market size of the HE industry reached \$477 billion value in 2023. While estimates for universities’ growth potential varies among different sources, M Capital Group believes a 7% annual growth until 2030 within reach. Driving this growth, are students from Asia, but also Africa and Latin America, where population growth combined with economic growth propel many to strive for a better life through education.

Despite promising growth, the challenges for the industry are present. In developed countries, especially, the ageing population that will shrink traditional student pools poses a problem. From academic models to sustainability, HEIs are called upon to rethink teaching and research.

Among the challenges, affordability for students and student debt loans, universities must deal with an existential question. Are degrees worth taking nowadays?

In the UK, universities have been affected negatively by Brexit, student protests, and faculty strikes.

In the US, with a continuous 13-year decline in HE enrolment, the survival of more than 6,000 institutions is at stake. M Capital Group believe that we might end up with less than 200 institutions within a few decades.

While the US and UK continue to lead in higher education, attracting the best talent, emerging countries are breaking to the global education sector. China and India are gaining a larger share of the global market. Nevertheless, there are also challenges for these countries. In China, the 2021 ban on private education companies has reduced growth in the sector. In India, despite the promising growth in recent years, universities are still catching up to global international recognition and quality.

### **Report Roadmap**

This report aims to analyse the prevalent trends, drivers, challenges, and opportunities of the higher education market while exploring the dynamics in the UK, US, and main emerging markets, namely China and India.

## HIGHER EDUCATION IN MOTION: INDUSTRY OVERVIEW

### Overview

The higher education system faces challenges on multiple fronts. In countries like the US, enrolment growth is slowing, student debt is at an all-time high, institutions are unsure of how to deal with AI applications, and the value of degrees is undergoing further questioning. Though some of these problems are more prominent in developed countries due to their aged populations or real wage stagnation in the past decades, emerging economies also have their own struggles.

Overall, it is the future of HE that is under severe questioning by society. Universities went from adopting AI-banning policies last Spring, filling entries on how to ban Chat GPT, to, recently, encouraging and even teaching students how to best use these tools. Academics are asking which kind of HE society wants and needs, given these new advancements. From a different perspective, students are asking if the benefits of degrees surpass their costs.

In the US, President Biden put forward the Student Loan Debt Forgiveness program, which would eventually forgive, according to income and occupation, people from repaying their loans. After seeing this plan ruled out as illegal by the Supreme Court of Justice, the Biden Administration is now going to launch the Saving on Valuable Education plan (“SAVE”), an income-driven repayment plan. Despite that, in January 2024, Joe Biden forgave US\$5 billion of student debt.

In Australia, the government has recently approved a set of reforms aiming to increase access to HE for those from disadvantaged backgrounds. The plan will double the number of Commonwealth-supported university students to 1.8 million.

To boost the pace of innovation and improving the quality of education, research is critical. Universities are at the forefront of both education and research. Therefore, ensuring a healthy and solid HE is necessary for society's prosperity.

For many around the world, HE is still perceived as a cultural and scientific asset that enables personal development and promotes economic, technological, and social change. For students in vulnerable circumstances, it is a passport to economic security and a stable future.

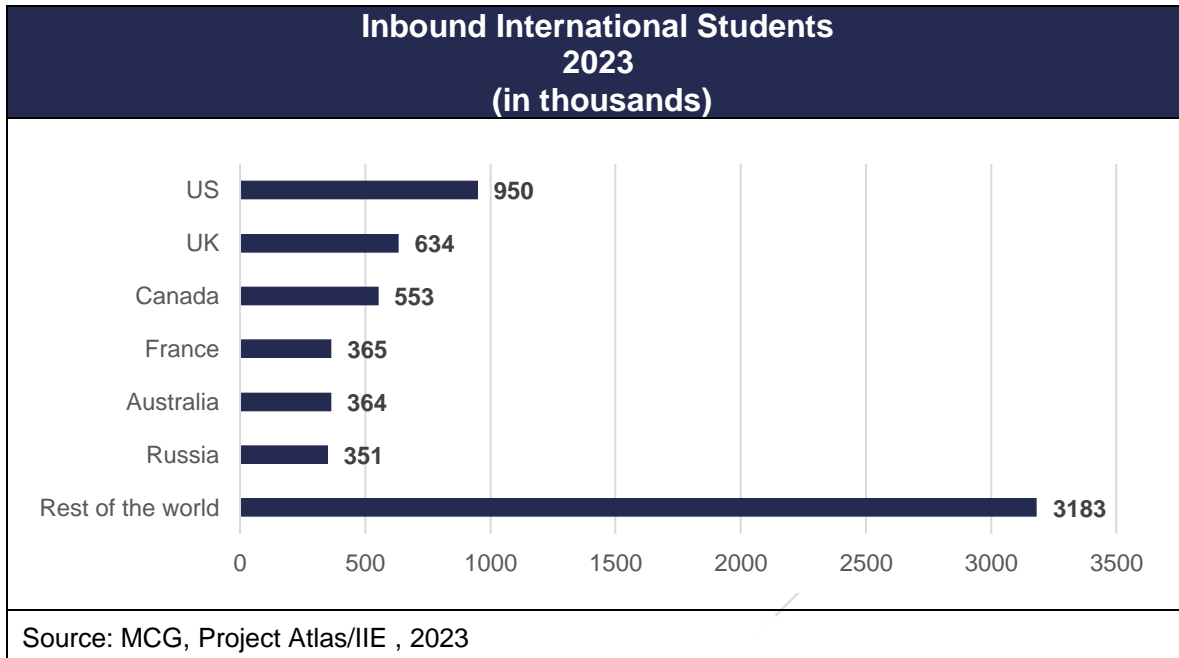
According to UNESCO, in 2023, 235 million students are enrolled in universities worldwide – a number that has more than doubled in the last 20 years and is set to expand. Yet despite the boom in demand, the overall gross enrolment ratio ("GER") is 40%, with significant differences between countries and regions. In addition, more than 6 million students are pursuing their further education abroad.

With globalization, students, have moved from their home countries to others, mainly to the US and the UK, already recognized for their world-renowned universities, which saw each HE market gain even more traction.

In the US, the sector consists of nearly 6,000 institutions, which annually serve 19 million students and 16 million undergraduates, and award three million bachelor's and associate degrees. For the UK, 450 High Education Institutions serve nearly 2.9 million students, out of which 1.7 million are undergraduates. While in the US there are 900,000 international students, in the UK, there are 600,000. If we look at the per total number of students, the US has 5 international students per 100, while the UK has 21, reflecting a more international classroom.

The following graph reveals part of the international landscape of HE. In total, in 2023, there were 6.4 million international students, with the majority concentrated in 6 countries. This reveals how HE has been contributing to interconnecting different parts of the world, exposing simultaneously the sector to external factors, such as geopolitical issues and global shocks. When thinking about this industry, it is then necessary to have a global perspective, keeping in mind economic and political events at the macro level.





Around the world, education is in motion with a series of emerging trends, challenges, and opportunities, affecting the landscape of the HE industry.

## Market Segmentation

Within the HEI landscape, it is important to segment the kinds of institutions that can be found.

### Public Universities

A public university is primarily funded and operated by a state government. Their primary mission, in many countries, is to provide more accessible HE and contribute to the socioeconomic development of the region or state. Although they receive a significant portion of their funding from government appropriations, many times, they charge tuition fees. In addition, public universities are commonly research-intensive institutions that conduct significant research activities.

### **Private Non-Profit Universities**

A private non-profit college or university that often operates as an educational non-profit organization, typically established by educational or religious organizations. It does not receive its primary funding from a state government, relying on tuition fees, donations, endowments, and grants to support its operations. Tuition fees can vary, but some private non-profit universities offer financial aid and scholarships to students. Private non-profit universities are usually accredited by recognized accrediting bodies, ensuring educational quality.

### **Private For-Profit Universities**

Private for-profit universities are owned by private corporations or individuals. Their primary goal is to generate profit for their owners or shareholders. They rely heavily on tuition fees and revenue generated from educational services as their primary sources of income. Accreditation standards for for-profit universities can vary, and, in certain countries, not all are accredited by recognized bodies.

### **Community Colleges**

Community colleges are typically two-year institutions that offer associate degrees, certificates, and vocational training programs. They are often more affordable than four-year institutions, making HE accessible to a broader range of students. They often offer flexible class schedules, including evening and weekend classes, to accommodate working adults. It is important to consider that colleges might signal different kinds of institutions in different countries.

### **Vocational Education**

Vocational education, also known as technical or career education, focuses on providing practical skills and training to prepare individuals for specific careers or trades. Vocational programs can vary in length, with some offering short-term certificates and others providing two-year associate degrees. Vocational education programs cover a wide range of fields, including healthcare, automotive technology, culinary arts, cosmetology, and welding among others. Depending on the program, graduates may receive certificates, diplomas, or associate degrees in their chosen field.

### **Market Size & Growth**

The global HE market size reached US\$ 477 billion in 2023, and is expected to reach US\$ 853 billion by 2030, exhibiting a CAGR of over 7% during 2023-2030.

In 2023, North America, followed by Europe, were the leaders of the HE, and are expected to remain at the forefront during the forecasted period. This happens mainly as these regions have long established the world's premier institutes and colleges, that offer various high-quality programs that provide leading research programs, attracting the best talent.

## THROUGH SHIFTING CURRENTS: MARKET DYNAMICS

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### Introduction

In the ever-evolving landscape of global education, the HE industry stands out as a dynamic and vital sector, being key to understanding market dynamics that shape its future. In an era marked by rapid technological advancements, like the proliferation of AI solutions, shifting societal paradigms, the renewed importance given to reskilling one's competencies, and unprecedented global challenges, like the past pandemic, the realm of HE has become a crucible of innovation and transformation.

### Trends

Education has for centuries been a rigid concept, implying the oral transmission of knowledge in classrooms or other places, or written transmission, through books and other documents, from someone or a known source to someone else. Though this still describes HE today, the landscape of the industry has been evolving and might now be in a conjecture moment.

From globalization and the boost in international student mobility to the democratization of laptops, several trends have shaped universities in the last decades. Nowadays, AI applications and new learning paradigms, which may revolutionize the secular image of education, among the emergence of Edtech start-ups, a new concept of Lifelong Learning ("LLL"), and a change in the skills learned at university are affecting and shaping the sector for decades to come.

### AI Applications On The Rise

But nowhere has the impact been felt more immediately than in education. Overnight, rather than labour through traditional exercises designed to develop and assess learning, students could simply instruct a computer to compose essays, answer maths questions, or quickly perform complex coursework assignments and pass the results off as their own.

Months after the Chat GPT launch, the Financial Times (“FT”) described how quickly this innovation had impacted the whole HE industry.

Also known as chatbot programs, machine-learning-powered software answers students' questions and explains course content outside class, impacting assessment and learning methodologies. Within weeks of its launch, ChatGPT was being used by more than 100 million people globally.

Initial reactions to Chat GPT were mixed. On one side, there were those whose initial concerns were about AI-based plagiarism and copyrights, leading them to ban the software from academic use, as the Italian government did. On the other side, some were enthusiastic from the beginning or saw there would be no way of stopping Chat GPT and started to think about how to integrate it into HE.

Now some schools are hiring outside experts to teach both faculty and students about how to use AI tools. Universities are asking to what extent assessments should be reshaped for AI, and some are arguing that teaching should move towards “computational literacy”, learning how to solve tricky problems by asking computers complex questions and allowing them to do tedious calculations.

A big change may be on the way. According to the Challenger report, layoffs in the US reached over 80,000 in May, reflecting a 20% increase from the previous month and nearly four times the level observed during the same period last year. Among these job cuts, AI was responsible for 3,900 job cuts, accounting for approximately 5% of all job losses, positioning it as the seventh-highest contributor to employment reductions in May, as reported by employers. In the future, there may be more to come.

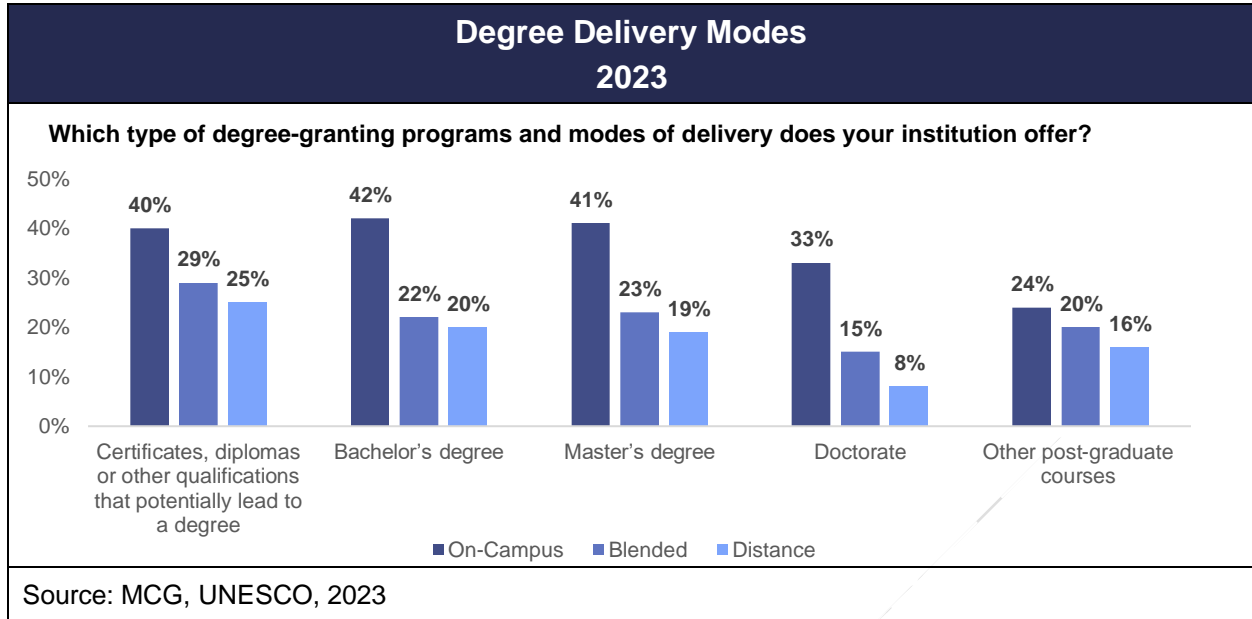
HEIs moved from initial denial and rejection to encouragement and acceptance towards Chat GPT and other AI-based tools.

### **Actively Learning From Everywhere - New Modes of Delivery**

The COVID-19 pandemic forced a shift to remote learning overnight for most HE students. To complement video lectures and engage students in the virtual classroom, educators adopted technologies that enabled more interactivity and hybrid models of online and in-person activities. These tools changed learning, teaching, and assessment in ways that have persisted, after the pandemic.

In a study realized by UNESCO, the results, shown in the graph below, clearly indicate that the main forms of provision for bachelor's, master's, and doctorate programs are still on campus, but there seems to be more flexibility for other shorter qualifications. It is also noticeable that, even after the pandemic, universities are exploring different delivery modes, with blended learning offerings being more usual than distance learning.





Recognizing that learning outcomes suffered across the education spectrum, online teaching can have a detrimental impact on learning outcomes throughout the educational spectrum. Nevertheless, this experiment with online instruction compelled a re-examination of the conventional notions of time and space within the realm of education. It unveiled certain advantages, such as allowing students to progress at their own pace.

Hybrid learning goes beyond the mere combination of virtual and physical classrooms; it encompasses a holistic and immersive educational approach that empowers students to apply the concepts they acquire in the classroom to real-world situations.

Beyond analysing the shift to an immersion paradigm, looking also into current aspects of on-campus learning – lectures. Lectures are an efficient way of teaching and an ineffective way of learning, which Professors have used to disseminate their knowledge.

Educational institutions need to demonstrate tangible learning outcomes, prompting teaching methodologies that are grounded in the science of learning. This shift underscores the fact that our brains do not acquire knowledge solely through passive listening, but also rely on spaced learning, emotional learning, and the application of knowledge. The educational establishment is gradually accepting this method, known as 'fully active learning'.

To boost these new learning approaches, technology is key. Though some technology tools might sound futuristic, such as augmented reality (“AR”), they are already making their way to the market. The scheme below shows the technological “ecosystem” that might help sustain the idea of Learning from Everywhere while giving space for active learning.

## **Lifelong Learning (“LLL”) – Becoming Lifetime Partners**

In the past, university business models used to be centred around high-school students, going to pursue a bachelor’s degree and later a master’s degree and, finally, for some a doctorate degree. This paradigm is shifting. Students are no longer considered to be university “partners” for only three to five years, but rather they are life-time partners. The reason for this is the emergence of the concept of LLL.

LLL is rooted in the integration of learning and living, covering learning activities for people of all ages, in all life-wide contexts, and through a variety of modalities (formal, non-formal, and informal), which, together, meet a wide range of learning needs and demands. One of its main missions is to equip students (learners and individuals) to encounter with competence and confidence the full range of working, learning, and life experiences.

Considering the shortage of skilled workers in particular sectors in countries around the world and that a wide range of professions will require new skill sets, there is already an increasing demand for continuous training and skills development. HEIs, given their capacity to build knowledge and competencies, are vital to future-oriented skills development.

Over 54% of HEIs have a unit dedicated to LLL, ranging from offering and selling education programs and trainings to curricula development and community engagement. This facilitates flexible learning pathways and enhances graduate employability and research tasks, among others.

## **EdTech Startups – New Players Enter the Game**

The EdTech industry is based on the use and integration of digital tools and resources to enhance and support education and learning processes. Seeking to develop innovative solutions and successfully penetrate the market, the sector is dominated by start-ups.

Due to rapid technological change and enterprise digitization, many companies are looking to continuously upskill their workforce. Simultaneously, broadband access has become more affordable worldwide, and distance education technologies have become more advanced. These developments have helped the Edtech sector boom. VCs invested \$20.8 billion in the Edtech sector globally in 2023.

## **Teaching Skills That Remain Relevant**

There is a significant gap in perception regarding the effectiveness of HE in preparing young people for the workforce. While 96% of President’s at HEIs believe they are doing a good job, only 41% of college students and a mere 11% of business leaders share that view.

Universities often prioritize teaching specific skills tied to the latest technologies, even though these skills and the supporting technologies are prone to obsolescence.

Consequently, universities frequently find themselves playing catch-up in aligning their educational offerings with the evolving needs of the future workplace.

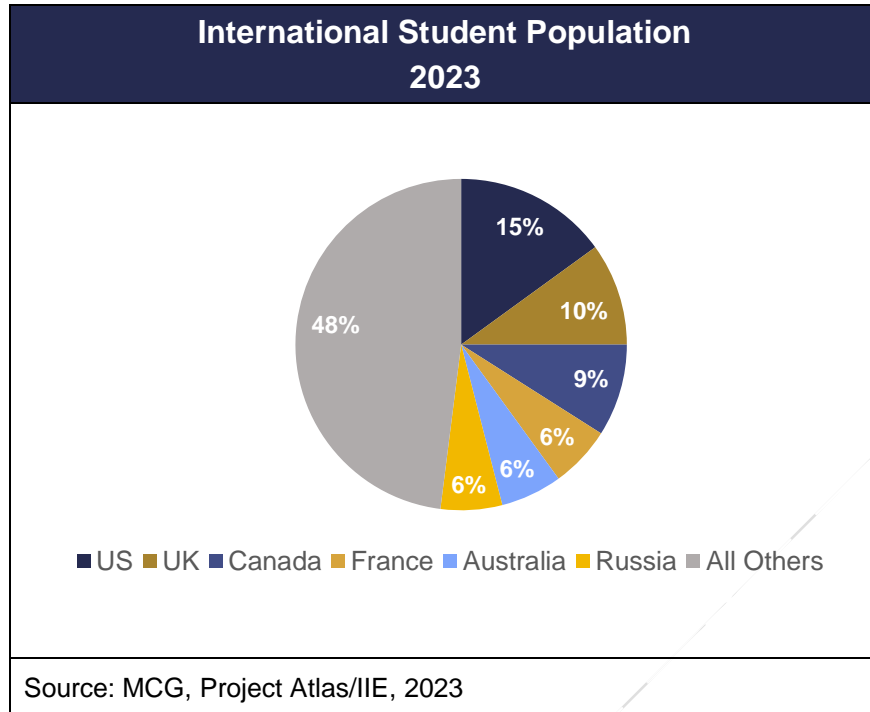
The skills revolution and the future of learning and earning educational systems and businesses are evolving to respond to the broad shift in skills requirements. They are creating detailed frameworks for knowledge, competencies, and skills that align with their specific needs and environments. These frameworks are being integrated into educational curricula, teaching approaches, and students' records.

Institutions are revising their curriculum to ensure its alignment with the current job market demands by integrating industry-relevant courses, hands-on training, and internship opportunities. They are forging partnerships with various industries to bridge the gap between academic learning and real-world workplace needs. In addition, they are investing in LLL, better career services, integrating soft skills development into the curriculum, and fostering entrepreneurship and innovation through the creation of hubs.

