BRIEFING

The impact of the Covid-19 crisis on university funding in Europe

Lessons learnt from the 2008 global financial crisis

Thomas Estermann, Enora Bennetot Pruvot, Veronika Kupriyanova and Hristiyana Stoyanova

May 2020
This publication is licensed under the Creative Commons Attribution-NonCommercial CC BY-NC

This information may be freely used, copied and adapted for non-commercial purposes, provided that the source is acknowledged (European University Association).

**European University Association asbl**

Avenue de l'Yser 24  
1040 Brussels  
Belgium  
+32 (0) 2 230 55 44

Rue du Rhône 114  
Case postale 3174  
1211 Geneva 3, Switzerland  
+41 22 552 02 96

www.eua.eu · info@eua.eu
Background

The coronavirus pandemic that has swept over Europe and the rest of the world has posed unprecedented challenges for all sectors of the economy, and higher education is no exception. As we are now entering the phase of designing policy and institutional responses to the resulting economic crisis, it is important to reflect on the lessons learnt about university funding in the past.

EUA has been closely following university funding trends in Europe since 2008. The Association set up the EUA Public Funding Observatory (PFO) as a monitoring tool in the aftermath of the global financial crisis. Based on the extensive data accumulated in the framework of the PFO and other governance and funding related work pursued by EUA, several projections can be made about the immediate and longer effects of the coronavirus pandemic on European universities and possible ways to mitigate them.

1. All sources of university income will be affected in some way in the short to medium term.

The extent and nature of the coronavirus crisis is unparalleled and will have a long-lasting impact on the European economy and society. The contraction in EU GDP this year is expected to be 7.5% or higher, far deeper than during the financial crisis in 2009. Against this challenging backdrop, many European universities will see their funding affected in the short to long term. However, higher education systems in Europe will be affected differently and at different times, depending on the key features of their funding models. Notably, these include the mix of sources of income such as public funding, tuition fees and other sources, analysed below.

Public funding

Most European higher education systems primarily depend on public funding. The experience of the 2008 crisis shows that only a few systems, such as Iceland, the Baltic States and Greece, introduced drastic cuts to public funding in the first two years after the outbreak of the crisis. At the same time, 15 systems even increased their funding for universities during this period. The situation changed gradually: 2012 was the worst year, when 14 out of 24 systems captured by the EUA Public Funding Observatory at the time reduced funding compared to 2008. A similar scenario can be expected this time, with systems affected to varying degrees and over different time frames.

The nature of public funding mechanisms typically plays a role in mitigating, or possibly amplifying, the impact of the crisis on universities. Any significant changes in the value of key input indicators, for example major shifts in student numbers triggered by rising unemployment or more stringent student aid policies, tend to produce a long-term impact on university budgets.

1 For details, see references in the footnotes.
The use of competitive funding, which has gradually risen over the last decade, is another important factor. Following the global financial crisis, public authorities in some countries transferred amounts from block grants to competitive schemes. In countries like Estonia, public funding for research has been largely allocated through project-based competitive mechanisms. Other competitive schemes such as excellence initiatives were introduced in Germany and France to support the development of wider institutional strategies. A development to watch in the upcoming period is therefore the public funding balance between core and competitive funding.

- As the countries digest the economic consequences of the coronavirus crisis, there is a significant risk that public funding allocations across Europe will decrease in the next two to four years, when considering the enhanced competition for public resources across various sectors of the economy.
- Policymakers will need to review the use of indicators in funding formulae to avoid major imbalances brought about by significant changes in variable costs (e.g. number of students or research projects) while universities continue having to cover fixed costs (infrastructure, staff salaries, etc.). It will be important to mitigate any distorting effects with the appropriate adjustments of the existing funding mechanisms.
- Similarly, the renewed pressure on public funding should not exacerbate the use of competitive funding at the expense of core block-grant funding, which may generate unwanted effects and interfere with policy goals.

**Tuition fees**

The matter of tuition fees is particularly important for systems where this type of income represents a significant percentage of the university budget. While tuition fee policies have mostly remained stable in Europe over the last decade, several systems further differentiated their approaches in respect of different groups of learners (e.g. international students). For example, countries like Denmark, Finland and Sweden introduced tuition fees for non-EU/EEA students whereas Belgium, Ireland and the Netherlands increased the levels of fees for international students, although to different scales. The United Kingdom (with the exception of Scotland) stands out with major changes in the funding system in 2010, whereby fees for domestic bachelor’s students were almost tripled and became the primary funding source for universities, instead of direct public funding.

