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Productivity Commission

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Education Services

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The Productivity Commission

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The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

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Paul Lindwall
Commissioner
30 April 2015

OVERVIEW

Key points

- International students make a major economic and social contribution to Australia. In 2014, there were over 450 000 international students onshore, representing around 20 per cent of higher education students and 5 per cent of students enrolled in vocational education and training.
 - The international education sector is back on a high-growth trajectory following a major downturn from 2009 to 2011. Students from China and India account for 37 per cent of all international students in Australia.
- In parallel with rapidly growing demand for international education, principally from middle-income economies in Asia, competition for international students is intensifying among traditional provider countries and new entrants. While Australia's share of the international student market is only around 6 per cent, it has one of the highest concentrations of international students in total national tertiary enrolments.
- Whether Australia remains an attractive destination will depend on how well education providers respond to students' expectations for their learning experience and provide a value proposition as technology and business models evolve.
- The Australian Government has a role in providing a policy and regulatory framework that encourages behaviours by education providers, international students and other stakeholders that support its immigration and education policy objectives, and enables the market for international education services to function well within these policy settings.
 - The sustainability of international education exports is more closely linked to regulatory settings than in many other sectors. Regulatory settings around student visas and education quality are crucial.
 - The lack of a synchronised and coherent strategy for these two interacting policy levers has the potential to undermine the sector's ability to take advantage of the opportunities offered by growth in the global education market.
- In terms of student visas, the introduction of streamlined visa processing has contributed to a reversal of the downward trend in international student numbers, with the higher education sector as the predominant beneficiary. However, the implementation of this system has introduced a number of perverse incentives that put at risk the quality and reputation of Australia's education systems.
- The potential broadening of access to streamlined visa processing by a wider spectrum of education providers carries risks to the reputation of Australia's education system.
 - There are several options to mitigate these risks. The preferred option should provide the highest net benefit to Australia as a whole. But they all require a high level of engagement between the Department of Immigration and Border Protection and the Department of Education and Training.
- In terms of education quality, the enforcement of regulatory settings has moved increasingly to a risk-based approach in recent years. However, the current emphasis on teaching standards should be rebalanced so that learning standards have a greater role in quality assurance.
- There is also a strong case for publicly available information on the comparative quality ranking of providers in order to assist domestic and international students to make informed decisions about provider choice.
- Further, Australian institutions should reduce their reliance on agents for student recruitment.

Overview

International education services are important to the economy

The global market for education services is expanding as incomes and participation in education in emerging economies continue to rise. Australia is an attractive destination for international students at all levels of education. There is also a high demand for Australian education providers delivering courses abroad.

In 2014, international education services (IES) contributed around \$17 billion to the Australian economy. Around half of this was from the fees paid to educational institutions, with the remainder from expenditure on goods and services by international students living in Australia. The sector represented around 27 per cent of services exports and close to 5 per cent of total Australian exports.

There were over 450 000 international students on a student visa in Australia in 2014. International students accounted for around 20 per cent of students enrolled in higher education and around 5 per cent of students enrolled in vocational education and training (VET). Around three quarters of all international students enrolled in Australia in 2014 were from Asia, with China and India accounting for 26 and 11 per cent of all international students respectively (figure 1, panel a). Of the 160 000 enrolments in courses delivered offshore, more than two thirds were in the higher education sector.

Students enrolled in higher education provided the greatest economic contribution (68 per cent of the value of education exports). New South Wales (\$5.8 billion) and Victoria (\$4.7 billion) generated the highest export income from the sector.

The sector is back on a high-growth trajectory

Following a period of rapid growth in the international education sector from 2007 to 2009 — partly driven by the direct pathway from the student visa program to permanent skilled migration — the sector experienced a major downturn from 2009 to 2011. The high Australian dollar, the global economic downturn, the introduction of a series of visa integrity measures, negative publicity about student safety in Australia, and uncertainty about college closures were key contributing factors.

The sector has since recovered from this decline and is back on a high-growth trajectory (figure 1, panel b). In 2014, the number of international students in Australia increased by more than 10 per cent on 2013 levels and education-related exports also grew by a similar

rate. However, this growth has been uneven across the sector. Over the period from 2012 (when streamlined visa processing (SVP) was introduced) to 2014, the Commission estimates the average annual growth rate in the number of international students was 4.6 per cent in higher education, 2.9 per cent in VET, 11.8 per cent in intensive English language courses (a major study pathway to higher education and VET), with a marginal fall in the growth rate in school enrolments.

A number of factors contributed to this rebound. These include the introduction of an expansionary student visa policy through SVP, post study work rights, and improved economic conditions following the global financial crisis.