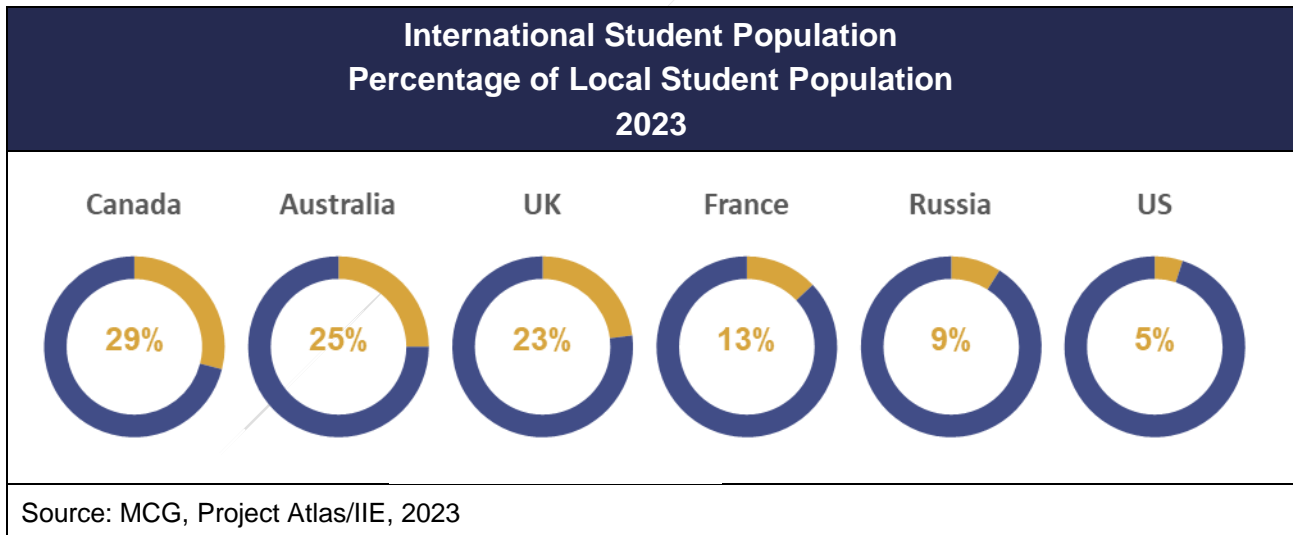
Overall, HEIs are finding ways to address the skills gap by adapting their degree programs to more closely deliver work-ready skills that business seeks. To prepare students who will thrive in a changing world of work, universities are moving towards a more workforce-focused education, re-evaluating their relationships with the industry, coursework, and career support structures.

### **Growing International Student Mobility**

In the recent decade, the internationalisation of universities has remained a key dynamic, contributing to the development and sustainability of many countries' HE systems. International student mobility has expanded at an unprecedented pace. In 2023, more than 7 million students pursued education abroad, while projections suggest this figure will reach 8 million by 2025. Simultaneously, distance learning and other forms of cross-border HE contributes to the growth of virtual academic mobility, introducing regulatory and quality assurance challenges associated with these novel educational provisions.

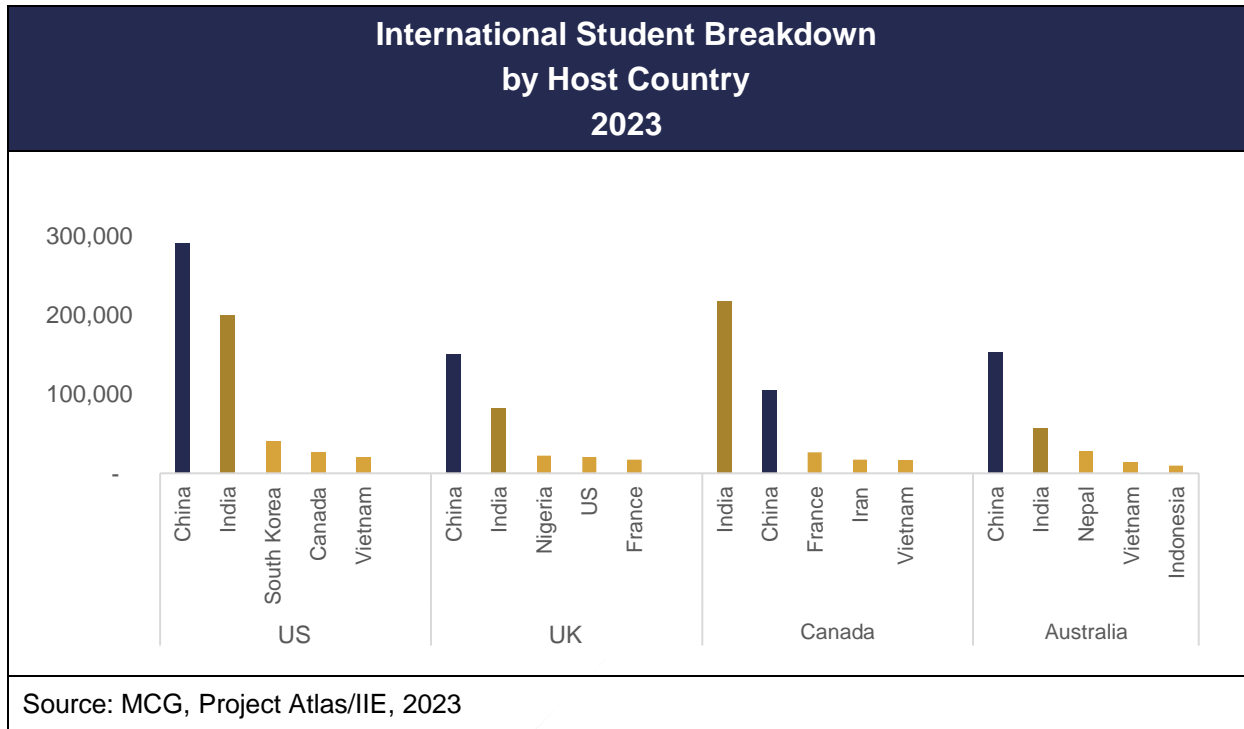


From a different perspective, by looking at the number of international students as a percentage of total HE students in a country, the panorama changes:





To explain the drivers of international student mobility patterns, there are individual, institutional, national, and global factors. One of the main drivers is the opportunity to gain practical work experience. While some students value the fact that this will help them secure a job back home in the host country, others are driven by difficult economic conditions in their home country that push them to take advantage of study-related working opportunities in the host country.



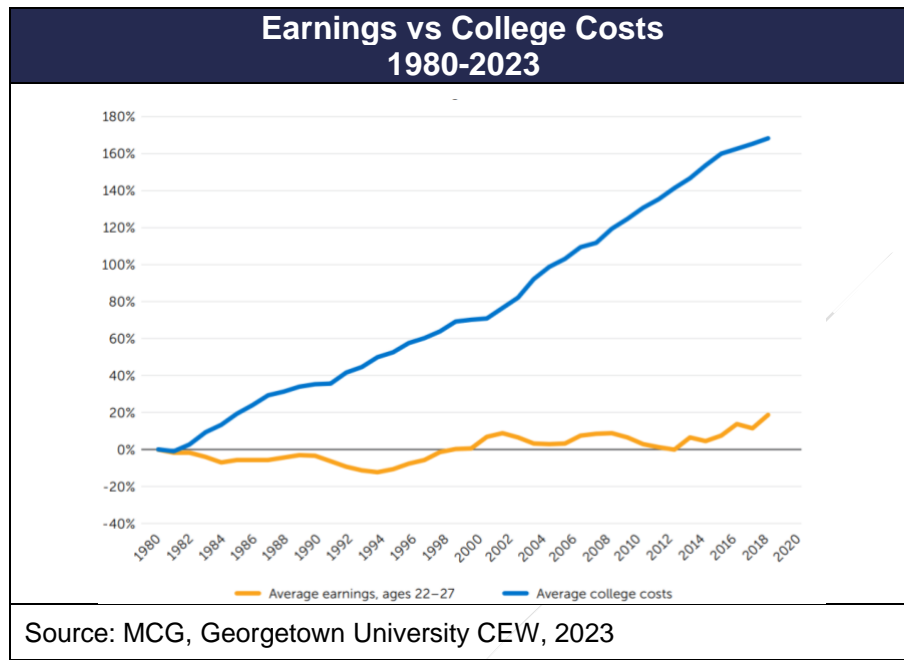
One thing seems firm: international student mobility is expected to keep growing in the next years, fostering nations’ interconnection.

**Challenges**

Despite double-digit growth projections for higher education, universities are struggling.

## Affordable Education

Between 1980 and 2023, the average price of tuition, fees, and room and board for an undergraduate degree in the US increased by over 150%.



While young individuals today require a higher level of education than ever to thrive in the competitive labour market, the price of a college education has surged. According to the WEF, in 2022, 17% of students said they were going to drop out of college. 25% alleged they couldn't afford tuition.

Total student debt is now higher than credit card debt in the United States, and the numbers keep growing, with research showing that each graduating class has more debt than the class before.

Regarding Europe, studying in EU countries often comes at a much more affordable level than in other countries. In some European countries, study programmes may be free of charge even for international students.

Some, like LSE's former chancellor, Baroness Minouche Shafik, defend that HE will always face a trilemma between access, quality, and affordability.

## Regulating AI

Following initial reactions to the emergence of the first widely available AI chat-bot, a wave of initial shock spurred a big debate in society. Initially, positions were more bipolarized, with the discussion running around the establishment of a ban over the use

of these innovations, even at the country level. As a result, the discussion today stands on regulation, rather prohibition, and on its conditions and extent on AI.

The purpose of HE is, as UNESCO states, to promote the exchange of knowledge, research, and innovation and to equip students with the skills needed to meet ever-changing labour markets. The HE and academic industry has always put a special emphasis on the importance of merit of those who are able to advance and progress in a specific field, opening the way for a new understanding of the world.

The emergence of AI tools creates a duality that is making HEIs reflect on the right path to take. Applications, like Chat GPT, might put at stake the values on which HE has relied on for years. The chat-bot uses and bases its content production on what had been previously written by others, not quoting them and defying authors' rights. Furthermore, in a report by Stanford Law, "GPT-4 didn't just squeak by. It passed the multiple-choice portion of the exam and both components of the written portion, exceeding not only all prior LLM's scores but also the average score of real-life bar exam takers, scoring in the 90th percentile."

At the same time, banning tools such as ChatGPT would mean institutions would be failing to deliver value, running a high risk of irrelevance in a post-AI world. If there is "No going back", as FT reports in one of its more recent articles, failure to provide training and inform students on AI tools would mean not providing them with the skills and knowledge that will be key in their future. This way universities would be failing in fulfilling their mission.

Regulation of AI tools in HE seems to be the middle path. One point that is also pushing towards this middle ground is the fact that there is no such thing as a perfect AI detector, not at all allowing HEIs to possibly force stricter control over AI use in essays or other kinds of projects, exercises, or out-of-class assessments.

Concerns are not only at the educational level at its core, rather these concerns revolve around defining the kind of world we desire to inhabit. HE systems often make assumptions about the current state of the world and its anticipated future state. They are structured to equip individuals with the skills necessary to navigate and ideally prosper in this familiar reality. However, the emergence of AI compels one to challenge the foundational concept of this "known world" that typically serves as the educational starting point.

Implementation and regulation regarding AI deployment in HE will possibly concentrate on crucial areas. These areas may encompass defining the support students and staff receive to become AI-literate, establishing ways to adapt teaching and assessment to incorporate the ethical use of generative AI, and supporting equal access always ensuring academic rigour and integrity is upheld. The extent of the relevance and area of action of these principles and regulations, the responsibility for defining and implementing them are key questions that leave the debate open and challenge the advancement of the AI-HEIs relation.

As Stefania Giannini, Assistant Director-General for Education UNESCO, expresses, generative AI technologies are being integrated into education systems in the absence of checks, rules, or regulations, at a quick pace. In numerous instances, governments and educational institutions are adopting a profoundly novel technology that not even the foremost technologists profess to fully comprehend. This development lacks substantial precedents. For example, even when the internet and mobile phones emerged, they were not immediately embraced for use in schools and among children. Only after identifying constructive ways to incorporate them, they were gradually introduced.

HE, given its function to protect as well as facilitate development and learning, has a special obligation to be finely attuned to the risks of AI – both the known risks and those only just coming into view. Defining regulations and principles to mitigate risks and boost AI potential in HE is a challenging task with many questions to be posed and no clear paths.

### **Further Questioning the Value of Degrees**

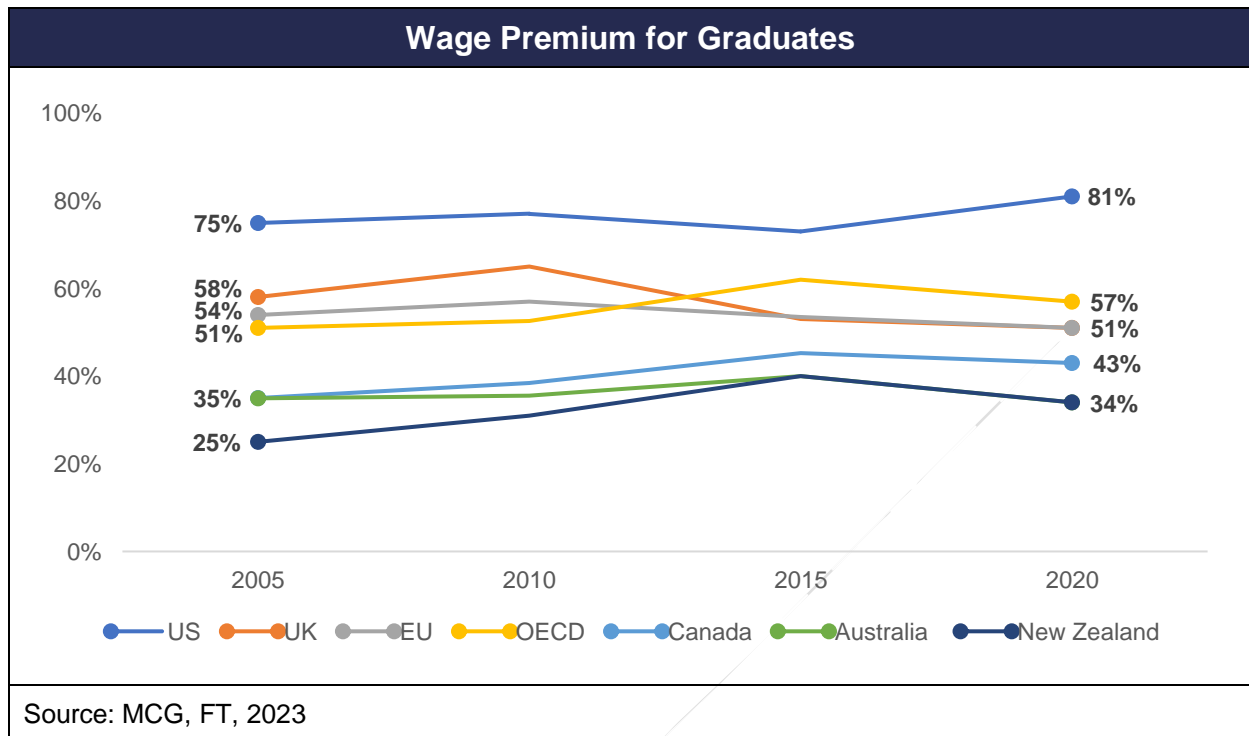
In economics theory, rational agents make decisions based on Cost–Benefit analysis. If the benefits outweigh the costs, then one will decide to move forward with a certain decision. In addition, students look for high ROI, maximizing what they get out of their tuition costs.

The truth is that, recently, the value of the degree is undergoing further questioning, fuelled by a crisis of confidence and scepticism. Deloitte has listed this as one of the trends shaping, HE in the US in 2023, though the shift in value perception has grown all around developed countries. Several studies and polls seem to prove it. A poll published by the Wall Street Journal (“WSJ”) on March 2023 suggests a crisis of confidence has emerged: 56% of Americans now believe a degree is no longer worth the time and money spent on it. According to a Gallup poll, Americans’ confidence in higher education has sunk to a new low, falling to 36% from 48% in 2018 and 57% in 2015.

Looking at the benefits first, HE leads to better employment outcomes, greater socioeconomic mobility, and non-monetary benefits, including improved health and increased civic engagement.

The following graph, based on FT data, provides key insights regarding the evolution of the salary premium for graduates in the last decades. In the United States, the "graduate premium" - the increase in wages experienced by individuals with a degree - rose from 75% to 81% between 2005 and 2020, as per an analysis conducted by the FT using data from the OECD group of affluent nations. Meanwhile, in the EU and the UK, graduates continue to earn approximately 50% more than those without a degree.





Based on this data, we may see that graduate premiums in the US have increased throughout this period. Then, if anything, the financial benefits arising from taking a degree seem to be, on average very positive, and on a positive 20-year-long trend. For the UK and EU, the scenario is different as these countries have experienced decreases in the graduate premiums.

It is also important to consider that there are other benefits arising from taking a degree. A McKinsey study from 2023 listed how finishing a degree could help boost employability outcomes, improve socioeconomic mobility, and how it is also associated with greater well-being and civic engagement.

Based on its insights, it is interesting to notice that a degree still provides highly valuable benefits for those who take them. From higher lifetime earnings to much-improved likelihood of moving from the bottom to the top income quintile, there are several relevant outcomes associated with taking a degree. Based on this, before arriving at conclusions it might be interesting to analyse the cost side.

HE Benefits		
Better employment outcomes	Improved socioeconomic mobility	Greater well-being and civic engagement
<b>75%</b> higher lifetime earnings, on average, for bachelor's degree holders compared with high school diploma holders	<b>4x</b> improved likelihood of moving from the bottom to the top income quintile	<b>47%</b> higher probability of vigorous weekly exercise for bachelor's degree holders aged 25–34 than for high school diploma holders
<b>3.5</b> percentage points lower unemployment rates for bachelor's degree holders (5.5%, compared with 9.0% for high school graduates)	<b>80%</b> probability of leaving the bottom income quintile for college graduates from low-income families	<b>2x</b> greater rates of volunteering for those with a bachelor's degree than those with a high school diploma
<b>1/4</b> the risk of being employed in a role with a high chance of being automated in the future for bachelor's degree holders compared with high school diploma holders	<b>2.5x</b> more likely to have children who attend college	<b>1.8x</b> voter participation for US citizens aged 25–44 with at least a bachelor's degree compared with high school graduates
Source: MCG, McKinsey, 2023		

Looking at the cost side, there are different realities, among the countries. In the US, the “Affordability” challenge, has taken a closer look at how, since the 1980s, tuition fees have skyrocketed and salaries for young people haven’t matched that increase. Nevertheless, that trend has been here for 40 years, so it doesn’t seem plausible to only now have become a main driver explaining the individuals under-confidence in the HE system. For the UK, tuition fees have only increased from over US\$350 to over US\$1,000 in the last 10 years, and they are predicted to stay like this driven by populist government policies. For the EU, tuition is mostly free.

Analysing everything together, it seems there is something contradictory here as benefits seem to exist and the graduate premium, in some cases, increased and in others, it just slightly decreased, while costs for students have stagnated in some areas with sticky or near free tuitions, while for others they have increased, but not to a point where they offset the benefits. The answer to this dilemma might rely on opportunity costs.

Firstly, in the previous cost analysis, there was one important economic cost that was not considered – the opportunity cost of completing a degree. The opportunity cost of something corresponds to the value of the next highest-value alternative we had. In the past years, with highly skilled jobs asking for a degree, the best alternative many students had, if not undergoing a degree, was working at some simple administrative or low-skilled job, that didn’t pay close enough to graduate salaries. For example, in periods of recession or small economic expansion, with possibly fewer jobs available and decreases in salaries, the opportunity cost of taking a degree is lower.

For our case, however, there is a change in the job market that might explain some part of the questioning of HE. In the US, some states, including Maryland, Pennsylvania, and Utah, have stopped requiring a four-year degree for most jobs in state government. In the UK, the Institute of Student Employers (“ISE”) found the share of members requiring a 2:1 degree fell from three-quarters in 2014 to less than half in 2022. The private sector is also embracing skills-based hiring practices. Companies like Delta, General Motors, Google, Apple, and IBM, among others, have started eliminating the requirement for a bachelor's degree in many of their job postings. This shift is gradually diminishing the notion that a college degree is the exclusive route to achieving economic and social advancement.

In short, with 37% of the top 20 skills considered necessary for the average job have changed since 2016. HEIs are moving from a degree-based hiring to a skill-based one. In a job landscape, where technology advancements will be causing disruption and things will evolve at a quicker pace, what is more important is having and developing the right skills to be able to adapt and evolve.

There is also another factor to take into account. Six-year completion rates (the percentages of students who graduate a four-year program within six years) for public and private nonprofit universities have hovered at around 56% to 58% for the past ten years. The fact is that for students who don't complete the degree, the materialization of value of the years of study doesn't occur. So, for more than 40% of HE students, years of study are wasted, with few benefits coming afterward.

In addition, not all colleges and degrees deliver the same result. Using statistics that evaluate nations as a whole not taking into account the differences between top-ranked institutions and others explains why a big part of the population might not trust HE. Overall, a first analysis may suggest that the benefit and cost equation of doing a degree hasn't changed. However, the changes in the job market towards skill-based hiring, the stagnation of completion rates, and the inequalities among institutions seem to be driving scepticism and distrust among populations regarding their HEIs. With degrees undergoing an in-depth questioning by society, HEIs' solutions will be key to re-establishing confidence and improving the sectors perspectives.