- Higher education systems with a larger share of income generated from fees paid by international students (e.g. England or Ireland) will be affected by the coronavirus pandemic already in the short term with knock-on effects in the years to come. In some cases, the current crisis has already led to recruitment freezes or staff layoffs. Travel restrictions, reduced family income and continued health risks will result in falling international enrolment, at least for the next academic year, and massively affect university finances and operations.
- Systems where university income depends significantly on domestic tuition fees (e.g. Spain and Romania, in addition to the above-mentioned countries) will also be impacted by reduced family income, depending on the scale of corrective measures implemented by national governments (e.g. subsidised loans, unemployment benefits, student aid).
- Large-scale financial losses resulting from the shortfall of tuition fees need to be counterbalanced in the short term, particularly in those systems that are more reliant on students’ financial contributions. This will in turn enable universities to contribute sooner to the societal and economic recovery.

---

Research contracts, philanthropy and other sources of income

In the post-2008 period, income from philanthropic funding and foundations decreased in several countries such as Cyprus, Finland, Portugal and the Netherlands. Other countries experienced a drop in alumni donations and fundraising activities. Despite measures taken to spread out the impact on their funding over the coming year, this had a long-lasting effect on institutional budgets and the ability to diversify their income.

- Research contracts, philanthropic sources and other types of university income will also be affected by the crisis. The post-pandemic recession could force companies to rethink their contractual partnerships and collaboration strategies with an impact on institutions’ income.
- Income from diverse activities like accommodation, rental, catering, etc. may also be affected in several systems.
- Restricted access to research labs could potentially obstruct research development and cause delays in fulfilling the existing commitments or even lead to a discontinuation of fixed-term research contracts. Universities will thus require dedicated support to preserve their research capacity to produce top graduates, deliver high-quality research output and play a vital role in the social and economic recovery.

European funding

EU programmes provide another important source of funding for universities. In some systems, success in obtaining EU grants is an indicator in the funding formulae affecting the amount of core funding that universities receive. Since the Sixth Framework Programme for Research and Development (FP6), growing competition for EU funds, resulting in lower success rates, has been driving up costs of applications for participating institutions. This has also been the case of Erasmus+. Compared to the previous programmes, cost coverage has been reduced, resulting in a higher co-funding contribution, with consequences for participation.

- Competition for EU funds allocated under Horizon Europe and Erasmus+ is likely to grow in the coming years. Universities will struggle to increase or even sustain the income from this source to support transnational research and education projects. National strategies pushing them in this direction will not be effective if not supported by additional funding, considering that EU programmes remain significantly underfunded and oversubscribed.

2. The investment gap between European higher education systems is likely to grow.

While investment levels have always differed across Europe, the 2008 crisis led to a greater differentiation between the systems that continued to invest and those that cut funding. Since 2008, countries like Luxembourg, Germany, Switzerland, Norway, Austria and Denmark have significantly increased funding compared to their GDP growth, while several countries such as the Czech Republic, Romania, Slovakia and Ireland reduced funding over the period despite some recent positive economic trends. At the same time, systems like Poland, Hungary and France showed unused potential over the last few years, as their funding remains lower than their GDP growth.

Greater cohesion is one of the key success factors for the European Higher Education Area and the European Research Area. National and European policymakers need to avoid that the coronavirus crisis further aggravates the existing investment gap.

3. Short-term policy measures will have a long-lasting impact on the sector.

Measures introduced by governments at the current stage may affect universities for several years. Previous experience shows that decisions made in reaction to the 2008 crisis and the challenging economic context were often retained or even expanded over the longer term. For example, Ireland introduced staff recruitment freezes and other restrictions on universities’ financial autonomy as a short-term, temporary measure. However, some of these limitations have been kept for years even after economic recovery began again.

It is essential that the response measures are time-bound and implemented in full awareness of possible long-term effects on funding and institutional autonomy.

Neither institutional autonomy nor financial sustainability of universities should be undermined by the possible upcoming economic recession.

In some countries, the conditionalities set in 2008 by international and European financial bodies involved stringent austerity measures. Such requirements were also translated by public authorities into significant cuts to university and research budgets (e.g. in Latvia). Overall, austerity policies have led many systems to experience structural issues with regard to competitiveness, talent recruitment and infrastructure in the long run.

Better time-limit and alternative scenario planning should help avoid reproducing some of the effects of the 2008 crisis.

The new financial rescue packages should prioritise research and innovation as fundamental areas for future development and growth and secure adequate investment in these areas.