### **Opportunities**

The challenges for the HE industry are various, but so are the opportunities. For those willing to look at the industry dynamics and understand the implications of demographic cliffs in developed nations HEIs, the increasing weight of Asian nations in HE enrolments share, evolving learning methods towards blended models, supported by technological developments, there are several possibilities to explore.

The M&A market for HE is already on the rise in the US and the UK, with the total number of institutions in these countries predicted to see sharp decreases in the next decades. With universities' business models shifting, creating, and developing institutions that can welcome students throughout the different stages of their careers and upskill them will be

key and a service very much in demand. Furthermore, with HE enrolments growth shifting from the West to the East, international mobility is predicted to continue to grow, and an addition of a new learning paradigm, towards “Learning from Everywhere”, defining programmes that can balance the best of traditional learning models with the best technology is able to provide might be an attractive value proposition for students.

### **M&A as an Opportunity to Strive and Survive**

Many of the trends and challenges contributed to creating a fast-paced changing HE landscape, where institutions have to continuously adapt. Enrolment challenges, arising due to demographic cliffs and financial strains fuelled by increasing operational costs and stickier prices, are testing the viability of HE, especially in the US and the UK. Strategic partnerships provide a promising way forward, provided they are approached thoughtfully.

There has been a decline in college attendance compared to previous years, with a notable decrease in first-time student enrolments, in the US. Private four-year institutions have seen an 8% reduction, while public four-year institutions have experienced a 10% drop since their peak in 2010. Additionally, community colleges have faced a similar contraction in first-time, full-time student enrolment. Simultaneously, concerns regarding the cost of HE and the return on investment are becoming increasingly complex and critical for students and their families. Despite these challenges, student completion rates have shown little improvement. The combined impact of these factors exerts immense financial pressure on these institutions.

In response to these challenges, an increasing number of institutions are seeking to merge or acquire other players. Notably, the realm of M&A in HE has seen a significant uptick. M&A activity has almost tripled in recent years, from 11 in the period from 2001 to 2005 to 31 in the period from 2016 to 2020, according to McKinsey's analysis. The yearly average has doubled to six transactions per year since 2011, back from 3 in the previous decade.

Within this intense M&A activity, small colleges are the ones being hit harder. Schools with fewer than 3,000 students were hit the hardest, with an average decline in enrolment of 4.7%. To survive or evade liquidation, many of these institutions have merged or acquired other HEIs or have been acquired.

When M&A is properly planned and executed, it can yield substantial advantages for both financially sound and struggling institutions, as well as for the student body. For financially stable institutions, engaging in M&A can bring forth a host of strategic benefits. These encompass the addition of complementary academic programs and research capabilities, the extension of geographical presence and footprint, the rapid adoption of innovative capabilities such as online learning, the enhancement of shared-service offerings for increased efficiency (including optimized administrative services), and the broadening of opportunities for students, such as the introduction of dual-degree programs and vocational offerings. Importantly, when institutions acquire schools with diverse student

populations, they can expedite progress towards diversity and inclusion objectives, surpassing what could be achieved through organic growth alone.

For struggling institutions, M&A represents a potential lifeline. It can serve as a crucial means to address operational challenges, secure financial stability, and expand access to education. In this context, M&A offers a viable path forward, enabling institutions to navigate the complexities of HE more effectively and ensure their long-term viability.

Overall, successful alliances have the potential to enrich academic offerings, elevate student outcomes, and bolster an institution's financial stability. With declining enrolments in many nations, especially among developed countries, it will be harder to justify the existence of so many HEIs in the sector landscape. In line with this, M&A activity is already booming in some markets, driving the industry towards further consolidation.

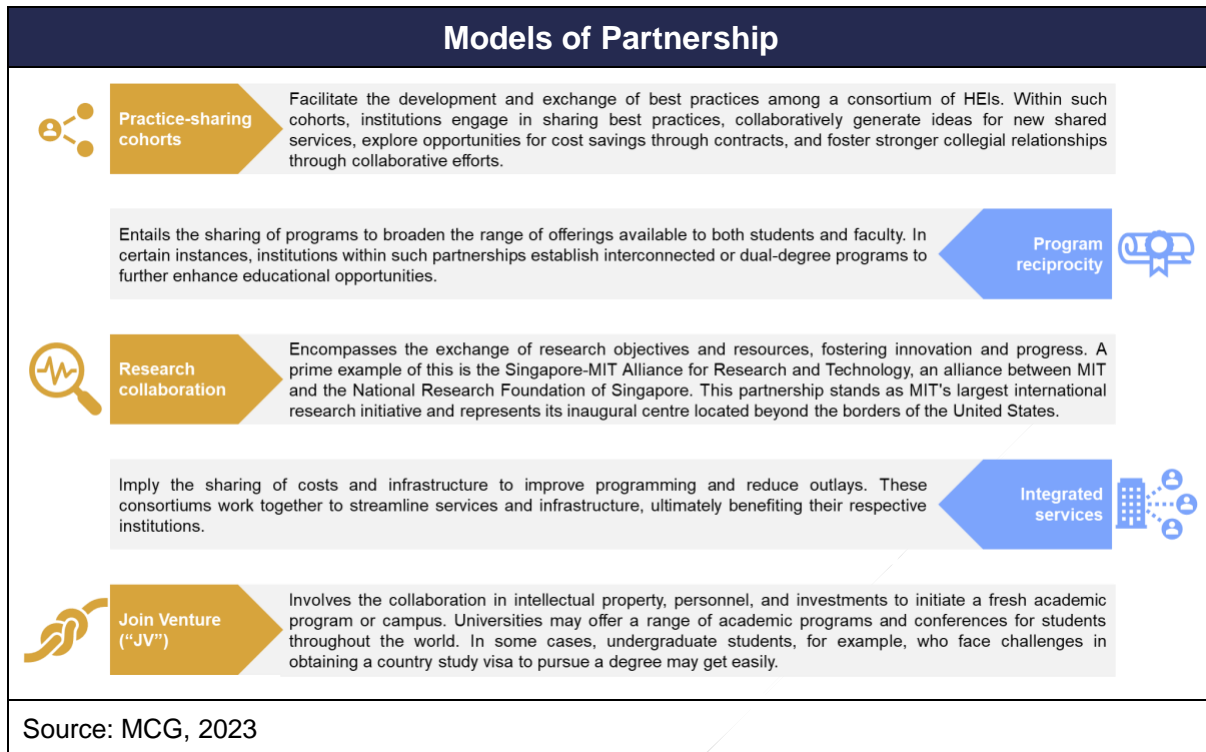
### **International Partnerships – Stimulating New Ways of Cooperation**

Demographic changes and universities' sustainability issues are reshaping the HE landscape, leading the industry to find solutions and opportunities where challenges emerge. The other two opportunities mentioned have already illustrated this. In this case, to tackle challenges related to student enrolment, outcomes, and financial stability, an increasing number of educational institutions are actively considering various forms of collaborations and partnerships rather than pursuing M&A. The specific approach an institution adopts for collaboration will be contingent upon its distinct strategic objectives, existing capabilities, academic offerings, student demographics, and geographical location.

Many institutions have long-standing study abroad programs, with HEIs now embarking on the development of new partnerships and collaborations that elevate international alliances to a new echelon. Attracting international students not only enriches the campus environment with diverse perspectives but also bolsters financial stability. International students often pay full tuition and fees, making them a significant source of revenue for HE systems. Moreover, many international students continue to contribute to their host countries' economies after graduation, further driving economic growth.

These international HE partnerships play a pivotal role in advancing the Sustainable Development Goals (SDGs) by facilitating the exchange of knowledge and ideas among students, academics, industry professionals, and society at large.





International HE partnerships are uniquely positioned to tackle complex societal issues because they bring together diverse partners from various disciplines, sectors, and countries. Research indicates that international partnerships deliver added value compared to other interventions, underscoring their efficacy. However, these collaborations also face challenges, including the impact of the COVID-19 pandemic, intricate governance structures, resistance to change within the HE sector, and the unpredictable funding landscape.

In conclusion, fostering international HE partnerships not only enhances the educational experience but also contributes significantly to economic growth and the achievement of global sustainability goals. Additionally, these partnerships provide an opportunity for HEIs to minimize issues that are facing now.

### Life Long Learning

Life Long Learning may represent an opportunity for HEIs to adapt their business model to these challenging times, where institutions' traditional student pool is shrinking. Perceiving students not only as stakeholders who go to universities in the beginning of their adulthood, but rather as people who during their career will be coming back to study new areas and reskill their skill set can be a great source of growth and innovation for the sector. This transformation demands that HEIs respond to the broader needs of society and leverage their resources and expertise to address common challenges. Consequently, HEIs can open their doors to more diverse student populations and establish meaningful connections with local communities.

To meet the evolving demands of lifelong learners juggling work, family, and other commitments, HEIs must offer flexible course formats and innovative delivery models. This includes providing shorter, customized learning opportunities, such as weekend and evening classes, part-time study options, guided online courses, self-directed learning, and hands-on practical training sessions. Despite the initial challenges, online learning delivery has become increasingly proficient, with the flexibility to switch between online and in-person learning garnering widespread support from students and staff.

Within this shift towards LLL lies several opportunities for HEIs. The possibility to expand their current services and reach more students, making a more efficient use of their resources, or partnering or entering in some M&A activity and getting a LLL unit onboard of their current project are a chance for institutions to evolve and become more complete. By expanding, they will also be answering society's call for more flexible and continuously reskilled updates, fostering growth in economies.

### **Entering The Online World**

Online programs, including both remote and hybrid options, have gained a larger foothold in HE worldwide. A growing number of students, particularly those juggling work commitments with their studies, are gravitating toward online education due to its enhanced convenience and accessibility when compared to traditional classroom-based instruction. In fact, recent research conducted by McKinsey reveals that a majority of HE students express a desire to incorporate certain aspects of online learning into their educational journey. Nevertheless, a notable portion of students express dissatisfaction with the quality of online experiences provided by their universities, suggesting that HEIs could benefit from improving their online learning models.

In a McKinsey survey with students who had experienced the transition to online classes during the pandemic, nearly 65% of them expressed a preference for retaining virtual elements in their learning experiences.

Students highly value the flexibility and convenience that online learning offers. When asked to prioritize their preferences among 11 learning features that could remain or become virtual, students ranked the following three as the most important: the ability to record classes and access them later, easy availability of online study materials, and the flexibility to balance work and study commitments.

Conversely, many students remain hesitant to enrol in fully remote programs, citing three primary reasons: concerns about increased distractions while studying online, a fear of losing motivation and becoming bored with the learning experience, and doubts about their personal discipline to complete online programs.

Overall, HEIs entering the world online may represent an opportunity to grow and expand in various ways. It promotes increased access and enrolment as online and hybrid programs can attract a more diverse and geographically dispersed student population. Students who may not have access to traditional on-campus education due to location,

work commitments, or other constraints can enrol in online programs, thereby increasing the institution's enrolment and revenue. Offering online and hybrid programs can also diversify an institution's revenue streams. Tuition from online learners can provide a steady source of income, especially during times when traditional enrolment might be unpredictable. On the other side of the profit equation, online and hybrid programs can be cost-effective for institutions. HEIs can scale their offerings without the need for extensive physical infrastructure, leading to potential cost savings in terms of classroom space, utilities, and maintenance.

The learning process can also be increasingly customized. Institutions can use online and hybrid formats to offer a variety of learning pathways, such as self-paced courses, micro-credentials, and stackable degrees. This allows students to tailor their education to their specific needs and career goals. The flexibility of online and hybrid programs allows institutions to adapt quickly to changing educational needs and market demands. They can introduce new courses and programs more rapidly than traditional, lengthy curriculum development processes.

The potential that emerges from the changes in learning modes are immense. Though traditional learning methods are still dominating the landscape, adapting, and providing new solutions can enable universities to grow both financially and in terms of impact.

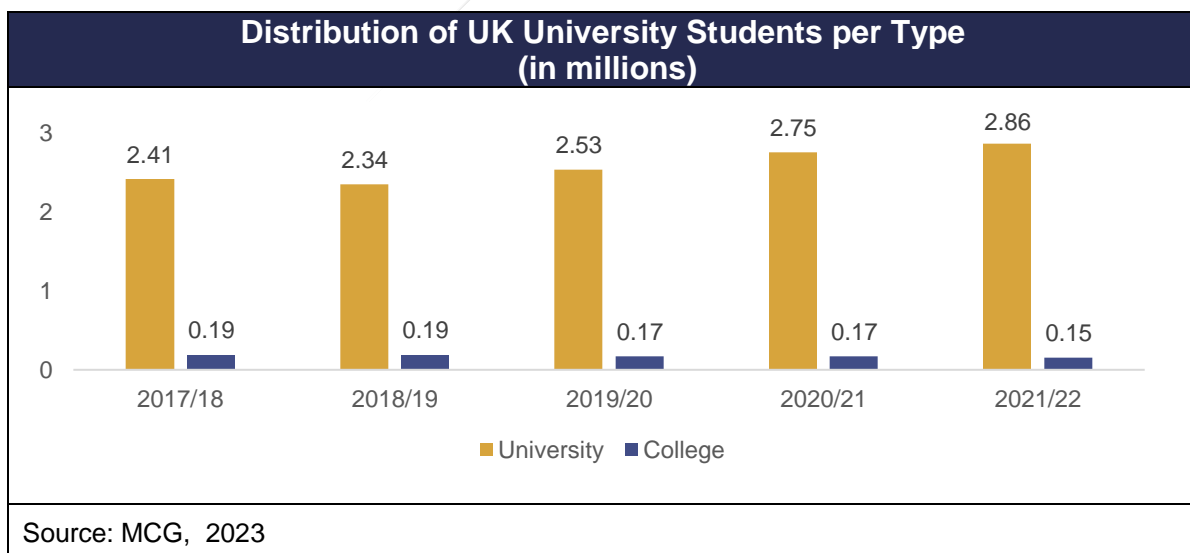


## UK MARKET: KEEPING STABLE

### Overview

The UK, has been leading the global HE landscapes, having some of the most reputed and well-known universities and research centres in the world. The country attracts talents from all around the globe, being the second-largest host country by the number of international students. In total, 2.9 million students studied in the UK in the last year in approximately 450 HEIs, with over 400 of them located in England.

The following graph shows the evolution of the number of students studying in colleges and universities in the past 5 years:



Universities host more than 90% of the students enrolled in HE in the UK. For instance, universities offer a more thorough and theoretical approach to learning, providing

bachelor's and master's degrees that are very in demand in the job market, while colleges cater mostly to students looking for qualifications that will lead to other types of outcomes.

Looking more in-depth into the country's institutions, in the UK, most of the universities are public, existing less than 20 private universities. This Group is constituted by 24 world-class, research-intensive members, whose mission is helping to create a dynamic economy, stronger communities, and a better future for the UK. They maintain the very best research, an outstanding teaching and learning experience, and unrivalled links with local, and national businesses and the public sector.

With most students pursuing their education at universities, it is now interesting to see which kind of degree these students are pursuing, if they are part-time or full-time, and where they come from. From the table below, one may see that most full-time students are pursuing their first degrees, showing the relevance and dependence of the HE system on these kinds of programs. Among the total student population, more than half are home students enrolled in full-time undergraduate programs, reinforcing that this is still the biggest market in HE in the UK. Overseas students are more likely to be enrolled in postgraduate programs on a proportional basis. A significantly higher percentage of overseas students opt for full-time study. EU students have a higher likelihood of pursuing undergraduate studies compared to other international students. The final key insight is that the large majority of 'other undergraduate' courses are taken part-time by home students, which is possibly explained by the fact that these students are trying to gain new skills and acquire other undergraduate diplomas in order to support their ongoing careers.



<b>Snapshot of Students at UK Universities (in thousands) 2021 – '23</b>				
	<b>UK</b>	<b>EU</b>	<b>Overseas</b>	<b>Total</b>
<i>Full-time</i>				
First degree	1 390	82	198	1 670
Other undergraduate	48	1	10	58
Postgraduate research	44	9	33	86
Postgraduate taught	149	16	288	453
<b>Total full-time</b>	<b>1 631</b>	<b>108</b>	<b>528</b>	<b>2 267</b>
<i>Part-time</i>				
First degree	208	2	4	214
Other undergraduate	89	1	10	100
Postgraduate research	23	2	3	28
Postgraduate taught	232	6	16	254
<b>Total part-time</b>	<b>552</b>	<b>12</b>	<b>32</b>	<b>596</b>
<i>All modes</i>				
First degree	1 598	84	202	1 884
Other undergraduate	137	2	19	158
Postgraduate research	67	11	35	113
Postgraduate taught	381	23	303	707
<b>Total all modes</b>	<b>2 183</b>	<b>120</b>	<b>560</b>	<b>2 863</b>
Source: MCG, House of Commons Library, 2023				

It is also important to break down domestic students by their home nation in the UK. The following table shows precisely in which of the four nations, UK home students decide to pursue their HE studies.

Data shows very clearly that England hosts the majority of HE students in the UK. For its side, Ireland lags behind the others with less than half of the number of students as the penultimate. Based on the report produced by the House of Commons, other trends, regarding students' nation distribution, are that in every nation, the total student population has grown since the 2017/18 academic year.

<b>Snapshot of Home Students Across the UK (in thousands) 2021 – '23</b>					
	<b>England</b>	<b>Scotland</b>	<b>Wales</b>	<b>Ireland</b>	<b>UK</b>
Undergraduate	1 421	173	101	41	1 735
Postgraduate taught	311	39	21	10	381
Postgraduate research	56	7	3	1	67
<b>Total</b>	<b>1 788</b>	<b>219</b>	<b>124</b>	<b>52</b>	<b>2 183</b>

Source: MCG, House of Commons Library, 2023

Notably, Wales has experienced the most substantial percentage increase, whereas Northern Ireland has observed the smallest growth. In particular, there has been significant growth in postgraduate taught student enrolment. Each nation has witnessed an increase in student numbers in this category, with Wales recording a remarkable 44% rise during this period. Finally, there has been limited growth in postgraduate research students. Although postgraduate research students number went up 2% overall, Northern Ireland experienced a decrease, and other regions saw only marginal increases.

Government expenditure on HE encompasses direct funding for teaching and research through national funding bodies. Additionally, the government offers student loans to cover tuition fees and provide financial support for living expenses. A portion of this spending is recouped through loan repayments made by graduates. Prior to 2012, most funding for UK universities was derived from a central government grant distributed through national funding councils. However, in 2012, this grant was reduced, and funding for teaching shifted toward increased tuition fees paid by students. With first-degree students representing more than half of the pie, a big part of the burden of sustaining HE falls on them.

Presently, funding for HE primarily originates from a blend of sources, including tuition fees paid by both domestic and international students, funding from national funding bodies like the UK Research and Innovation funding councils, as well as contributions from various organizations such as charities, businesses, and government departments. Capital grants for land, buildings, and equipment provided by national funding bodies, along with income generated through estate management activities such as renting facilities for conferences and forging commercial partnerships with businesses, also contribute to funding. Private sources like endowments and charitable donations play a role as well. With Brexit and other political choices impacting the UK's relationship with EU students, this strategic choice might bring additional complexities and challenges for the countries HE system.

In 2023, total public and private spending on tertiary education in the UK amounted to 2% of GDP, the second highest among OECD countries after the US with 2.5%, significantly surpassing the OECD average of 1.5%. However, the funding model in much of the UK, where most public funding is channelled to students as loans, means that direct public funding to institutions constitutes a smaller proportion, accounting for 0.5% of GDP, compared to the OECD average of 0.9% of GDP.

Tuition fees have been capped at £9,250 since 2017, and this cap will remain in place until at least 2025. Some university leaders have argued that by 2025, due to inflation, the real value of this fee income will be approximately £6,000.

It is clear this is putting pressure on HEIs' financial sustainability. Nonetheless, this time, with more competition and narrower paths, due to Brexit, UK HEIs have to raise the bar and address efficiently their issues.

### **Key Trends**

The UK market is being shaped by most global trends. However, there are some specific trends with regional particularities affecting the UK.

Nearly all around the Western world, the population is aging, and the UK is no exception. The country has not seen a peak in the number of first-degree enrolments, and it is becoming more and more reliant on international students to fund its HE system. With geopolitical tensions increasing and an increasingly polarized world, this might be a risk for the nation. When it comes to education affordability, with inflation reaching decade highs and with real estate bubbles inflating house prices, students are finding it harder and harder to support the cost of studying in the UK. Reversely, the cost of living is not only constraining students; staff and professors, who are seeing their premiums when compared to secondary teaching decrease, have created a wave protests, stopping many universities from undergoing their normal day-to-day. Finally, postgraduates are gaining more weight in the HE landscapes. With foreigners, especially from overseas, boosting the demand for this kind of program, masters and other postgraduates might gain more importance in the future, where the first-degree enrolment student pool will eventually start to shrink.