4. University missions and activities will be affected differently.

Changes in university funding over the last decade have influenced all university areas, including teaching, research and infrastructure, in different ways. Main university activities are often funded through different mechanisms. Research funding tends to be allocated through a mix of block grant and competitive funding. Teaching is usually supported through the block grant, whereas infrastructure maintenance and development is either included or covered through dedicated funding. Decisions on which activities to invest in first reflect a combination of policy and institutional choices. For institutions, there may be little room for manoeuvre, though, when reduced funding needs to be distributed across the core mission activities.
In this context, research funding has evolved differently across Europe over the last decade. Nevertheless, over the last two years, the number of systems that either expanded or at least sustained their research funding increased, as more countries started re-investing in universities. For example, in 2018-2019, additional funds were channelled into supporting research in the Czech Republic and the Netherlands.

Research and innovation play a key role in boosting Europe’s capacity to respond to current and future challenges. Sustainable and balanced investment in all research areas will be key to formulating successful responses to arising issues.

Funding data also point to varied patterns for learning and teaching activities. While there have been some improvements in recent years, few systems have consistently channelled additional resources into teaching.

As delivery modes of learning and teaching are being adjusted, additional funds will be necessary for developing digitally enhanced learning and virtual mobility. This will involve further investment in both digital infrastructure and skills development, as well as the design of comprehensive strategies and institution-wide structures for the coordination and support to new modes of learning and teaching.

University infrastructure has been subject to systematic underinvestment in many systems in Europe. Limiting or halting investment in infrastructure has often been a way to limit the impact of the overall budget cuts on core university missions, and thus on staff, in the post-2008 period.

Many higher education institutions may find it difficult to maintain facilities adequately in the coming years. Considering that future student experience will likely mix online and onsite learning, plans for crisis mitigation in the university sector should encompass support for infrastructure. Policymakers need to monitor the state of infrastructure to avoid any damaging long-term effects on campuses.

5. Universities will have limited options to reduce their costs.

Universities across Europe tend to have limited flexibility in adapting cost structures within the rules set by the national regulatory frameworks. Universities in several systems lack financial autonomy to optimise their physical assets, as their capacity to own, buy or sell buildings may be restricted. Similarly, staff costs, which constitute the main expenditure at universities, often cannot be adjusted internally due to a lack of staffing autonomy. The PFO data on staffing point to the fact that the 2008 crisis led to sector-wide hiring freezes in some countries. While there are options to achieve efficiencies across university services and activities, it is not realistic to embark on structural changes and adapt staff costs without compensating for negative impacts.

Not only will universities have limited leeway to reduce structural costs - the large-scale transformation processes triggered by the ongoing crisis will require some new significant investments.

The greater shift towards more digitally enhanced learning and virtual mobility will require new investments in infrastructure.

Infrastructures that enable ongoing and future research and learning and teaching will continue to require support.

---


Universities will need to channel additional funds into further professionalisation of staff to equip the established and emerging leaders in various parts of the institution with skills to deal with change and crises in general.

6. The role of efficiency and effectiveness is likely to increase at policy and institutional levels.

The previous economic crisis led to greater attention to efficiency and effectiveness in higher education. Policymakers and funders are likely to translate renewed expectations in this area into specific targets and savings assigned to the university sector. The conclusions of the USTREAM project point out that such expectations should be moderate and focus on measures that can be helpful in the long term. There is limited potential in renewing measures that were implemented in the past decade to foster efficiency of universities.

- To avoid any long-term negative effects, actions and mechanisms need to be sustainable and enhance efficiency and effectiveness together with quality and value.
- Areas offering opportunities for sustainable actions that universities can drive forward within their own efficiency agenda include asset-sharing partnerships optimising the use of physical or digital infrastructure, staff and other resources. Green energy solutions and innovative procurement will facilitate a smoother transition to reaching sustainable development goals.
- Peer learning and sharing of institutional practices will be key in building capacity for delivering efficiency, effectiveness and value for money as well as for responding to change.

7. Public authorities may renew their interest in mergers.

In a difficult economic context, as experienced in the post-2008 period, policymakers have a stronger interest in measures that have the potential to enhance efficiencies at a structural level. Further consolidation of the sector, notably via university mergers, tends to be perceived as a way to rationalise investment.