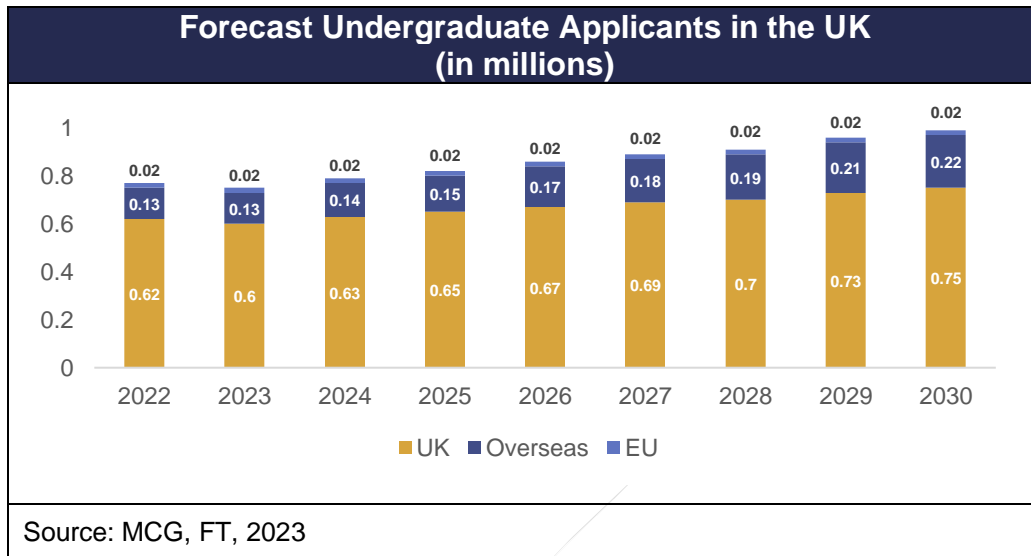
### **Enrolment Trajectory**

According to UCAS, the number of individuals seeking HE is projected to surge annually, potentially reaching one million by 2030, marking a potential 30% increase. This projected growth requires an expansion of available university slots while ensuring that educational standards are upheld.

However, with real-term funding for HE decreasing, leaders in the sector caution that the supply of high-quality educational opportunities may struggle to meet the rising demand. Clare Marchant, the CEO of UCAS, emphasized the importance of providing these students with access to top-notch opportunities and not neglecting the needs of

disadvantaged students amidst intensifying competition. She characterized this challenge as not only educational but also economic in nature.

UCAS reported that nearly three-quarters of HE applicants managed to enrol in university or other post-18 courses, last year. The future success rates will hinge on the actions taken by providers and governments to boost supply.



The anticipated increase, as projected by UCAS, is primarily driven by an upcoming surge in the number of 18-year-olds due to a mini-boom in birth rates. UCAS estimates that 457,000 18-year-olds could apply for HE in 2030, representing a 38% rise from current figures. The truth is that domestic enrolments are growing at a lower growth rate, on average, than before. This mini-boom will be able to sustain the positive growth until the end of the decade. Nevertheless, after it, the UK's demographic cliff might start to be felt more intensely.

One potential means of minimizing the demographic cliff effects and bolstering funding is by attracting international students, who typically pay higher tuition fees than domestic students. Recognizing that the UK has continuously invested in attracting these students, UCAS anticipates a 60% increase in international applicants by 2030, rising from approximately 150,000 to 240,000 annually. The growth in the number of international students strengthens the sustainability of the system and creates a more diverse class. UK HEIs are becoming more international with an increasing number of students coming from overseas. In terms of EU students, after Brexit, the number is predicted to stagnate at around the 0.02 million, representing a big fall in one of the UK's main markets.

Last year, there was a slight dip in the number of UK HE applicants, but UCAS attributed this to a "slight recalibration" after the pandemic-induced inflation of grades, and experts in the sector concur that numbers are likely to continue rising. Nick Hillman, Director of

the Higher Education Policy Institute, noted that demand, in the next years, is unlikely to decrease because of high aspirations within UK families, the demand from employers for highly skilled individuals, and the overall improvement in schools.

With a decade mini baby-boom and increasing internationalization, the UK market is predicted to maintain its growth trajectory until 2030. Nevertheless, domestic students' growth is slowing year by year, posing extra challenges for the country's HE system.






### **Staff Strikes**

Strikes occur in different sectors of a country's economy, affecting, during the strike period, production, or delivery of services. The HE sector, specifically, in the last five years, with a break through the middle due to COVID, has been suffering with several industrial actions and strikes taking place. Universities' lives have been negatively disrupted and students might be the ones suffering the most.

Between February 2018 and March 2021, the University and College Union ("UCU"), representing more than 130,000 staff members at various further and HEI across the UK, orchestrated a total of over 60 days of strikes during two separate disputes. The first disagreement revolved around longstanding issues regarding pension reforms, while the second encompassed a range of concerns related to salaries and working conditions. This marked the initial phase of protests and service disruptions.

Following periods of remote learning and online instruction during the COVID-19 pandemic in 2020 and 2021, a semblance of normalcy returned to university campuses in September 2021. However, between October and November 2021, the UCU once again conducted a ballot among its members, seeking support for industrial action concerning pensions, pay, and working conditions. On December 1, 2021, staff members at 58 universities commenced a three-day strike, heralding the start of a second phase of confrontations between educational institutions and their staff. This phase included three waves of strikes in December 2021 and from February to April 2022, with the recurring issues being pay, working conditions, and pensions, which are represented in the scheme below. University staff engaged in an additional three-day strike in November 2022 and a 12-day strike in February and March 2023, followed by a service boycott from April 2023, all in connection with the pay and working conditions dispute.



UCU General Requests		
 <p><b>Pension benefits</b></p> <p>A reverse to a reduction in pension benefits. A reverse to a reduction in pension benefits</p>	 <p><b>Pay increase</b></p> <p>A pay increase of at least inflation (RPI) plus 2%</p>	 <p><b>Reduced inequality</b></p> <p>Nationally agreed action to close gender, ethnic, and disability pay gaps</p>
 <p><b>End precarious contracts</b></p> <p>An agreed framework to eliminate the use of precarious contracts, such as zero-hours employment</p>		 <p><b>Address excessive workload</b></p> <p>Nationally agreed action to address excessive workloads and unpaid work, including addressing the impact that excessive workloads are having on workforce stress and ill-health</p>
<p>Source: MCG 2023</p>		

The consequences of these disputes have been felt by students, resulting in delays in their progression assessments, degree result notifications, and graduation ceremonies. These delays may have had ramifications for job offers and opportunities to pursue postgraduate courses, which often hinge on students achieving specific degree classifications. International students faced concerns as some might have been unable to apply for graduate visas, given the standard requirement for applicants to confirm the successful completion of their studies.

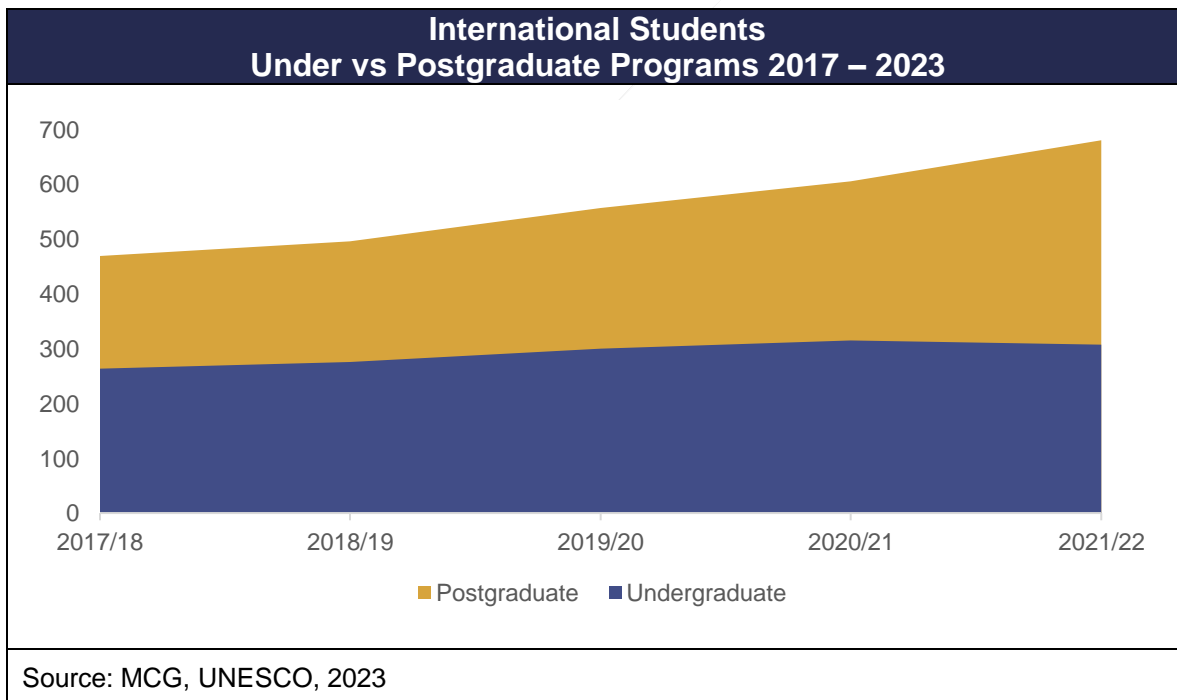
To mitigate the impact of industrial action on students, universities implemented measures that prevent or minimize disruption. These included measures to ensure that students are not disadvantaged if adjustments need to be made to assessment methods. Many universities provided information on their websites explaining how they respond to industrial action. The eligibility of students for tuition fee refunds following such disruptions depends on the actions taken by the university to mitigate lost learning opportunities. In the event of concerns or complaints, students can contact their respective universities. If they remained dissatisfied with the outcome or perceived that their complaint had been mishandled, they could then reach out to the relevant higher education ombuds service in their respective countries.

## Postgraduate Growth

Figures regarding the academic year 2022/23 show that a growing proportion of students are studying at postgraduate level, and a growing proportion of postgraduates are international students. With the number of postgraduate students growing in the last years, this kind of program is gaining more traction and popularity. With higher tuition fees than the normal first degrees and bringing some of the most talented worldwide minds, the growth of postgraduate students brings some hope to the UK's HE.

Looking solely at the numbers, 29% of students at UK HE providers were enrolled in postgraduate courses, up from 24% in 2017/18. In 2022/23 the number of new enrolments on postgraduate courses rose 9% from the previous year to 526,645. Of the total 820,310 postgraduate students enrolled in 2021/23, 45% (372,500) were non-UK domiciled. This proportion has grown from 35% in 2017/18.

International students are introducing a new dynamic in the UK market, fostering the development and creation of new master's programs. The following graph shows how the number of international students in under and postgraduate students has been growing in the past years, with postgraduate growing stronger:



The substantial increase in the number of international students at UK universities in the academic year 2021/22, totalling nearly 75,000, was primarily propelled by the heightened demand for postgraduate programs. International enrolment across all levels rose by 12% during this period, but the surge in postgraduate enrolment surpassed expectations, registering an impressive growth of over 28%. This increase represents the largest single-

year upswing in either undergraduate or postgraduate enrolment among international students in the UK to date.

By nationality, India is the country with more students in postgraduate programs (101,765) outnumbering those from China (88,755). In addition, 33,715 postgraduate students in 2021/22 were from EU countries, down from 43,765 in 2020/21. In terms of growth, Sri Lanka, Nigeria, Nepal, Pakistan, and Bangladesh doubled the number of enrolments in postgraduate programs in the UK, with Nigeria and Nepal following India and China in terms of total number of postgraduate students.

All in all, there is a new segment in the HE markets growing and one that might be of great interest to the industry. Attracting already more international students than undergraduate degrees, postgraduate studies are on the growth, bringing almost 400 thousand fee-paying students to the UK.

### **Challenges**

The interplay of recent geopolitical decisions with other external forces, namely increasing global competition, is creating several challenges for UK Universities. Though, nowadays, they remain at the front, with the most renowned research institutions and leading the most innovative learning methods, events like Brexit or the fight for attracting the best talent are pushing these nations to find solutions to overcome new obstacles.

Brexit, for instance, poses a challenge to the UK in the sense that it lost access to one of its biggest markets, Europe, not only in terms of international students but also in terms of access to grants and funding for research. Overcoming this gap in recent years has become one of the key goals of UK governments, with some reports even stating that the best outcome would be to try to replicate a deal like what was happening before 2020. The emergence of players like China is increasing competition globally for attracting the best talent and gaining positions in the universities' rankings. Internally, the UK might be entering a financial sustainability crisis with very sticky prices, not answering to raising operational costs.

All this together creates a combination of factors that makes people question the current state of HE in the UK. Exploring these topics is of key importance to picture the full landscape of the British HE sector.

### **Brexit**

Data released in 2023 by Universities UK indicated that there were approximately 125,000 EU students studying at universities in the UK. Additionally, it was reported that 14% of academic staff members hailed from other EU nations, adding to around 40,000 EU staff members. Collectively, these EU students and academic staff contributed significantly to the UK economy, generating over £2.2 billion in economic activity and fostering the creation of 19,000 jobs.

As the numbers show, the EU and the UK used to be interconnected. One can say that Brexit affected HE in mainly three areas: internationalisation, mobility of staff and students from an economic perspective, and EU funding.

The statistics reveal a stark decline in the number of EU students enrolling in British universities, with significant drops in students from countries like Italy, Germany, and France. The count of EU students embarking on their first year of undergraduate or postgraduate studies decreased from 66,680 in the year prior to Brexit's implementation in 2020 to 31,000 in 2021. Notably, this marked the first year that EU students were treated equivalently to those from China or India. The Brexit impact is most pronounced at the undergraduate level, with just 13,155 EU students enrolling in 2021 for their first year of undergraduate studies, compared to 37,530 in the year preceding the transition, as per official data.

The UK's departure from the EU has led to an increase in tuition fees for European students. According to a report, the average tuition fee for EU students studying in the UK has surged from £9,000 to £27,000 per year, with variations depending on the course and institution. This fee hike represents a substantial increase compared to the fees paid by UK and EU students who commenced their courses before Brexit.

Brexit has also brought about changes in immigration policies pertaining to international students. EU students are now required to secure a student visa before pursuing their studies in the UK. This new visa system, known as the Student Route, applies to both EU and non-EU students alike. It is advisable for students to initiate the visa application process as early as possible to mitigate potential delays.

With Brexit, Oxford and Cambridge combined received £2 million, since 2020. According to the WSJ, the UK is now planning to rejoin the EU's research funding, in a clear sign of Brexit Thaw. The truth is that several HE organizations, such as the Russell Group, strongly supported the Remain campaign. Times Higher Education published the results of the referendum in academia. 88.5% of staff voted to remain, 2.1% were undecided and only 9.5% of staff were pro-Brexit.

Finally, in terms of research, collaboration, and funding, the UK might have suffered some of the hardest consequences. In science and research, the UK produced 15.2% of the world's most highly-cited articles – with only 0.9% of the world's population – and ranked first among competitors by field-weighted citation – an indicator of research quality, by 2018. However, simultaneously, the country was on top of the list of the academic institutions of Member States receiving more funding from the EU. By institutions, the first place belonged to University of Oxford with (€330 million) EU contribution, followed by University of Cambridge (€306 million), University College London (€278 million) and Imperial College London (€208 million). The only non-UK Institution was the University of Copenhagen (€215 million).

Overall, the status of international and EU students, who were frequently seen as crucial both in terms of vitality and financial support for UK institutions, changed and with that

part of UK's HE landscape was also affected. With research being one of the areas that suffered the most, the UK faces the complex challenge of maintaining the leadership of the HE industry, while struggling with access to EU funds and some of the best minds.

### **Increasing International Competition**

Increasing international competition has affected in recent years the UK Universities. Competition is not only falling in terms of losing share in the international student market, though it remains the second biggest host country by the number of students but also by British HEIs losing top universities' rankings.

The UK has traditionally been the second-most popular destination for international students, following the US. However, it is facing increasing competition in this regard. The country's direct competitors, like Canada and Australia, are experiencing robust year-on-year growth and gaining larger market shares from key source countries. Additionally, new study destinations are emerging due to a shift towards intra-regional education.

The growth in international student numbers in the UK declined to just 0.3% in 2016, with a slight recovery to 0.9% in 2017, for example. Notably, the UK has seen its market share decrease in 17 out of 21 top-sending countries. In contrast, Australia has consistently achieved steady year-on-year growth of around 14%, positioning it to potentially catch up with the UK. Canada has also experienced a surge in international student enrolments, putting it on par with leading host countries. Other countries saw the number of international students growing 350% to 400% in the last decade, as happened in the Netherlands and Turkey. The UK only grew its international student number by 12%, despite in recent decades having been able to achieve higher growth rates. In addition, new attractive study destinations are emerging in Africa, such as Ghana, and in Asia, Malaysia, for example, owing to enhanced regional mobility.

Looking at regional trends, North America and Western Europe have seen their share of international students drop from 64% in 1998 to 52% in 2017, indicating that these trends are global. In contrast, East Asia, and the Pacific, along with Central and Eastern Europe, have increased their market share by 6% and 5%, respectively.

Regarding university rankings, a combination of factors, including Brexit and financial constraints, which negatively impacted teaching quality and research, led to a decline in the rankings of UK universities for the fourth consecutive year by 2020. Nearly three-quarters of the country's universities have slipped down the international league tables compiled by the data and research group QS, by 2020. Among the 84 ranked universities in the UK, 66 saw a decline in their staff-to-student ratios, and 59 experienced a drop in research citations. Furthermore, international student numbers declined at 51 universities.

Ben Sowter, director of research at QS, noted that these declines in UK universities mirrored similar trends in North American and European countries due to increased investments in HE elsewhere globally. However, Brexit, a less hospitable environment for international students, financial uncertainty in the UK, and rapid expansion of other



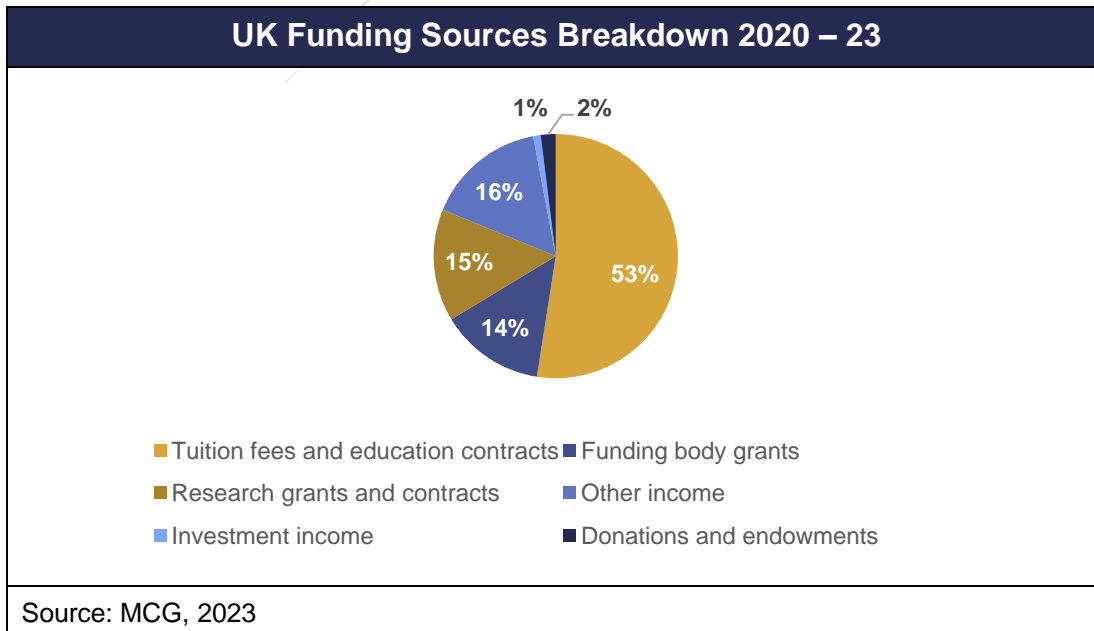
countries exacerbated the situation. Sowter suggested that investing in teaching capacity and ensuring that the UK remains an attractive destination for talented academics and students would be essential for regaining lost ground. Collaborations with European and global partners on transformative research projects should also be a national priority.

The international landscape in which the UK HE is playing is becoming increasingly competitive. With challenges coming with a shrinking international student share and worse performance in the universities' rankings, the UK must look for solutions to ensure that its business model is able to sustain.