The frequency of university mergers increased across Europe in the aftermath of the 2008 crisis. Between 2013 and 2015 notably, a spike in merger processes was observed in France, Greece and Lithuania. Throughout the 2010s, the Welsh government proceeded with reducing the number of universities and fostering mergers to rationalise public spending in the sector. While the overall number of Welsh universities decreased, the attempts of the public authorities failed or proved unsuccessful in some cases. The absence of a compelling business case to convince students, university leaders and management of the added value of the merger turned out to be a major factor in those failed experiments.

12 Further examples can be found in the University Efficiency Hub at www.efficiency.eua.eu
The impact of the Covid-19 crisis on university funding in Europe

In countries where the sector has been hit heavily by the ongoing crisis, such as in the United Kingdom, discussions have emerged recently about whether merging and restructuring could constitute an adequate policy response to address the financial difficulties of the sector.

- Previous EUA work has shown that mergers of higher education institutions cannot be considered as a way to reduce costs or serve as a quick fix to economic difficulties. Their main purpose is to create new synergies and opportunities to achieve common goals in research and teaching.
- The significant amount of time and investment demanded by a merger requires full consideration of the opportunity costs.
- Universities should be fully engaged in strategic decisions about their future and long-term development and have the proper level of autonomy to design their institutional structures.

8. The need for ambitious, coordinated action at European level will be greater than ever.

As mentioned above, European funding programmes provide an important source of income for universities. More importantly, however, Europe offers a consolidated framework for transnational academic collaboration, which is key to solving grand challenges. There is abundant evidence of the value added by Horizon 2020 and its predecessors, as well as Erasmus+, complementary to what can be achieved at the national level. In a degraded economic context, it will be all the more important to secure ambitious funding at the European level, foster synergies between European and national funding mechanisms and enhance simplification at the European level.

Multiannual Financial Framework (MFF)

With the future MFF, Europe has at its disposal a successful and irreplaceable instrument to solve this crisis and build a more secure future. An ambitious European budget for research and innovation as well as education will be crucial not only to deliver scientific solutions to the ongoing crisis but also to support sustainable societal progress and economic growth. Yet the additional needs arising from the current public health challenges add another layer of complexity to the MFF discussions.

- A clear prioritisation with an assessment of the impact and added value of the different instruments must take precedence over the protection of individual sectors or areas.
- Support to basic and multidisciplinary research, secured through Horizon Europe, will be as crucial as the integration of all research capacities across Europe. The effective responses to the existing and future societal challenges can only be delivered in collaboration with different types of research and innovation actors and disciplines.
- Ambitious funding for Erasmus+ will be indispensable for Europe’s capacity to train a highly skilled, internationally educated workforce capable of delivering solutions to global challenges and crises. It will be an equally important vehicle to foster social cohesion, European integration, citizenship and European values in the post-crisis period and beyond.

Funding synergies

In addition, developing synergies between education, research and innovation across disciplines will be crucial to maximise the impact of the various funding streams, with the view to tackle the major challenges our societies face. In the context of the current crisis and the EU ambitious Green Deal policy agenda, synergies and complementarities between different funding instruments are becoming increasingly important.

Previous experience shows that the insufficient alignment of national and EU funding programmes has undermined the overall efficiency and effectiveness of these funding mechanisms. Following the 2008 financial crisis, several systems tried to partially compensate national funding cuts by introducing targets or incentives for universities to increase funding from European sources. However, the combined analysis of national funding trends and Framework Programme participation patterns shows that systems that reduce funding at the national level often tend to be less successful in securing research funding at the European level.¹⁶

The experience of the university sector with the European Fund for Strategic Investments (EFSI) is another example of the lacking alignment of policy priorities and implementation modalities at the European level. Parts of research and infrastructure grant funding were diverted from Horizon 2020 to a guarantee mechanism supporting the new fund on the grounds that EFSI would bolster research investment. However, while it did support various activities linked to research (e.g. infrastructure), EFSI did not directly benefit research projects. In addition, many universities in Europe were not able to benefit from this loan-based instrument, since their capacity to borrow is often restricted. EFSI has therefore missed an opportunity to engage with universities as key research and innovation actors.¹⁷

→ Better coherence between different funding policies at the European and national level and funding synergies between EU and national funding programmes will be crucial for supporting far-reaching, comprehensive solutions delivered by European universities in response to the ongoing crisis and the social and economic transformation.

→ Governments should make adequate financial commitments to research, innovation and learning and teaching to support their contribution to lasting recovery.

→ As competition for European funds is likely to increase even further, national cost offsetting strategies should be avoided as they are not effective and risk to disrupt universities’ financial sustainability in the long term.