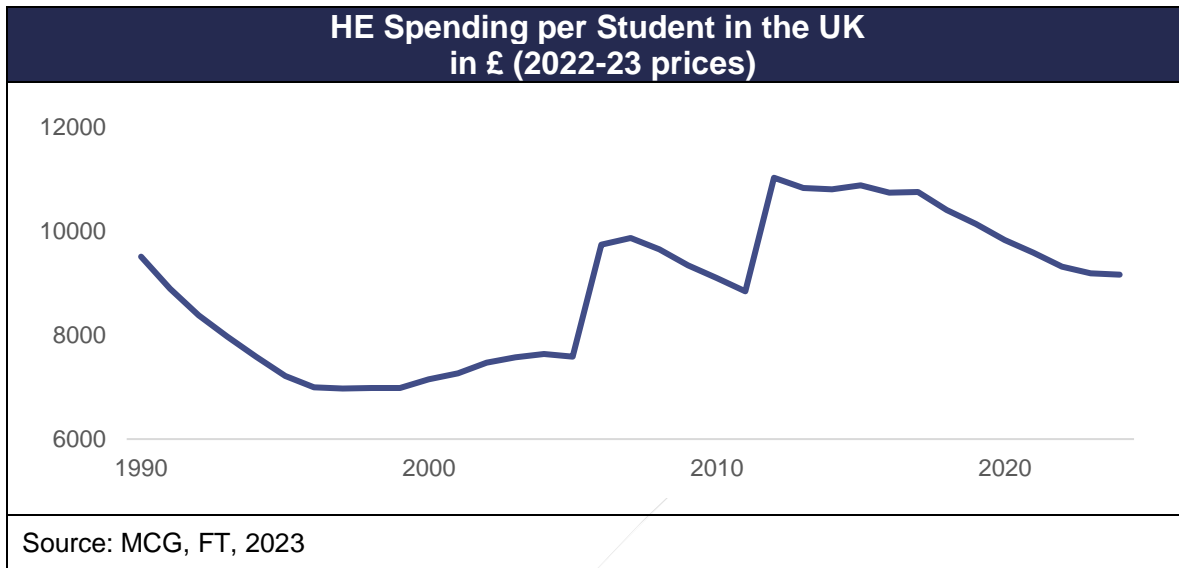
### Long-term Sustainability

The “Financial Sustainability of Higher Education Providers in England” report provides a clear conclusion that the financial outlook is challenging for the industry, both in the medium-term (covering the next 3-4 years) and in the long term thereafter. The risks institutions face include tightening financial margins, sticky prices, inflationary operational costs, high dependence on international student recruitment (particularly from a single country such as China), weakened sustainability of pension schemes and the need for investment in facilities and environmental policies. The report concludes that there is an increasing financial sustainability risk for some providers in the longer term, particularly if multiple risks materialise at the same time.

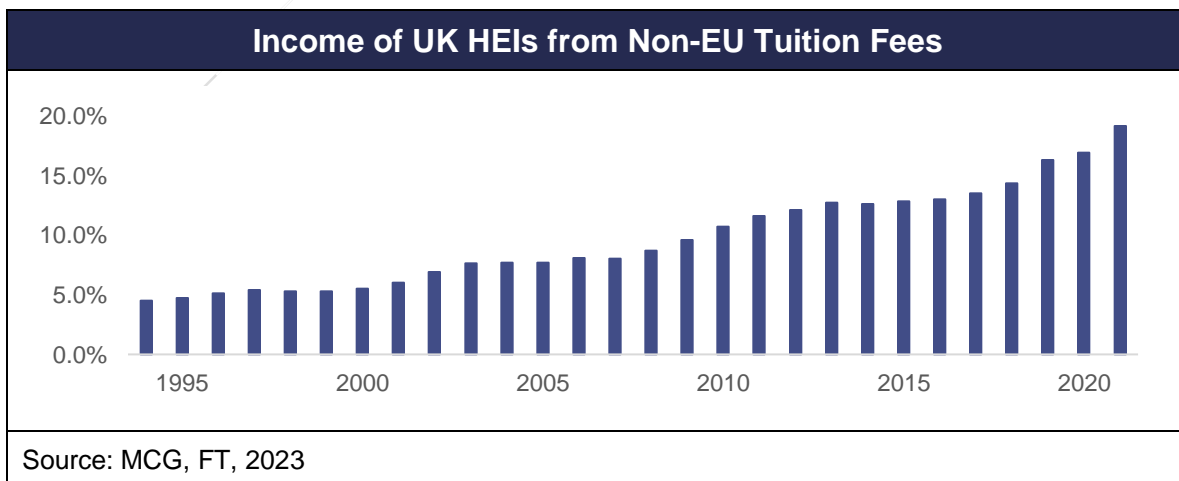
One of the main struggles with inflation is that tuition fees for UK students under the fee cap are fixed. Therefore, the inflation burden stays all on the institutions' side. The graph below breaks down the different sources of funding for HEIs in the academic year of 2020-21. Providers are, on average, heavily dependent on undergraduate fees, becoming more vulnerable to inflation. Nevertheless, these providers may have the potential to increase other sources of income.



Furthermore, spending per student is falling in real terms, as the graph below shows. However, an analysis by the Russell Group of research-intensive universities indicates that institutions face an average deficit of around £2,500 per domestic undergraduate student in the current academic year. If present trends persist, this shortfall could grow to £5,000 by 2029-30. This situation has raised concerns among universities, with spending per student falling, but at the same time, margins getting tinier. Warnings that the sector could potentially revert to a funding crisis reminiscent of the mid-1990s have started to sound.



As previously emphasized, international students play a crucial role in the financial framework of UK HEI. Many providers heavily rely on the fees generated by international students. This over-reliance on overseas fees remains a vulnerability in a context of unstable geopolitics and where tuition fees from non-EU students now make up almost a fifth of total income, as the graph below shows:



Given that various institutions are projecting significant growth in overseas student numbers, it is imperative to establish contingency plans that safeguard financial sustainability and protect the interests of the broader student population in case of interruptions in the flow of overseas students. Such disruptions could arise from factors like shifting geopolitical dynamics, which could swiftly and substantially affect income.

Joining this issue, in recent times, there has been mounting pressure to ensure the ongoing sustainability of pension schemes in the HE sector. Safeguarding the longevity of pension schemes for both current and past employees requires increased contributions from many employers and employees, and future contributions remain unpredictable. Fluctuations in scheme valuations could further amplify this cost pressure.

High-quality facilities are also essential to support the delivery of top-notch HE. Throughout the sector, there is a commitment to making significant investments in environmental sustainability to achieve net-zero goals. The costs associated with maintaining and investing in facilities have significantly risen. Moreover, economic constraints and weaker financial performance may limit the availability of affordable borrowing options, impacting the feasibility of development plans for certain providers.

Overall, the UK might be facing the trilemma of HE, affordability, access, and quality. In terms of access, the UK has made significant advancements, with the proportion of adults aged 25-34 holding tertiary education almost doubling from 29% in 2000 to 57% by 2021. This expansion has been made possible through the student loan scheme.

However, quality is more nuanced. While the UK is home to some of the world's top universities, there is also a segment of institutions that have struggled to deliver high-quality teaching or promising career prospects.

When it comes to affordability, the financial sustainability of the university sector is increasingly in question. The tuition fee cap for UK students has remained frozen at £9,250 for six years. In 2023, English universities incurred a loss of £2,500 for each UK student they educated. These institutions have been partially subsidized by the high tuition fees paid by international students, which also contribute to research funding. While attracting talented students from around the world is indeed a success story for the UK, generating £26 billion in economic benefits annually, it is not a sustainable long-term solution.

This same idea is defended by the chief executive of Universities UK, a lobby group that represents 140 institutions. "The path we are on is unsustainable,". Financial constraints will lead inexorably to worse staff-student ratios, deteriorating facilities and reduced ability to attract investment and world-class research, posing a challenge to a nation that seeks to remain ahead of the industry.

## Rising Student Debt

The UK has the largest student loan debt per borrower in the developed world – larger than even the US. The average student starting university this year is expected to graduate with a student loan debt of £45,800. The pressure can be exhausting, especially for those in their 20s who have just started thinking about their career.

Outstanding student loans in England have surpassed £200 billion for the first time – 20 years earlier than previous government forecasts, as the number of students at universities continues to outstrip expectations. The Student Loans Company (“SLC”), which administers tuition and maintenance loans in England, said that the balance of government-backed loans reached £205bn in the current academic year, including £19bn worth of new loans to undergraduates.

The student loan landscape changed dramatically in the last 30 years. These types of loans first became part of the student support package in 1990/91. In that year, students could take out a maximum of £420 or around one-sixth of the maximum amount of public support. Since then, and with the implementation of tuition fees, during Tony Blair’s government in 1998, student loans have become much more common. With a new wave of increased tuition fees in 2012, these loans grew at a high pace, reaching record levels these days.

With the rising cost of living and wage stagnation for the graduate population, pressure for loan repayment is higher than ever. Support measures from the government have helped students dealing with recent payments by freezing for a few years, after the pandemic, loan repayments. Nevertheless, with the coming end of these measures, it is predicted that many students will face struggles in keeping up with their payments.

Overall, UK students have the highest level of student debt in the whole world. With worse economic conditions, the scenario for several of them will become further challenging, putting at stake their capacity to meet their loan payment obligations.

## Opportunities

Opportunities that have the most potential for the UK Life Long Learning and Mergers.

Data shows that the UK is lagging behind other OECD countries when it comes to LLL. The hours dedicated by employees to learning are less than the OECD average, and they tend to get worse when looking at older population groups. With a society changing faster than ever and the existence of a clear skill gap in the country, the UK government is proposing to launch new measures that will help boost this segment of HE. With a clear problem and government support, there is clear space for new investments and innovations in areas that are already playing a key role.

While, M&A activity in the UK it is already visible, especially between smaller colleges and universities. Particularly in the medium, long-term, when UK institutions might start feeling the effects of a new and longer demographic cliff, further opportunities will arise.

Overall, during all the challenges and key trends mentioned previously, there seems to be space for growth and reaching new horizons within the UK HE landscapes.

### **Closing LLL Gap**

There are several statistics pointing to a lack of upskilling and reskilling of the British skill set. The “Future of Skills & Lifelong Learning” report by the Government Office for Science, states that young adults face challenges in literacy and numeracy, displaying relatively poor skills in these areas.

Another issue lies in the substantial disparities between the supply of and demand for skills in the UK. There is a prevalent problem of skills underutilization, particularly pronounced in the country. As a result, students have limited incentives to pursue higher skills, and those who possess advanced skills may find limited opportunities or incentives to remain in such areas. Lastly, there is a worrisome decline in formal learning participation with age in the UK. Adult learning is on a downward trajectory and is disproportionately accessed by individuals with higher wealth and greater pre-existing skill levels.

The government is putting LLL back in the centre of its plans, creating the life-long loan entitlement (“LLE”), which will allow universal access to loan funding for short courses post-18 from 2025. Gillian Keegan, the education secretary, called the policy a “profound shift in the way students of all ages can obtain funding for further and higher education”. Latchman said the entitlement could make a “huge difference” by making it simpler to take out a loan.

The LLE will replace the two existing systems of publicly funded HE student finance loans and Advanced Learner Loans. It will provide all new learners with a tuition fee loan entitlement to the equivalent of four years of post-18 education to use up to the age of 60. This would be £37,000 in current fees. Additional entitlement will be available for priority subjects, such as medicine. Learners will have a personal account they can access throughout their lives that will display their student finance LLE ‘balance’ as well as information, guidance, and details of eligible courses the LLE will fund. For all courses and modules, the LLE funds, eligible learners will also be able to access maintenance loans towards their living costs, as well as targeted grants depending on their personal circumstances. As the next step, from 2025, the government plans to have full courses formerly funded by the HE student finance system and Advanced Learner Loans. As seen before, universities have a key role to play on LLL. With slightly more than 50% of HEIs starting to have a LLL unit in place, according to UNESCO, there is still much space for innovation and growth.

When looking at the reported obstacles to learning, the cost of courses comes in the top three of justifications. Among not having time and incapacity to fit around one's job, being too expensive is the most common answer for not entering in LLL.

With the government focused again on providing solutions to promote LLL, the current scenario leaves room for opportunities, such as, possibly, the development of LLL units in HEIs or even specialized institutions in reskilling employees. Filling the gap in the market and providing answers to this new demand might provide profitable, especially, in the medium long term when the government's measures impact might start to be felt more clearly.

### **M&A Activity**

Colleges are essential for meeting growing skills gaps across the UK and are vital in the delivery of technical, industry-oriented education. However, some are struggling with inadequate educational provision, low-quality qualifications, and customer dissatisfaction, ultimately resulting in limited budgets and lower revenues, leading to worsened financial performances. From 2015 to 2020, over 17% cuts in funding for students going to college have added to an already unprofitable context of small class sizes and rising needs for a renewed technological base and infrastructure.

The timeline for mergers over 2008-2023 shows peaks and troughs with a considerable number of institutions merging after the 2008 global economic crisis. Between 2019 and 2023, over 20 college mergers across the UK have been recorded by the Association of Colleges ("AoC"). The need for significant restructuring has been delineated by the Department for Education in a sector report. It appears that most mergers are the direct result of declining business performance, poor financial results and overall, a struggle to remain competitive on the market. Most mergers entail one or several colleges undergoing a dissolution with all assets, property, and liabilities becoming part of another institution or a newly formed one.

While this seems to be a popular trend in HE, the period between 2018 and 2023, has seen a few failed mergers and institutions demerging then being taken over by various boards. More than 30 separate analyses of mergers revealed that the focus on quantity prevailed, resulting in "inadequate" ratings.

The data presented shows how M&A activity has already been growing in recent years in the industry, with universities acquiring or merging with colleges. In the short term, the potential of M&A between equal HEIs already exists. The fact that some universities clearly underperform and don't satisfy students' needs is pushing institutions to look for possible solutions for these problems. M&A is a possible answer. In the medium long-term, when the number of first-degree enrolments starts to shrink due to the beginning of a long demographic cliff, the potential for M&A between universities will grow, and many opportunities might arise here.







## US MARKET: REMAINING AHEAD

### Overview

HE in the US is currently at a pivotal juncture. Nevertheless, one may see that the fundamental mission of universities, encompassing instruction, research, and service, remains unchanged. On average, college graduates enjoy greater wealth, improved health, and enhanced overall well-being throughout their lifetimes. During this chapter, we will then disentangle the real reasons why the country is at such a decisive point in HE.

The U.S. HE system stands out for its remarkable diversity, encompassing more than 6,000 accredited institutions. Unlike in many other countries, U.S. HEI lack centralized management, relying instead on national or regional accreditation by independent bodies.

Navigating through the complex HE system in the US, following the completion of 12th grade, students have two primary avenues for pursuing post-secondary education: vocational training, which generally spans one to two years and is tailored for immediate entry into a trade, or HE, which typically encompasses either a two-year associate degree or a four-year bachelor's degree in an academic discipline.

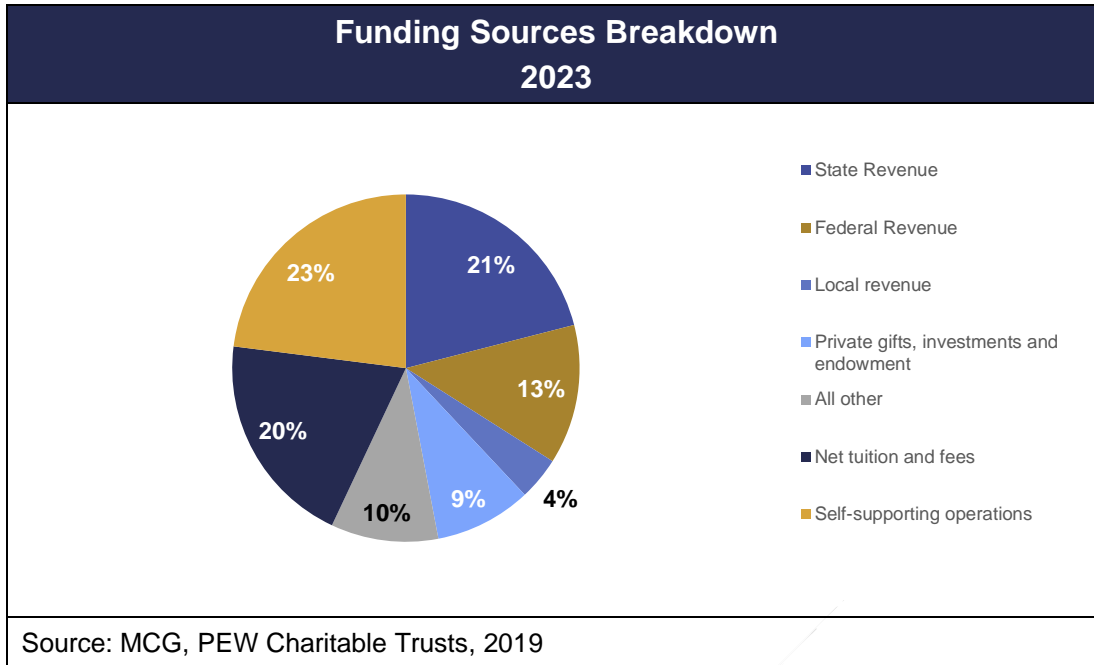
Depending on the US State, the best colleges or universities may be public or run by the national or regional/state government. However, in the US, the federal government does not manage any colleges or universities. Instead, the governments of the individual 50 states, the District of Columbia, Puerto Rico, and other US territories have the authority to operate, fund, and (in some respects) control public colleges and universities within their boundaries.

<b>Snapshot of Students at US Universities (in millions) 2021 – 23</b>	
	<b>US</b>
Full-time	11.6
Part-time	7.4
Undegraduate programs	15.8
Graduate programs	3.2
Attended public institutions	13.7
Attended private institutions	5.4
Attended less than 2-years institutions	0.3
Attended 2-years institutions	4.8
Attended 4-years institutions	14
International students	0.9
<b>Total all modes</b>	<b>19</b>

Source: MCG, National Center for Education Statistics, 2023

The table above breaks down US students into different categories, allowing it to establish comparisons with the UK scenario. Firstly, it is clear the US system bigger scale, having more than six times the UK student’s number. The proportion between full and part-time is much higher in the US, with nearly 40% studying part-time. Undergraduate programs are the biggest market within the industry, with most students pursuing that kind of program. In terms of institutions, more than two-thirds of learners attend public institutions, and the vast majority go to 4-years institutions. In terms of inbound of internationals, though the US is the leading host country by a number of students, with 0.9 million, as a percentage of the total student population it lags behind several countries such as the UK.

In terms of funding, US HEIs have a diversified source of revenue stream. The following chart breakdown the different sources for 2019 (the most recent year data available):



Self-supporting operations, which refer to revenue-generating activities or departments within the university that generate enough income to cover their own expenses, are the largest source of income for HEIs, representing 23% of their revenue. This indicates that universities derive a substantial portion of their income from their own operations, such as research centres and medical facilities. In terms of public funding, state revenue surpasses federal, accounting for more than 8% of the revenue stream. This suggests that universities rely more on state funding than federal funding. Net tuition and fees are a significant revenue source, contributing 20% of university income.

Private gifts, investments, and endowment income represent 9% of university revenue, while all other sources account for 10%. These two categories are relatively close in value, but private contributions and investments are slightly smaller. Local revenue is the smallest source of income among those listed, making up just 4% of university revenue. It is significantly smaller than the other categories.

Looking more in-depth to public funding, state, and local government funding for HE totalled \$120.7 billion in the fiscal year 2023. All but 11 states used some portion of federal stimulus funding provided to state governments for HE. Federal stimulus funding allocated by states to HE totalled \$2.5 billion in 2022, down 33.1% before inflation from 2021 and comprising 2.1% of total support. States contributed \$108.1 billion (a 7.8% increase), and local governments in 32 states contributed \$12.6 billion to higher education (a 5.3% increase).

States and the federal government have traditionally played pivotal roles in providing financial support for HE. However, recent years have witnessed significant shifts in their respective contributions. Historically, states were the primary source of funding for postsecondary institutions and students, with state per-student funding surpassing that of the federal government by nearly 140% in 1990.

Yet, in the last few decades, especially since the Great Recession, there has been a convergence in spending across government levels. State investments, particularly in general-purpose support for institutions, have declined, while federal funding has increased. This federal growth is largely attributed to expansions in need-based financial aid programs like the Pell Grant (a federal financial aid program in the United States that provides need-based grants to eligible undergraduate students). Consequently, the gap between state and federal funding has significantly narrowed, with state funding per student in 2015 being only 12% higher than federal levels.

This shift in federal and state funding has reshaped the landscape of public support for students and HEI, altering the flow of dollars within the system. In tandem, federal, and state funding remains a substantial component of public college and university budgets, accounting for 34% of total revenue for public schools in 2017. This underscores the continued significance of government support in HE.

Having gained a general overview of the HE industry, it is now important to look closely at the specific dynamics of the sector in this geography.

### **Key Trends**

The US has been the HE industry leader for decades, having the most well-known and world-class HEIs with top-notch research and capabilities. The trends and innovations that start in the US tend to spread throughout the world and influence other countries' HE systems. Therefore, studying the general market trends, as done in previous sections, is directly linked with analysing the trends in the US.

One of the main trends, that has been happening around the US, and that has also been present in other Western countries, is the prevalence of a demographic cliff that is leading or will soon lead to a peak in first degree's enrolment. In the US, college enrolment has already reached its peak and it's putting at stake universities' sustainability and business models. The industry has been consolidating in the last years with M&A activity growing as smaller institutions, especially, are finding it harder to fill available spots.

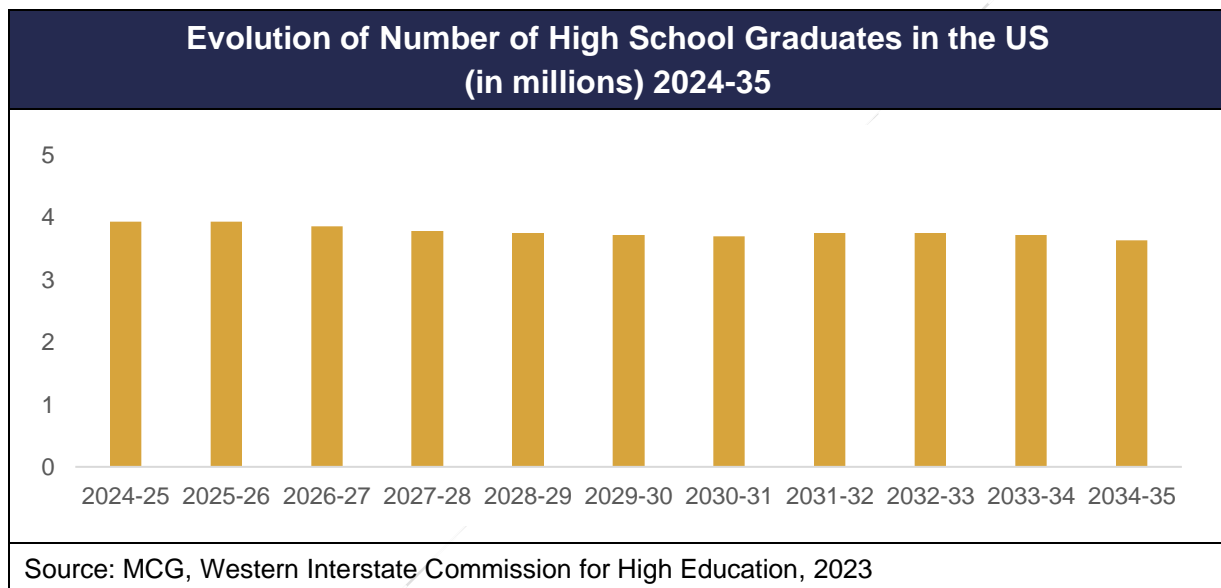
HEI's staff are also impacting the way institutions are being managed. Human Resources are increasingly asking for better working conditions. Nevertheless, with the help of professors and other personnel, universities are moving towards a system where hybrid teaching becomes more important and new technologies are integrated to provide the best to students.

Overall, the US HE sector is in a stage of profound change with demographic, political, and technological factors shaping the way the industry is evolving. With a high relevance on the HE global scene, looking at the trends influencing this country will be able to provide us further insights into which ways the rest of the worlds' HE industry may evolve in the future.

### College Enrolment Reaches Its Peak

For generations, HE in the US had experienced continuous growth. However, over the past decade, the enrolment of traditional students, particularly among men, has been steadily declining. The fact is that not only the country is entering into a demographic cliff, but also enrolment and completion rates are decreasing. This decline is exerting pressure on both the enrolment pipeline and the workforce it supplies. China and India are expected to surpass the United States as leaders in educated populations within the next decade or so.

The year 2025, when the United States will see the highest number of high-school graduates until well into the 2030s, marks a critical point in this shifting landscape, as the following graph shows:



Undergraduate enrolment in the US reached its peak in the 2010-11 academic year, with a total of 18.1 million students. However, it has since experienced a continuous decline, with a sharp drop occurring during the first full academic year of the pandemic. As of the fall of 2023, the number of undergraduate enrolments had decreased to just under 15.1 million, resulting in a 4% decline, equivalent to approximately 1.23 million undergraduate students disappearing from American colleges and universities since 2020. This sustained contraction in enrolment indicates that the direct pathway from high school to college, which had been a cornerstone of campus enrolment for generations and had expanded steadily with the inclusion of new student subsets, may have finally peaked.

The enrolment increases witnessed in the 1980s, a period when HE also faced a decline due to the smaller Generation X population, were primarily driven by a higher number of women enrolling in college. In contrast, the major demographic groups that are currently underrepresented in HE, including students of colour and low-income students, are much more likely to either not initiate college or to drop out without completing their degree.



Consequently, HE leaders seeking solutions to the enrolment dilemma are turning their attention to adult students. The number of individuals who began college but did not obtain a credential has risen to 39 million in 2020, marking an increase of nearly 9% over the past two years. This group represents more than one in five individuals in the US aged 18 and above, as reported by the National Student Clearinghouse Research Centre. However, it's important to note that re-engaging adult learners who have already made progress toward a degree is a more complex task. Locating these potential students, who may have accumulated post-secondary credits but lack a credential, can be challenging.

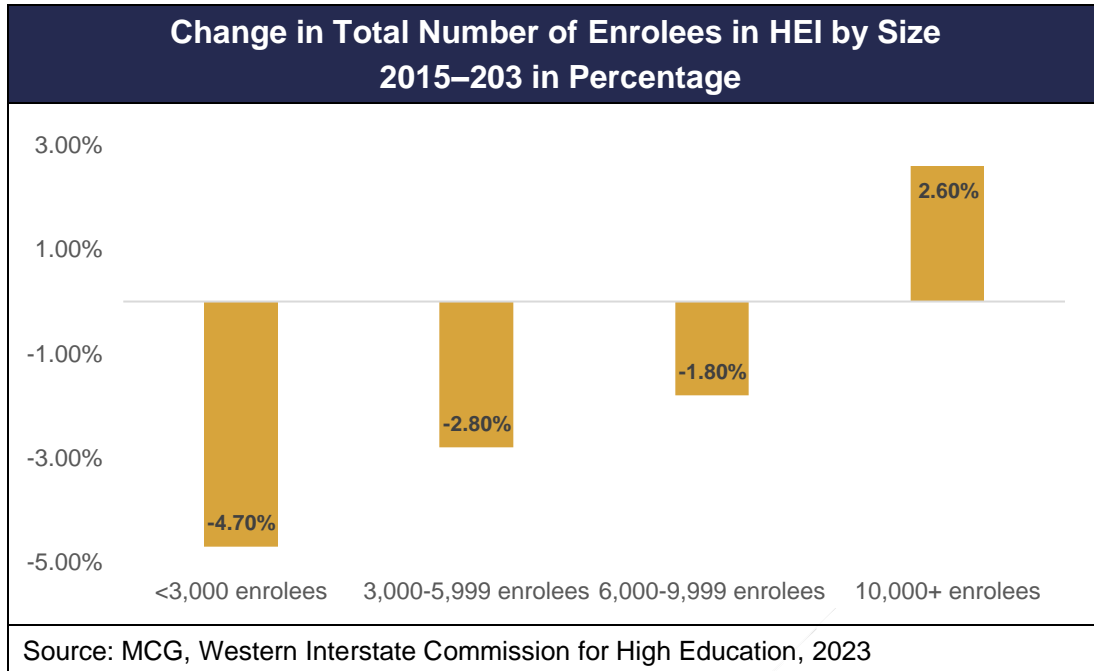
Considering these enrolment challenges, American HE is looking forward to evolving and adapting to remain relevant not only for the sector's financial sustainability but also for the overall well-being of the nation. In a global context where population growth is slowing, HE has become a valuable resource to meet the demands of the labour market. To overcome these enrolment trends, American HEI are focusing on distinguishing themselves as comprehensive institutions, rather than relying solely on a few new academic programs, revised recruitment strategies, or an expanded online presence.

However, despite the potential benefits of tapping into the adult student population, the process of re-enrolling individuals who have already made progress toward a degree is far from straightforward. Unlike prospective 18-year-old college students, who are typically found in high schools, identifying and reconnecting with adult students who have accumulated some college credits but lack a credential presents greater challenges.

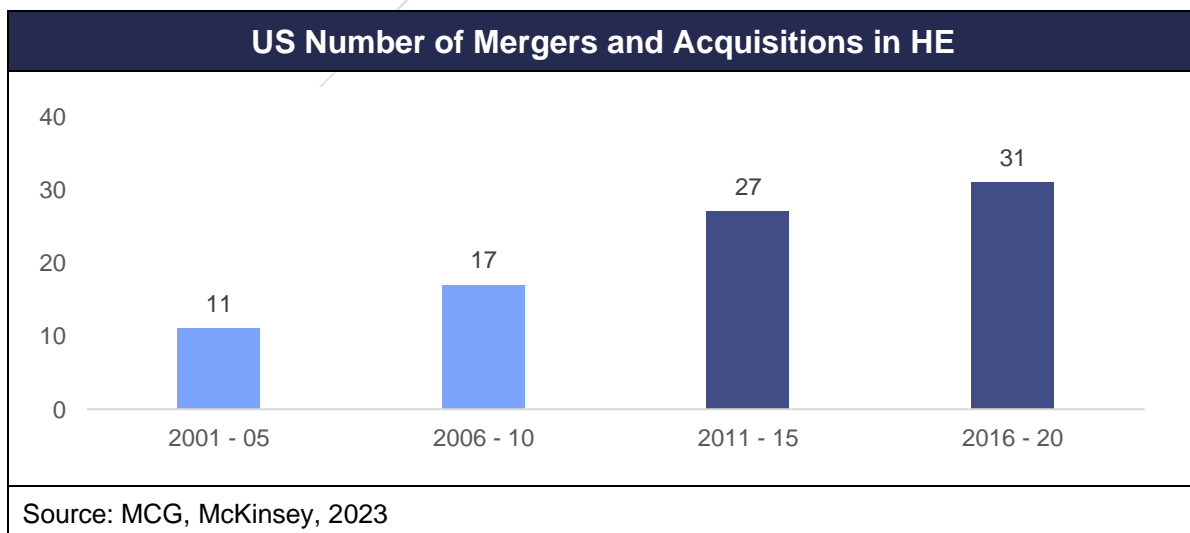
The United States can no longer take its position for granted as the dominant global source of HE. This shift has far-reaching implications for the operational framework of colleges, the future of the American workforce, and global security. American colleges and universities face the challenge of differentiating themselves as comprehensive institutions rather than relying solely on a few new academic programs, a revised recruitment strategy, or an expanded online presence. Incremental changes are no longer sufficient to reverse or even slow down these enrolment trends. Finding innovative ways to continue growing by reaching new segments of learners is not only essential for the financial sustainability of the sector but also for the nation.

### **Industry Consolidation**

In the years leading up to the pandemic, from 2015 to 2019, HEIs with fewer than 10,000 students typically witnessed a decline in their enrolments. Among these institutions, those with fewer than 3,000 students were the most severely affected, experiencing an average enrolment decline of 4.7%. It was only the institutions with a student body exceeding 10,000 that saw overall positive enrolment growth during this period. The following graph illustrates this:



To tackle challenges related to student enrolment, outcomes, and financial constraints, an increasing number of institutions are considering various forms of alliances, partnerships, and mergers and acquisitions. Full mergers and acquisitions result in the creation of a new combined entity, impacting aspects such as governance, academic programming, costs, and infrastructure. Northeastern University's merger with Mills College and Boston University's merger with Wheelock College serve as illustrative examples of this trend. Another notable transaction is Delaware State University's acquisition of Wesley College. In the field of HE, M&A activity has nearly doubled, averaging around six transactions per year since 2011, as depicted in the following graph:



M&A can bring about transformative effects on both the outcomes and costs of HEIs. For instance, following Delaware State University's acquisition of Wesley College in July 2021, tuition for Wesley students significantly decreased, by 74% for Delaware residents and 37% for non-Delaware residents. In the state of Georgia, a consolidation effort within the university system, combined with strategic investments in academic support services, led to a remarkable 29% increase in on-time graduation rates, all while maintaining operating costs at a sustainable level.

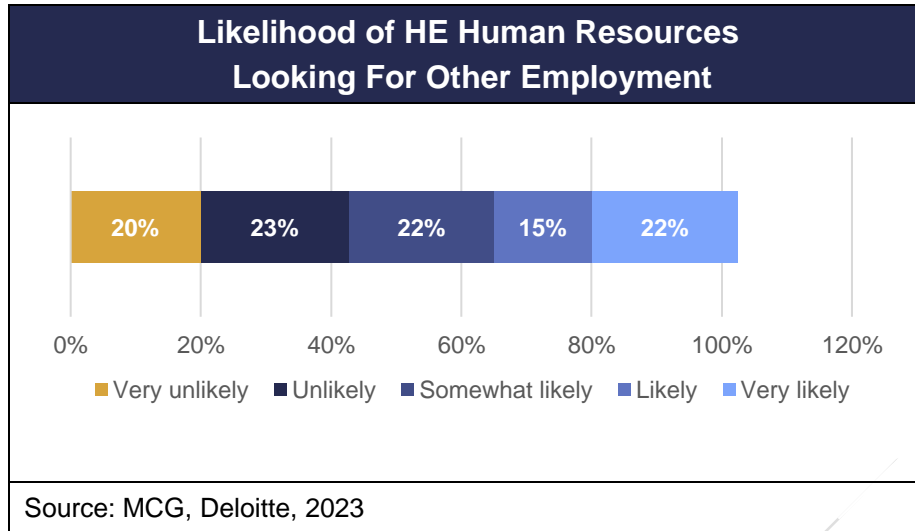
Despite their evident advantages, M&A are also notoriously challenging to successfully implement. This challenge spans across industries, with approximately 70% of mergers failing to achieve their intended strategic objectives, and the HE sector is no exception to this trend. Data indicates that since 2005, a substantial 85% of mergers involving HEIs with more than 1,000 students have led to lower net growth in tuition revenue. Additionally, 60% of these mergers have experienced overall declines in enrolment figures. Student retention rates in more than half of large-scale mergers have resulted in declines in student retention rates.

In the future, the US HE landscape may look very different with a reduced number of HEIs still operating.

### **Talent Management Strategy**

College campuses are often seen as teaching and learning centres, research enterprises, and living quarters for students. However, they are also workplaces. As the pandemic exhibited, running a campus is like running a city, and with the pandemic also came a stark new reality for HE leaders when it comes to talent.

According to Deloitte, HEIs' employees are looking for improved work/life balance, advancement opportunities, and flexible schedules with options for hybrid and remote work when it suits their needs. But the city-like aspect of college campuses hasn't changed, leaving institutional leaders to grapple with the tension of running a vibrant, 24/7 campus community while satisfying and retaining employees. To add to their woes, the majority of their workforce is considering switching jobs, as the following graph shows:



Balancing different management aspects has been a struggle. Administrative offices still feel empty and are contributing to the perception of those from outside academia that HE is still very much in “pandemic mode.” Indeed, faculty and staff across the sector show no signs of returning to pre-pandemic attitudes of where and how work can and should be performed. More than three-quarters of HE employees think the sector is a less appealing place to work than it was a year ago. The College and University Professional Association for Human Resources (“CUPA-HR”) found that 75% of staff report increased pay as a driver for seeking new opportunities, with 42% of searches motivated by a desire for remote work arrangements.

While colleges and universities have long had enrolment management strategies for recruiting, enrolling, and retaining students, many lack a similar talent management strategy that is just as critical to the institution. Even where there has been such an approach, faculty are seen as the “talent” on campuses while staff are seen as replaceable. But even faculty recruiting, retention, and engagement is suffering. Only 22% of provosts agree that their institution “very effectively” recruits and retains talented faculty.

Many faculty feel that universities have evolved in ways that have pulled them away from their core mission of working with students and conducting research to better society. They’re spending more time dealing with research compliance, managing procurements, navigating mental health challenges, and contending with outdated administrative processes and technology systems.

On top of all of these, the C-suite on campuses has a revolving door, and that’s particularly true of presidents where turnover continues at an unprecedented rate. Coupled with a limited pipeline of talent due to the lack of succession planning and leadership cultivation at many HEI, and the fact that over 80% of presidents historically hail from within HE (a figure that has not changed in decades), the gaps in the top role are growing more pressing.

Given the top position in HE is unique—more akin to a CEO of a public company but with many of the elements of a politician—finding and preparing future leaders within the

academy are vital to the long-term health of the institution and to the higher education system.

In the end, colleges and universities are knowledge organizations predicated on the idea of human development. Now they need to start designing an employee experience that matches the time, effort, and energy that they have put into the student experience. Doing so is critical not only for renewing the faculty and staff but also for fuelling the pipeline to senior leadership positions on campuses.

### **Hybrid Growth**

The onset of the COVID-19 pandemic in the spring of 2020 forced a shift to remote learning for most HE students. To complement traditional video lectures and engage students in the virtual classroom, educators embraced various technologies that facilitated greater interactivity and hybrid models, combining online and in-person activities. Investors have recognized this transformation, as edtech start-ups raised record levels of VC funding in both 2020 and 2021, leading to significant market valuations for established players in the field.

Students are eager to embrace these technological advancements and are reluctant to return to a pre-pandemic educational landscape devoid of these innovations,. Over 60% of students reported that the classroom learning technologies they have utilized since the pandemic have had a positive impact on their learning and academic performance.

HEIs have taken note of this shift and are actively incorporating new technologies while increasingly favouring hybrid delivery methods. Survey data reveals a substantial 19% average increase in the overall utilization of these learning technologies since COVID-19. Among these technologies, those that facilitate connectivity and community-building, such as discussion platforms inspired by social media and virtual study groups, have witnessed the most significant growth, with a 49% increase. Following closely are group work tools, which have seen a 29% rise in adoption rates.

These technologies appear to effectively address the void created by the absence of in-person experiences, surpassing individual-focused learning tools like AR and VR. Classroom interaction technologies, including real-time chatting, polling, and breakout room discussions, were widely used both before and during the pandemic and continue to be popular. In fact, 67% of survey participants currently utilize these tools in their classrooms. The transition towards more interactive and diverse learning models is expected to persist. One industry expert consulted by McKinsey noted, "The pandemic underscored the need for a new online learning experience. It has prompted institutions to rethink their approach to teaching and has placed synchronous and hybrid learning in the spotlight." Consequently, numerous colleges and universities in the US are actively investing in expanding their online and hybrid program offerings.

However, some technologies lag behind in adoption. Tools that enable student progress monitoring, AR/VR, machine learning-powered teaching assistants, AI adaptive course

delivery, and classroom exercises are currently used by less than half of the survey respondents. Evidence suggests that technologies like AR/VR require substantial investments in equipment and may pose challenges when implemented at scale in courses with high enrolment. McKinsey's survey also revealed disparities in utilization based on institutional size. Small public institutions tend to use machine learning-powered teaching assistants, AR/VR, and student progress monitoring technologies at double or higher rates than medium and large public institutions. This difference may stem from smaller, specialized institutions having the flexibility to make more targeted and cost-effective technology investments. Additionally, medium and large public institutions are more inclined to make use of connectivity and community-building tools, with adoption rates ranging from 57% to 59%, compared to 45% among small public institutions.

HEIs are evolving towards new delivery methods and the introduction of modern technologies, it is important to analyse that the HE paradigm might be shifting to a "Learning from Everywhere". The US is one of the worlds' innovation centres and with its economic power, the country is leading the way, creating a new teaching paradigm, with technology as a driver.

### **Challenges**

Universities are operating based on a business model that will not be able to sustain itself in the long-term. With the demographic cliff trend gaining special emphasis during this decade, HEI face a problem with decreasing enrolments and consequently slower growth or even negative growth. The fact that student loan debt has surpassed debt levels of credit cards and other categories also poses another challenge for an industry that places a big importance on tuition fees. As students struggle to pay their loans, the sustainability of the system might be at stake and the signal sent to students who know that may spend a life with the burden of an unpayable loan might not be well-received by several sectors of society.

At an existential level, the value of a degree is under strict questioning by society, with sentiment reaching the lowest point in decades. Like other countries, students are asking if the costs of a degree are really worth it or if instead their second best-alternative could yield at least a similarly good outcome. Finally, it is also important to touch on the challenging mission HEIs of building and maintaining reputation management, that leaves them exempt of any trouble or problem, that may put their credibility at stake. In a country like the US, on the verge of the most recent social and political movements, with a 24/7 critical news cycle in social media, it is challenging to maintain an impeccable path.



## Business Model

Colleges and universities were built around the preferences and needs of faculty members. Academic majors mirrored departmental divisions, faculty members designed curricula on their own terms and schedules, course catalogues and timetables revolved around faculty requirements, and in some cases, research took precedence over the student experience. In this model, the success of students often depended on their individual efforts. While this approach served a growing demand for HE among a core audience for several decades, it left behind a significant portion of young adults who never pursued HE or left before completing their degree.

However, this traditional model, which catered to the needs of faculty, may not be as well-suited to the evolving economic and social realities of prospective learners. While there will always be demand for traditional HE from top-ranked, prestigious institutions, many colleges and universities must adapt their business models to align better with the needs of the students they have the potential to serve.

The current business model poses challenges to an institution's ability to generate sufficient revenue and, in some cases, even to maintain their existence. Among the factors affecting the sustainability and relevance of colleges and universities' business models, it includes their dependence on tuition, returns from endowments, recruitment strategies, and heightened financial monitoring. In an environment where new approaches to education delivery, revenue generation, and enrolment are rapidly evolving, US HEIs must consider multiple factors to remain competitive in the global HE industry.

Looking at the tuition fees challenge, a wide range of educational institutions, from large research universities to community colleges, rely heavily on student tuition as their primary source of revenue. When tuition is the primary source of income (>60%), concerns among potential students about rising costs can lead to decreased enrolment or increased subsidy rates, both of which can impact an institution's financial stability. Additionally, in regions experiencing a decline in high school graduates, there is a smaller pool of potential new students, as seen before. A study conducted by the National Student Clearinghouse Research Centre in Spring 2018 found that college enrolments decreased in 34 states, with six of the ten states experiencing the largest declines located in the Midwest or Northeast.

The mix of educational delivery methods has evolved. The trend of rising tuition costs and declining enrolment in traditional, in-person programs has spurred the expansion of alternative delivery models. This movement extends beyond online programs and includes the development of new or enhanced part-time programs, MOOCs, independent study options, accelerated executive programs, and shorter certificate programs. As more students opt for non-traditional pathways, institutions must be prepared to address questions about their students' preparedness for potential careers and whether online education is attractive and widely accepted by employers. These alternative delivery models also place pressure on institutions to allocate appropriate resources to support them.