→ Funding allocated under the EU Framework Programme for Research and Innovation should be disbursed in the form of grants rather than loans.

Simplification of EU funding programmes

As the EU has been preparing for the next generation of EU funding programmes for the post-2020 period, budget discussions have increasingly focused on performance, European added value, trust and efficiency. Simplification is a cornerstone in the debate as it is seen as a way to achieve these goals, lower entry barriers to programmes, and overall to maximise the impact of EU funds.¹⁸

The ongoing crisis has revealed the importance of time in delivering desired solutions. While researchers around the globe are racing against the clock to provide urgent responses, they need to rely on simple and efficient access to resources and infrastructures that enable their work.

→ The rapid response of the EU has shown that European instruments allow flexibility in the interpretation of existing rules, which may not have always been the case in the past.

→ While control of expenditure and the rules to ensure coherence are important, there is a new momentum for the EU’s Framework Programme to take simplification to the next level and to allow greater use of institutional practices and a more effective control mechanism through more efficient and modern audit practices.


Conclusions and recommendations

The pandemic and the related economic challenges will touch upon all sectors and areas of life. EUA’s analysis of the lessons from the 2008 financial crisis has shown that short and medium-term decisions by policymakers have long-term and often unintended effects. A coherent set of well-designed policy responses to the current crisis should help mitigate part of the impact on the university sector. Universities should also develop adequate strategies and take guidance from the lessons learnt in the past.

1. Solutions to overcome the crisis will come from research and skilled university graduates; the current enhanced confidence in research-related expertise and in university experts is an opportunity for universities to engage strongly with decision-makers and society. The scale of the challenge and the need for well-structured, deep-reaching and well-funded international collaboration demonstrates the importance of well-funded and coordinated European Higher Education and Research Areas.

- **Universities** should continue to demonstrate value for society generated from the full scope of university research and innovation activities in all disciplines and the importance of education and training.

- **Governments** need to ensure ambitious investment both at the European level, through the next MFF, and at the national level in those areas that can build a sustainable future. While emergency interventions could mitigate income shortfalls and help universities come out of the crisis more quickly, commitment to sustainable funding is needed in the long term to support the sector’s flagship role in offering the scientific solutions to the current public health challenges and spearheading the post-crisis recovery. In this context, it is important to support universities in their mission to offer reskilling and upskilling to people temporarily affected by crisis.

2. The overall impact of the current crisis will be large and long-lasting, and universities must prepare for operational and financial difficulties in the coming few years. Adequate responses of public authorities can help universities mitigate the long-term damage. Universities will have to react quickly and decisively. The 2008 financial crisis has shown that institutions with a robust capacity to adapt have emerged stronger from a challenging environment. Management and implementation capacity throughout the institution has been an important differentiating factor.19

- **Institutions** should come up with detailed and forward-looking governance, income diversification, transformation and change management strategies with due attention to effectiveness, efficiency and value for society. They should also make risk assessment and crisis management a part of institutional operational planning.

- **Policymakers** should grant universities sufficient autonomy enabling them to develop internal financial allocation mechanisms, adapt strategies and streamline the use of resources in accordance with key institutional objectives and goals.

- **European and national funders** should support university leadership and management development, as well as the professionalisation of university staff, which is crucial for universities’ resilience to crisis and transformation capacity.

---

3. The European Union must show solidarity and take into account that the member states are and will be affected differently by the current coronavirus crisis.

- National and European policymakers must seek to bridge the growing investment gap in higher education and research and foster the international collaboration that will make the difference in resolving the complex global challenges.

4. Challenges posed by the ongoing crisis should be used by all higher education stakeholders as a chance to revise institutional strategies and operations.

- Institutions should explore opportunities offered by the green agenda and digital transformation to rethink the balance between physical and virtual environments and processes.
- National and European policymakers should provide universities with both enabling frameworks and financial resources to support them in seizing arising opportunities. With the right support, universities will be able to strengthen their capacity to produce top graduates, deliver high-quality research output and play a vital role in our social and economic recovery.
The European University Association (EUA) is the representative organisation of universities and national rectors’ conferences in 48 European countries. EUA plays a crucial role in the Bologna Process and in influencing EU policies on higher education, research and innovation. Thanks to its interaction with a range of other European and international organisations, EUA ensures that the voice of European universities is heard wherever decisions are being taken that will impact their activities.

The Association provides a unique expertise in higher education and research as well as a forum for exchange of ideas and good practice among universities. The results of EUA’s work are made available to members and stakeholders through conferences, seminars, websites and publications.