Endowments play a crucial role for many institutions, serving as a significant revenue source for funding ongoing operations and new initiatives. Endowments are subject to specific guidelines governing how funds can be invested (asset allocation), target returns expected by fund managers, and the percentage of investment income that can be spent within defined timeframes.

Recruiting and targeting are also critical factors in an institution's strategy. Depending on factors such as location, program offerings, and other considerations, schools often target specific demographics and population sub-groups. However, many institutions have not fully developed advanced recruiting and targeting methods that harness analytics and continue to rely on traditional sources for new students. Leveraging more sophisticated analytics and big data can help institutions enhance their recruiting efforts, align their academic offerings more effectively with target segments, potentially reduce recruiting costs, and increase enrolment. Nevertheless, institutions must be mindful of potential unintended consequences, such as reduced diversity resulting from more targeted recruiting. Institutions may need to devise new strategies to strike a balance between recruitment targeting, diversity goals, and the historic enrolment characteristics that have positively shaped their reputation.

Universities are facing various issues, including accreditation challenges, late or missing annual financial statements and/or audits, outstanding liabilities, denial of re-certifications, concerns regarding administrative capabilities, and findings uncovered during program reviews. The Department of Education had placed 544 institutions on HCM as of June 2023. Being designated as an institution under HCM status can have severe financial consequences, potentially leading to reduced or discontinued Federal funding that could impact an institution's ability to continue operating.

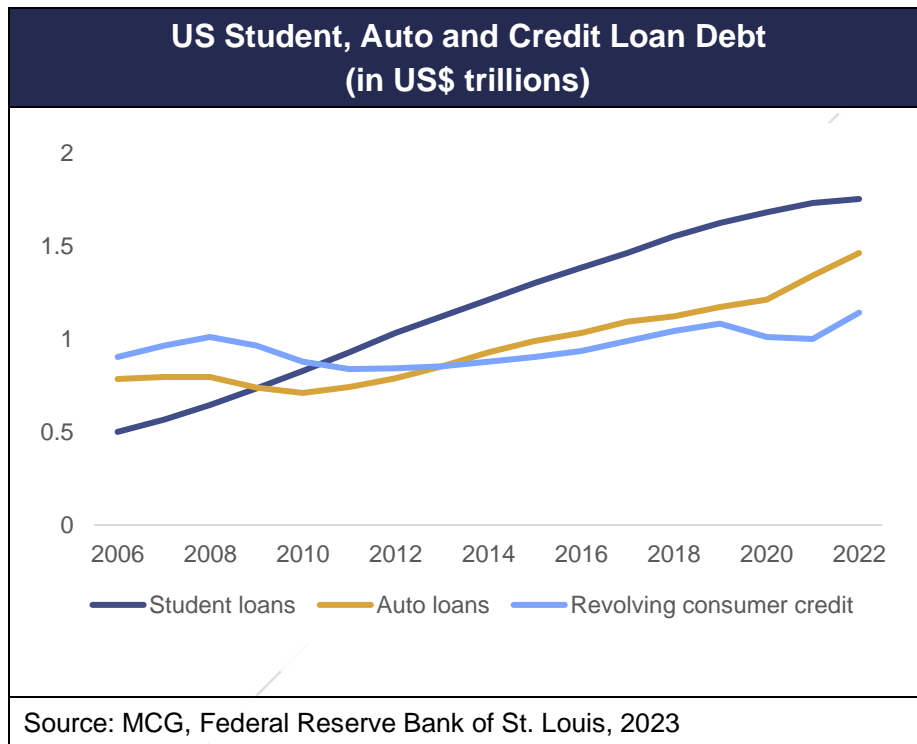
Though tuition fee challenges might be the most impactful, other factors such as new learning modes, endowments, recruiting strategies, and HCM are pressuring universities to "Reinvent".

### **The Debt Trap**

Student loan debt in the US has undergone significant growth in recent years to over US\$1.5 trillion, becoming one of the largest forms of consumer borrowing in the nation. While the benefits of a college education generally outweigh the costs, many graduates express concerns about entering a challenging job market and worry that their lingering student debt could impede their financial futures.

Most economists view student loan programs as a worthwhile investment in U.S. workers, vital for maintaining the country's competitive edge. Nevertheless, questions persist about the appropriate level of federal government involvement in student loan programs. A heated debate has arisen over whether the government should forgive student loan debt and, if so, the extent of that forgiveness. In 2022, President Joe Biden introduced an extensive student debt relief plan, which was subsequently struck down by the Supreme Court, leaving the fate of reform efforts uncertain.

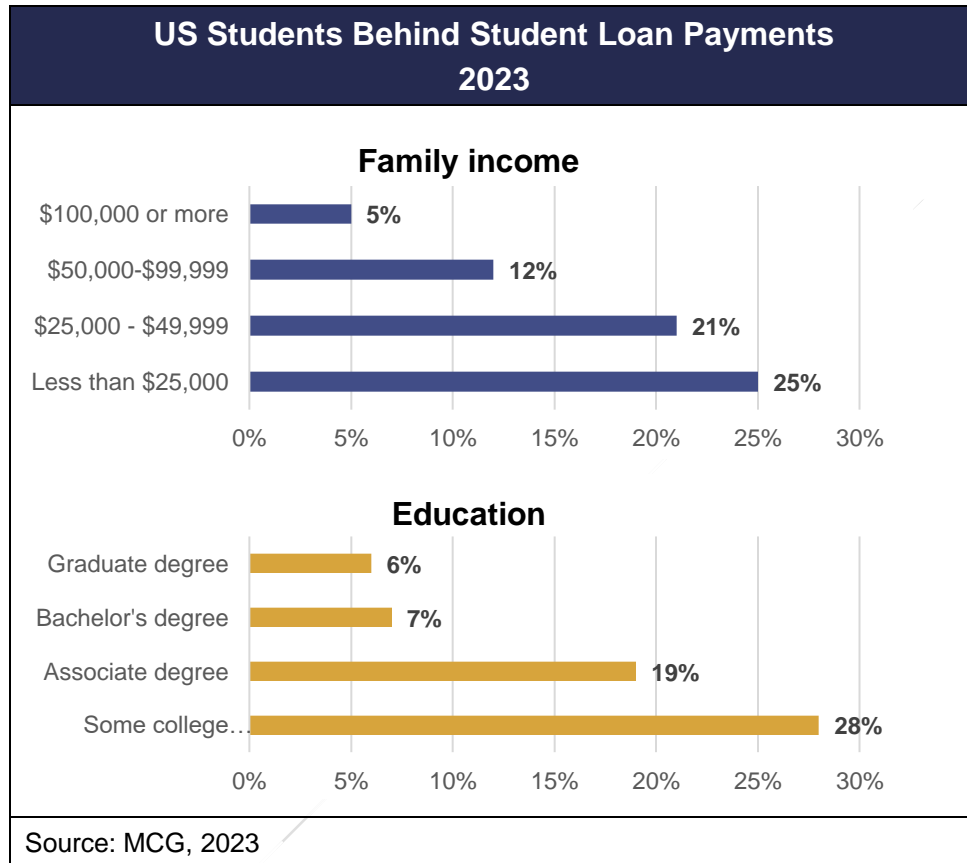
Over the past two decades, student debt has more than doubled. As of March 2023, approximately 44 million U.S. borrowers collectively owed over US\$1.6 trillion in federal student loans. When factoring in additional private loans, this total surpasses \$1.7 trillion, exceeding the amounts associated with auto loans and credit card debt. The only larger debt category is home mortgages, which stand at approximately US\$12 trillion. Out of the 44 million borrowers, six million are still in school and not making payments, 4.6 million have defaulted on their loans, 3.1 million have deferred payments, and one million are in a grace period before payments become due.



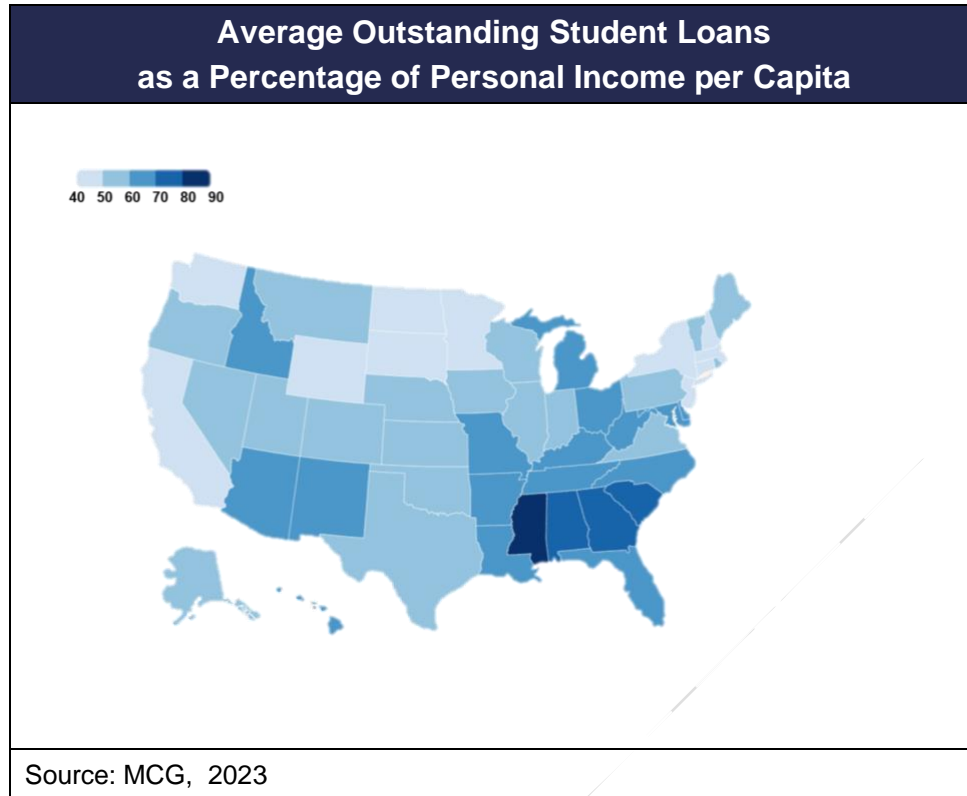
The balance per borrower rose by 25% from 2009 to 2023, according to U.S. News and World Report. This increase in borrowing is largely because college tuition costs have escalated much more rapidly than income levels. The expense of HE—and consequently, student debt—exceeds that of almost all other affluent countries, where HE is often free or heavily subsidized. Meanwhile, U.S. states have reduced funding for public universities and colleges, particularly in the aftermath of the Great Recession.

As of May 2023, roughly half of the outstanding student debt was owed by individuals who attended two or four-year colleges or universities, while the remaining portion came from graduate school borrowers. While the majority of students graduate with less than \$20,000 in debt, a small group of borrowers holds a disproportionate share of student debt. More than one-third of the total debt is held by the 7% of borrowers who owe over \$100,000. However, borrowers with smaller debt amounts often face greater challenges

in repaying their loans, particularly as higher debt accrued from graduate or professional degrees can be justified by significantly higher incomes. Students who do not complete their degrees tend to struggle the most, with a default rate three times higher than that of graduates.



Furthermore, racial disparity also exists in student borrowing. The following map shows how lower income states, from the south, carry a heavier student loan burden. In terms of race, black college students generally incur more debt than white students and are more likely to encounter difficulties in loan repayment after graduation, partly due to their typically lower levels of family wealth. Black, Latin, and American Indian students also experience higher default rates on their loans compared to white students.



In response to the COVID-19 pandemic, the Trump administration provided temporary relief to tens of millions of student borrowers by suspending loan payments. Upon taking office, President Biden extended the payment moratorium for federal student loan borrowers multiple times, with the final extension that expired in October 2023.

There is the perception that the increase in federal student lending has made college less affordable for many, as it allows institutions to inflate tuition costs artificially. Many policymakers now recognize the pressing need to address both the escalating cost of college and the existing volume of student loans. The combination of soaring tuition costs and the economic downturns triggered by the 2008 financial crisis and the COVID-19 pandemic have had a particularly adverse impact on millennials and subsequent generations.

The recent debate has mainly revolved around the concept of loan cancellation. Some advocate for universal loan cancellation in varying amounts, while others argue for targeted relief. Some experts propose comprehensive system-wide reforms beyond cancelling existing debt.

In a large-scale debt cancellation, universal debt relief entails the blanket cancellation of all existing student loans. Proponents contend that extensive debt cancellation would promote racial and socioeconomic equality and stimulate the economy. Opponents counter that broad cancellation would be unfair to those who successfully paid off their student loans or avoided debt altogether. They also argue that it would disproportionately

benefit high-earning Americans, such as doctors and lawyers, who may have substantial debts but are unlikely to struggle with payments. Another concern is the cost, estimated to range from hundreds of billions to trillions of dollars.

Some like the Aspen Institute suggest system-wide reforms, including limiting tuition rates at public colleges, increasing aid for low-income students, incentivizing employers to offer tuition assistance, and restricting federal loan funding distribution to institutions with a history of low post-graduation employment rates and other unfavourable student outcomes. Some policymakers have proposed reforms to treat student loans like any other consumer debt, making them dischargeable in bankruptcy court. Other lawmakers argue for increased public funding to make public colleges and universities tuition-free.

The US is confronted with a problem of generations that accumulated more than one trillion dollars of student debt. The issues structural nature, arising from the massification of HE that occurred in recent decades, might require more profound shifts in universities way of operating.

### **Rising Prices & Low Value – Questioning Degrees**

When assessing the value of pursuing a degree, it's crucial to weigh both the benefits and the costs to determine whether the profits outweigh the expenses. In recent years, the US has witnessed a significant rise in higher education costs, while there was a decline in the perception of value.

In 1980, the annual cost to attend a four-year college full-time, encompassing tuition, fees, room and board, and adjusted for inflation, stood at \$10,231, according to the National Center for Education Statistics. However, by the 2022-23 academic year, this total had surged to \$28,775, marking a substantial increase.

The escalation in college expenses has been evident across all types of institutions, with private nonprofit colleges consistently maintaining higher costs than public ones. In the 2022-23 academic year, an average full-time student paid \$48,965 at a private nonprofit college, compared to \$21,035 at a public university.

Nevertheless, since 2019, this upward trend in costs has exhibited signs of slowing down. In fact, from the 2019-20 academic year to 2022-23, the average expenses for tuition, fees, and room and board saw a marginal 0.2% decrease at private non-profit four-year institutions. This decline continued into the subsequent year, with costs dropping by an additional 1.7%. Public four-year institutions experienced a similar pattern during the same timeframe.

Colleges have taken on additional responsibilities in supporting students beyond their academic education. These include crucial services like mental health support, which has become even more essential during the pandemic, as well as assistance with housing, food, transportation, childcare, and more. Providing these essential services necessitates hiring nonfaculty personnel to staff and manage them. Programs at community colleges



that offer both academic and personal guidance to students through individual advising can cost between \$1,000 and \$5,700 per student annually, according to research from the Brookings Institution.

In addition to tuition payments, public institutions heavily rely on funding from states and localities to sustain their operations. State and local funding constituted 55% of revenues for public two-year colleges and 44% of revenues for public four-year colleges in the 2018-19 academic year, according to data from the College Board. The funding allocated to colleges by states and local governments is subject to fluctuations driven by market conditions and tax revenues.

When public colleges face reduced state and local funding, they tend to offset these shortfalls by increasing tuition, according to a report by the Centre on Budget and Policy Priorities. However, it's worth noting that state and local support for colleges has been on an upward trajectory. By 2023, average funding for public higher education had increased for eight consecutive years. Additionally, 18 states had successfully restored funding levels to those seen prior to 2008.

In 2019, Americans ranked "preparing for college" as the tenth most important purpose of education in a survey conducted by Populace, a nonpartisan think tank. However, by 2023, it had dropped significantly to the 47th position out of 57 items. This shift in perception raises questions about the changing landscape of education and its goals.

The Populace study revealed that for the fourth consecutive year, the top-ranked skill sought in education was the development of "practical tangible skills." These skills encompass areas such as financial management and meal preparation. Other highly regarded abilities included critical thinking for problem-solving, decision-making, and demonstrating character. The emphasis on career preparedness also rose significantly, ranking sixth compared to 27th before the pandemic.

Several structural factors underlie this shift towards skill-focused education. A notably tight labour market has made employers less reliant on requiring degrees for certain positions. This trend, initially prominent in the tech industry, has extended to the public sector, as evidenced by Pennsylvania dropping the college degree requirement for many state jobs. Harvard Business Review estimated that 1.4 million jobs in the next five years will be available to workers without college degrees, emphasizing the changing perspectives of employers.

The array of learning and training alternatives has also expanded substantially. Platforms like Coursera, which witnessed a surge from two million to five million new learners per quarter since the pandemic, now boast 113 million registered learners. These platforms offer diverse courses, ranging from computer science to well-being secrets, as well as skills and academic training for businesses. According to Google's internal search data, over 50% of degree searches in 2022 were for nontraditional pathways.

Overall, the US is facing a clear challenge with large groups of society believing a degree is losing value, despite its higher costs. Rebalancing the equation will be key for US HEIs' student attraction and sustainability in the future.

### **Maintaining Reputation in a 24/7 News Cycle**

In today's 24/7 news cycle, where negative headlines often take the spotlight, HEIs have become frequent targets. In the US, especially, where some social phenomena are being born and gaining more importance at the institutional level, it can be challenging to manage the reputation of a HEI.

Crafting an effective brand management strategy presents a significant challenge for HEIs. A 2007 study published in the Journal of Business Research emphasized the importance of understanding institutional branding and clearly defining and communicating that brand. Universities rely on their positive reputation not only to attract top-tier students and faculty but also to maintain robust alumni relationships and generate additional revenue through avenues like merchandise sales, ticketed events, sports television contracts, and collaborations with local and state businesses.

Lastly, student activism is a crucial factor to consider. While student activism is not a new phenomenon for HEIs, how a school responds can, in some cases, introduce new risks. With the proliferation of social media, students can rally around an issue faster than ever before. Often, HEIs find themselves reacting to events, unprepared to effectively manage the situation because they did not anticipate it.

Society is changing and so HEIs must also adapt to times where institutional reputation management, regarding safety, openness, and tolerance, has become a central piece of institutions. The challenge in this case for HEIs is to avoid any kind of big event that may damage universities' long-standing reputation. As for when something happens, all the processes and efforts put into place throughout the years can be lost.

### **Opportunities**

In a country, where the first steps of new trends and movements in any sector and, in specific, in HE, are usually followed by other countries, it is interesting to analyse what might be the opportunities lying here, as these might then be seen later in other countries. Nevertheless, facing relatively similar problems, the opportunities identified in this section are very similar to the ones mentioned for the UK situation.

As in the UK, the US system has still a long path ahead in terms of LLL. As a result, and as this area of education keeps gaining momentum among companies and the markets, further exploring LLL units or promoting any kind of program in this area may be an opportunity for universities to cater to their new "lifetime partners".

## Closing the Skills Gap

The COVID-19 pandemic stripped millions of Americans of their jobs. As of April 2021, the economy still lagged, with 4 million fewer jobs than in February 2020. Paradoxically, throughout that period, the US experienced an unprecedented labour shortage, with a staggering 8.1 million job openings remaining unfilled across the country. Industries that experienced explosive growth during the pandemic, such as cybersecurity and technology, are grappling with the challenge of sustaining innovation due to their struggle to find the right talent.

A fundamental issue lies in the fact that the U.S. education system lacks accountability for ensuring that students are properly equipped with the skills and capabilities needed for a career that provides financial stability.

A recent survey by Cengage, focusing on Americans who graduated from two-year/community colleges or four-year universities within the past five years, reveals alarming findings. Approximately one in five respondents reported that their college education failed to equip them with the necessary skills for their initial post-degree job. Moreover, over half of these recent college graduates refrained from applying for entry-level positions in their respective fields due to feelings of inadequacy. Nearly half of them expressed this sentiment because they believed they lacked the specific skills listed in job descriptions.

In response to these challenges, universities that adapt and evolve will thrive by providing relevant learning experiences that enhance key skills, ultimately gaining recognition in the job market. HEIs have various opportunities at their disposal, including diversifying their program offerings, forming partnerships with local companies, amplifying the voices of their students, and maintaining a commitment to continuous updates and improvements.

Firstly, they may find opportunities to improve and further grow by diagnosing local skill gaps. Establishing regular communication with local employers to gain insights into their skill requirements is of great value.

HEIs have the possibility of developing both short-term and long-term strategies to cater to immediate employer needs and shifting market demands. Short-term solutions may include offering standalone courses, certificates, and other non-degree options that address specific skill gaps. For the long term, consider introducing new degrees and alternative credentials tailored to emerging market trends.

Then, moving away from a theoretical lecture style of teaching towards a “Learning from everywhere”, HEIs can collaborate closely with local businesses and organizations to understand their education benefits and upskilling initiatives for their employees. They can also create customized plans that empower employees to maximize these benefits through educational programs.

HEIs can demonstrate a commitment to closing the skills gap by regularly updating their curricula to meet evolving industry needs. Embracing a culture of lifelong learning within an institution and sharing news of program improvements with graduates to encourage ongoing skill development are trends that are and will keep shaping the HE system.

By implementing these strategic initiatives, HEIs can better bridge the gap between education and workforce requirements, ensuring that graduates are equipped with the skills and qualifications needed to succeed in today's dynamic job market. Through these actions, HEIs have the opportunity of being part of the solution of a key issue for society, while boosting their growth around the world.

## EMERGING MARKETS: BATTLE FOR THE PODIUM



### Overview

Emerging economies, in Asia, Latin America, and Africa, in the aftermath of World-War II and in the following decades, with the intensification of globalisation and the establishment of the liberal world order, have been able to stimulate economic growth, transitioning from a low-income economy toward a modern, industrial economy with higher standards of living. Among some of these countries, one may count China and India, which have gained a special position in the international scene due to their large populations, economic growth, and geopolitical influence. Other nations considered emerging economies also include Brazil, Mexico, Russia, Turkey, South Africa, Nigeria, Egypt, Indonesia, Pakistan, and other 9 to 17 countries, according to the IMF.

Among the developments and challenges that remain ahead, is the formation and growth of HE. In the 1980s, many of these countries were in the elite stage of HE development, meaning that the gross enrolment ratio was less than 15% (classification elaborated by the sociologist Martin Trow). Many of them have now been able to enter the massification stage, where enrolment rates may have reached 50% and some of them have even progressed to the popularization stage, with rates above 50%.

These countries, with China and India leading, represent large shares of the outbound of international students. With the development of HEIs in these nations, some of them are even in the top 20 of host countries by number of international students. Russia, China, Mexico, and the Philippines are welcoming students from other nationalities, enriching the students' HE experiences and promoting further multicultural environments.



Growth and progress are not only in terms of increasingly higher number of enrolment rates and international mobility but also in terms of quality. The Chief Knowledge Officer at Times Higher Education (“THE”) says that there has been “clear evidence of a “great global levelling up” in the world ranking of universities in recent years”. In 2018, universities in emerging countries represented already 34% of all universities listed in the World University Rankings. In the 2023 edition, they represented 42%.

In its list of top universities for 2023, ranked China as the most-represented emerging economy, with 11 universities in the top 200. Tsinghua University, in Beijing, took first place with a world ranking of 16th. African institutions are also raising the ranking. There are 25 new African universities in the ranking and there are now 17 African countries in the ranking in total, compared with only nine in 2018.

Due to their special role in HE, China and India’s, HE will be analysed in further depth.

### **China**

Since the launch of economic reforms and opening up in 1978, the Chinese government, led by Deng Xiaoping, quickly recognized the deficiencies of the HE system that had persisted since the Cultural Revolution. As China’s economy shifted from a highly centralized planned model to a socialist market-oriented one, leaders in China initiated reforms not only in public HE but also in privately operated institutions and transnational higher education programs. These changes aimed to address the growing educational needs of the Chinese population. Nevertheless, recent developments have almost “smashed” China’s private HE sector, putting the emphasis again on public institutions.

China’s HE system has witnessed rapid expansion, particularly in the last two decades. It has evolved from an elite system where only about 5% of Chinese citizens aged 18–20 enrolled in tertiary education in the late 1990s to a mass HE system, with over 60% of the same age cohort participating in HE by 2016. In 2023, the number of registered students in all HEIs totalled 46.55 million across the country, an increase of 2.25 million over the previous year. Moreover, China has consistently produced approximately 8 million university graduates annually over the past decade, establishing itself as one of the largest HE systems in the world.

In 2022, China had 3,013 HEIs. Among them, 1,239 were regular ones (164 independent colleges included). The other 32 were polytechnic colleges, and 1,489 higher vocational education institutes. There was also a total of 253 adult HE institutes and 234 research institutions training postgraduate students. There are certain characteristics that clearly mark HEIs and learning methods in China. First, all HEIs, whether public or private, are subject to rigorous oversight and regulation by the central government, particularly the Communist Party. The selection and appointment of university presidents and party secretaries are directly managed by the Ministry of Education and other central-level ministries. Even when there were private universities, party organizations were present, and party secretaries were either appointed or assigned by local government authorities.



Second, political, and ideological factors play a significant role in shaping teaching, research, and engagement activities within Chinese HE. Mandatory national-level programs are in place for undergraduate students, requiring them to earn approximately 12 academic credits from these programs before graduation. These courses cover topics such as Marxist theories, foundational ideologies, ethics, personal development, and modern Chinese history.

Third, China's HE system is hierarchically structured. Approximately 10% of the country's universities belong to the top tier, primarily research-intensive institutions that receive funding and administration from central-level ministries. Around 40% of institutions fall into the middle tier, consisting of local public universities and four-year private independent institutions. The lower tier includes higher vocational colleges and additional private universities.

China places a strong emphasis on the practical and utilitarian aspects of HE, setting it apart from many Western countries. Notably, in 2023, national statistics revealed that the largest proportion of undergraduate students were enrolled in engineering programs (33.4%), followed by administration and management programs (18.1%). In addition, in recent years, the Chinese government has made efforts to enhance vocational education and applied universities. The state even introduced a model to encourage undergraduate students to pursue additional degrees or certificates in technical or vocational fields alongside their academic degrees before graduating.

Regarding HE funding, government support has been pivotal in sustaining the sector, despite some diversification efforts in revenue sources since the 1990s. In the late 1980's, government funding, comprising appropriations, grants, and contracts accounted for more than 90% of the sector's expenditure. Over the past two decades, it has consistently accounted for approximately 50-60% of total revenues. As a percentage of the country's GDP, public expenditure on education has stabilized at around 3.5% over the past decade, as reported by the World Bank. This figure lags behind India, 4.5%, and most developed nations, which typically allocate 5% to 7% of their GDP to the education sector. In terms of average growth in the expenditure per student, public spending has oscillated as the increase in China's investment in HE still lags far behind the growth rate of HE enrolment.

Research indicates that tuition fees have been the second-largest source of revenue for HEIs in China since 1997 when the government established that students and their families should share the cost of a university education. In short, China implemented nearly universal university tuition across the nation. From 1998 to 2005, the proportion of income coming from tuition quickly rose from 14.6% to 34.3%. After 2005, this proportion began to decline steadily. In 2016, it shrunk to 15.7%. In addition, many programs have relatively low tuition fees, often less than \$2,500 per year, which is notably lower than fees in countries like the UK and the US.

Entrepreneurial activities have been another important source of funding for public HE during the process of massification in China. Before 1980, Chinese colleges and universities lacked the autonomy to use or raise funds. With the education reform

introduced in 1985, colleges and universities obtained financial autonomy for the first time. The revenues HEIs receive from entrepreneurial activities keep rising at a rapid pace. It increased from 8.9 billion yuan (\$1.2 billion) in 1998 to 98.3 billion yuan (\$13.8 billion) in 2016.

Apart from students and philanthropists, major donors have also played a role in supporting HE costs through private funding. Despite introducing laws and policies to encourage greater private contributions to universities, social donations as a percentage of HE funding have remained extremely modest, and even declined annually. The proportion of donations to total income in the HE sector dropped from 2.3% in 1999 to 1% in 2004 and has not exceeded 1% since. Although Chinese universities received over 40 billion yuan (\$5.6 billion) in total from social donations by 2017, this funding was disproportionately concentrated among a few prestigious institutions, limiting its benefit to the majority of ordinary schools in China.

Turning the attention to more recent events and trends shaping China's HE, tuition fees have risen dramatically this year. After two decades of stability, tuition fees at Chinese universities are being unfrozen and are planned to rise. This increase is primarily attributed to a decrease in the national budget allocated for tertiary education and strained financial conditions at the local government level. Chinese universities, which are predominantly public institutions, heavily rely on state funding. In 2023, the Ministry of Education has reduced its budget expenditure for tertiary education by 3.7%, bringing it down to 102.6 billion yuan (\$14.4 billion) as stated in a ministry budget report. According to Reuters, the hike in tuition fees is occurring amidst financial challenges faced by local governments due to three years of disruptive COVID-19 policies, a property crisis, and a sluggish economy.

As an illustration of this trend, the East China University of Science and Technology in Shanghai has raised its annual tuition fees by 54% to 7,700 yuan (\$1,082) for certain freshmen majoring in science, engineering, and physical education. In contrast, tuition fees have increased by 30% in liberal arts programs. Similarly, Shanghai Dianji University has seen a 40% increase in tuition fees for science and engineering disciplines, while students majoring in management, economics, and literature will face a 30% rise compared to the previous year, as indicated in a notice published on Monday.

While the United States remains the top overseas study destination for undergraduate students, selected by 34% of respondents, this marks a decline from 45% in 2019, according to a survey conducted by Vision Overseas Consulting. In contrast, more students are opting for Hong Kong (22%) and Singapore (15%), up from 14% and 9%, respectively. Notably, in Singapore, Malaysia, and Thailand—the primary destinations for studying abroad in Southeast Asia—Chinese students now constitute the largest proportion of foreign students. Among these countries, Chinese students make up over 60% of the foreign student population in Malaysia and Thailand. In addition, the percentages of students choosing the UK and Canada have remained relatively stable over the past five years.

Specifically, Hong Kong, geographically closer to mainland China, has a relatively small number of higher education institutions, but they are highly competitive, with a few being very prominent internationally, such as the University of Hong Kong (HKU), the Hong Kong University of Science and Technology (HKUST), and the Chinese University of Hong Kong (CUHK). The proximity allows for easier maintenance of family ties and can be comforting for students who wish to stay closer to home.

However, the political changes following the 2019 protests and the implementation of the National Security Law in Hong Kong have raised concerns about academic freedom and autonomy which are essential for a dynamic higher education environment. Besides, with one of the lowest fertility rates in the world, the local student population is shrinking, which may lead to decreased enrolment and funding challenges.

In one of the most significant events of last year, in 2021, the Chinese government essentially prohibited the private sector from engaging in the education sector. This ban means that companies and institutions can no longer generate profits from selling core tutoring services for children, a business model that had fuelled rapid growth and attracted substantial investment from US investors, who are now barred from participating in the sector.

More recently, the "Law on the Promotion of Private Education" has come into effect. This legislation prohibits foreign ownership of private compulsory education and introduces a series of policies aimed at curbing profit-making activities by private schools. What the private education law underscores is that the restrictions on tutoring services were not isolated measures and are not solely a result of China's broader crackdown on technology. Instead, these measures are part of a broader initiative to strengthen China's public education system.

China had 7.08 million HE students enrolled in full-time studies across 773 private universities and colleges. These accounted for 28.58% of all HEIs in the country, as reported by the Ministry of Education in 2023. China also boasted the highest number of students attending private HE institutions globally. Private colleges are privately operated institutions with independent registrations, yet they maintain affiliations with parent public universities. They represent a formal type of HE organization in which public universities collaborate with private entities to operate colleges. Therefore, their classification as private is not like the one in Western countries.

China aims to build world-class universities and affirm its position in the global arena. However, critics argue constraints on academic freedom could inhibit those ambitions.

The Chinese mainland's continuous ascent in the global rankings in recent years appears to have no bounds. This impressive progress is due to a clear, persistent, and ambitious policy drive, featuring successive excellence initiatives dating back to the 1990s. These initiatives have played a pivotal role in propelling Chinese mainland universities to dramatic improvements in competitiveness and establishing global leadership in research.

While China provides the biggest source of inbound for international students in many host countries, the nation has seen some relative improvements in homegrown universities worldwide rankings. Though it clearly lags behind Western nations in terms of recognized quality and prestigious institutions (the US alone has the same number of institutions in the top 10 of the ranking as China has in the top 100), the Asian nation is in a growing trajectory. With more than 40 million students in HE, China has become a key market.

### India

India possesses one of the world's three largest HE systems, boasting an enrolment of over 41 million students spread across more than 1,100 universities, 43,000 colleges within the country, and an additional 11,000 independent standalone institutions, according to most recent data from 2020-21. This collective landscape amounts to a staggering total of over 56,000 HEI. Despite its impressive scale, global perceptions of the Indian HE system continue to fall short of the ideal. Indian colleges and universities have yet to secure their place among the elite global research institutions, and their academic curricula are often criticized for lacking the practical industry-specific skills necessary for today's workforce.

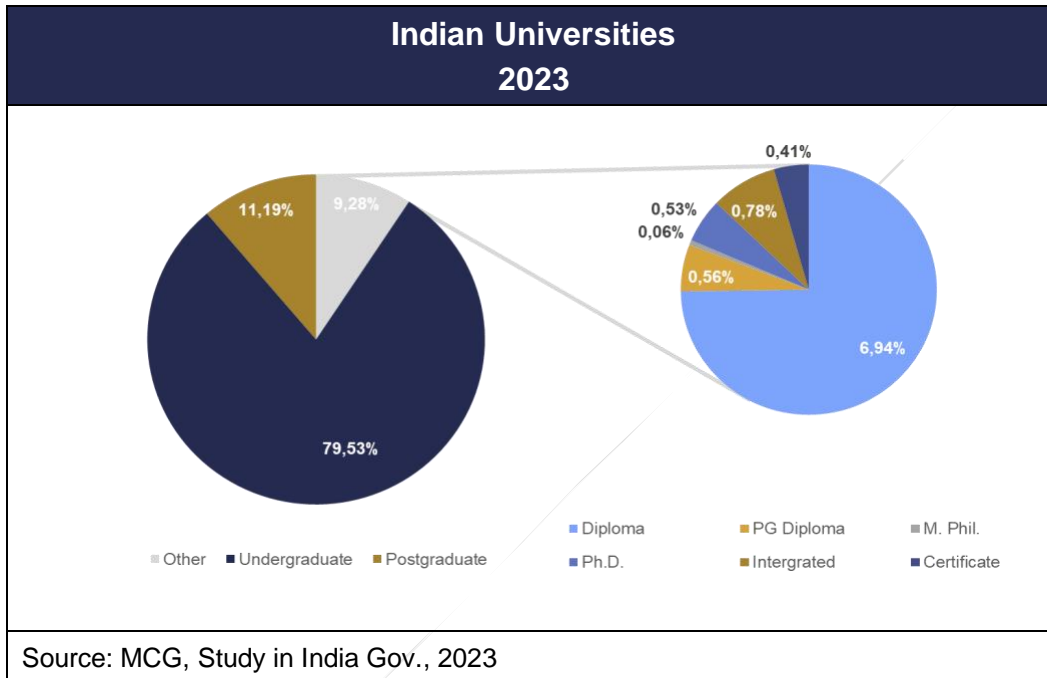
Nonetheless, India's trajectory of HE development since gaining independence has been nothing short of remarkable. In the pre-independence era, there were only 20 universities, and the number of colleges was fewer than 500. Over the past three decades, India has witnessed a rapid expansion of its HE system. The proportion of individuals attending tertiary institutions within the relevant age group has surged from a mere 6% in 1983 to approximately 27.3% as of 2021, falling still short of the goal of 32% for 2022.

The entrance of the private sector in the 1980s marked a significant shift in policy. Post-independence, the growth of HE primarily relied on public institutions, with the government's focus being on establishing high-quality educational institutions rather than expanding access to HE. This approach of establishing small, high-quality institutions stood in contrast to the strategies adopted by China, the United States, and European countries. For instance, China had 41.8 million students enrolled in just 2,596 HEIs in 2016.

The 1990s also marked a policy shift, with the government actively encouraging greater private sector involvement in HE. As government investments in primary education increased, its role as the primary provider of HE gradually diminished. Consequently, there was a significant rise in the number of affiliated private colleges and deemed universities over the last two decades. This shift led to a remarkable increase in both the number of educational institutions and enrolment in HE, soaring from 8.8 million to 28.5 million between 2001-2002 and 2011-2012, while the GER doubled from 8.1% to 19.4%.

In terms of student distribution per program, as the graph below reveals, the highest number of students are enrolled at the undergraduate level across India. Out of the total

enrolment of 38,536,359 students, a vast majority, 30.6 million students, are enrolled in undergraduate. On the other hand, second to that, 11.2% of students are enrolled in postgraduate programs, corresponding to approximately 4.3 million students. There are 2.9 million students enrolled in Integrated Ph.D. in addition to 200 thousand students enrolled at Ph.D. Level. There is a small share of 6.9% of students enrolled at the Diploma level in India amounts to around 2.7 million students and out of this majority of students are enrolled in Teacher Training, Nursing, and Technical streams.



Overall, most of the institutions, nowadays, are private with nearly 500 of the universities being owned by private entities and nearly 80% of the colleges in the same situation. In addition, most colleges are smaller in terms of enrolment. 16.6% of the colleges have enrolment of less than 100 and 48.9% of the colleges have a student strength of 100 to 500 which means 65.5% of the colleges enrol less than 500 students. Only 4% of colleges have enrolment of more than 3000.



## Indian Universities

### UNIVERSITIES



#### Central universities

These are set up through an Act in Parliament. The establishment and operation are funded by the Union Government. Curriculum is common across the country in all such institutions.



#### State universities

These are set up through an Act in the State Legislature. The state universities are primarily funded and operated by the State Government. Curriculum and examination patterns will vary with every state.



#### Private universities

These are set up through an Act in the State Legislatures. It includes specialized institutions and multidisciplinary research universities.



#### Deemed universities

These are well-performing institutes that are declared to be of equal standing as the universities by the Central Government. This status grants full autonomy with respect to setting both the curriculum as well as admissions requirements.



#### Institutes of National Importance

These are eminent institutions of India that are known to develop highly skilled individuals. They are funded by the Government of India. They are highly reputable, most competitive and internationally recognized.

### COLLEGES

Colleges enabling HE in India can be affiliated either with central or state universities. The private colleges are mostly affiliated with state universities. Further, there are autonomous colleges as well that enjoy, but they are also affiliated with a government university (central or state).



#### Affiliated Colleges

The vast majority of colleges in India are Affiliated Colleges which follow their affiliated university's curriculum, examination structure, and grading protocol. Transcripts and degrees are awarded by the university.



#### Autonomous Colleges

Autonomous colleges are overseen by universities but operate under a different protocol and can set their own curriculum and admission requirements. They award provisional certificates with the name of the college printed on the transcripts.

Source: MCG, 2023

Looking at the funding of HEIs in India, the central role of the state as the main funding source for institutions has evolved recently. Between 2001 and 2023, government expenditure on HE increased at an annual rate of 10.9%, while enrolment expanded at an even faster rate of 21.25% per year. This discrepancy between enrolment growth and government funding was bridged by the private sector. Unlike government or government aided HEIs, most private HEIs do not receive financial support from the government. They rely almost entirely on student tuition fees. Consequently, private HEIs typically offer courses that are profitable and charge considerably higher fees compared to government funded HEIs. As a result, the expansion of HE over the past two decades has been primarily financed by households.

Although there is no precise data available on household expenditures for HE, a study conducted in 2023 indicated that household spending on HE accounted for a significant portion of total household expenditures. This ranged from 15% for rural households to 18% for urban households. In fact, the amount of student loans provided has surpassed government expenditure on HE since the 2007-2008 period, with more and more students resorting to this financial instrument today.



Another issue lies in the student-to-faculty ratio, which stands at 28:1 in Indian HE, relatively high compared to other major economies. To tackle this challenge, faculty positions are going to be made more attractive, and concerted efforts should focus on enhancing faculty productivity, output, and performance. India's HE system should aspire to become a global supplier of well-qualified faculty to top-ranking educational institutions worldwide.

Improving the inflow of international students and establishing a world-class HE ecosystem is a central objective of the National Education Policy (“NEP”) 2020. Indian HE institutions will prioritize enhancing their international presence, while policymakers should consider liberalizing the HE landscape to attract international investors and universities to India.

Over the past two decades, the HE ecosystem in India has undergone extensive reforms and substantial growth. Nevertheless, much of its potential remains untapped. The NEP 2020 represents a forward-thinking and visionary policy aimed at establishing a sustainable and enduring HE ecosystem in India. Effective implementation of this policy has the potential not only to steer India's education system in the right direction but also to profoundly transform it.

With the implementation of this plan, it is expected that in the next few years, India's HE system will be shaped and transformed.

HEIs in India are grappling with structural issues, notably the extensive affiliations that public universities have with numerous smaller, often privately-run colleges. These affiliated colleges, typically of lower prestige and quality, contribute to a complex and challenging network that is difficult to plan and manage. This intricate system, marked by excessive bureaucracy, rivals insufficient funding as a fundamental issue plaguing the Indian higher education sector. Many of these colleges operate under the oversight of a university or a government body, limiting their autonomy. In many cases, these overseeing entities struggle to effectively regulate these colleges, as highlighted in a report by the Brookings Institution.

The growth in HE in India has been particularly concentrated in fields such as engineering, pharmaceuticals, business, and computer applications. To maintain the quality of engineering education at the level it was 30 years ago (which is not an overly ambitious goal), the number of faculty members would need to have increased thirty-fold. However, the number of individuals with PhDs in science and engineering has only doubled, and those with master's degrees in these fields have tripled. Consequently, there is a significant shortfall in the number of qualified faculty required to ensure quality teaching. This faculty shortage is a pervasive issue across almost every Indian institute. Moreover, challenges related to physical infrastructure and faculty qualification requirements have further compounded the difficulties in making progress in the Indian higher education landscape.

The path for India's HE growth might have some obstacles. Nevertheless, despite those challenges, the country's HE system has been able to boost high growth levels in recent years, being now among the three largest HE markets in the world. Together with China, by gaining even more weight with its population and economic growth, India is positioning itself to play an even more key role in the dynamics of the HE industry.

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