The changing playing field is intensifying competitive pressures

Various economic, demographic and social factors drive the mobility of students globally. Some of the factors affecting the demand for IES are intertwined with those factors which shape people's decisions to migrate permanently — of which economic opportunity is a prime motivator.

For international students primarily seeking an educational outcome rather than permanent migration, key factors influencing where students choose to study include the reputation of an education provider (and the quality of the learning experience they offer), tuition fees, the cost of living, safety, lifestyle, the presence of support networks, visa policy settings (including the time and cost in procuring a visa) and any associated work rights. The rationale for studying overseas is multifaceted, and the relative weighting of these drivers of student choice is contingent on individual circumstances and motivations.

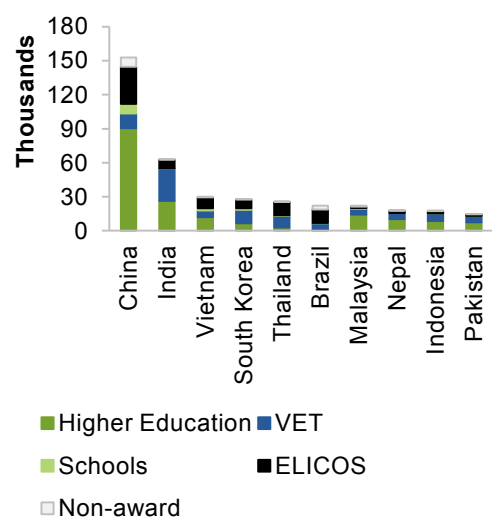
From 2000 to 2012, the number of international students globally grew by more than 5 per cent a year on average. Most of this growth has come from middle income Asian economies — notably China, and to a lesser extent India, South Korea and south-east Asian countries. Growth in international student numbers has also been strong from other middle income economies such as Brazil and Russia.

The four leading English-speaking destination countries — the US, the UK, Australia and Canada — dominate the global market for the provision of IES, with market shares of 16, 13, 6 and 5 per cent respectively. While the US remains the top destination for international students, Australia and the UK have the highest concentration of international students in total national tertiary enrolments (18 per cent) (figure 1, panel c).

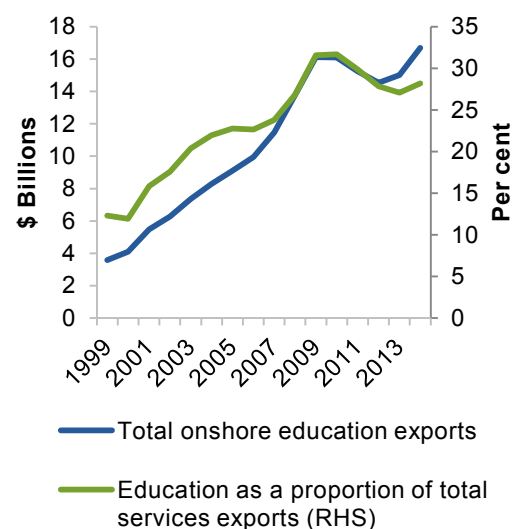
Tertiary institutions in English-speaking OECD countries have generally responded well to the increased demand for international advanced degrees by research (principally doctorates). However, the ratio of enrolments in advanced degrees by research to enrolments in bachelor's and master's degree programs remains lower in Australia than in comparable countries (figure 1, panel d).

Figure 1 A snapshot of the international education services sector

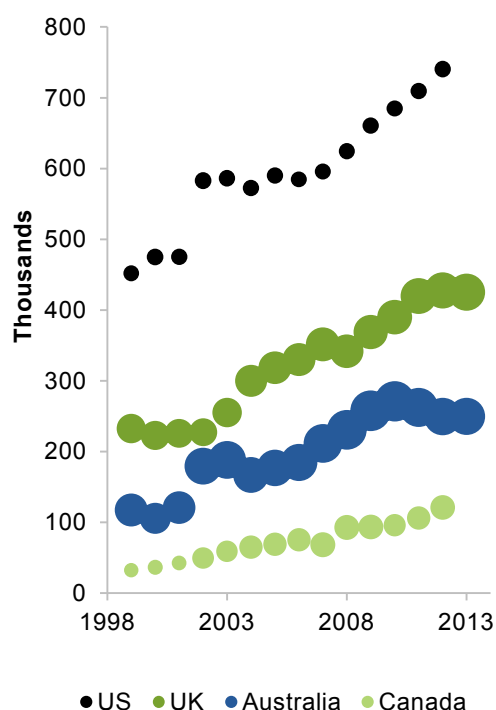
a. Student enrolments in Australia by source country, 2014



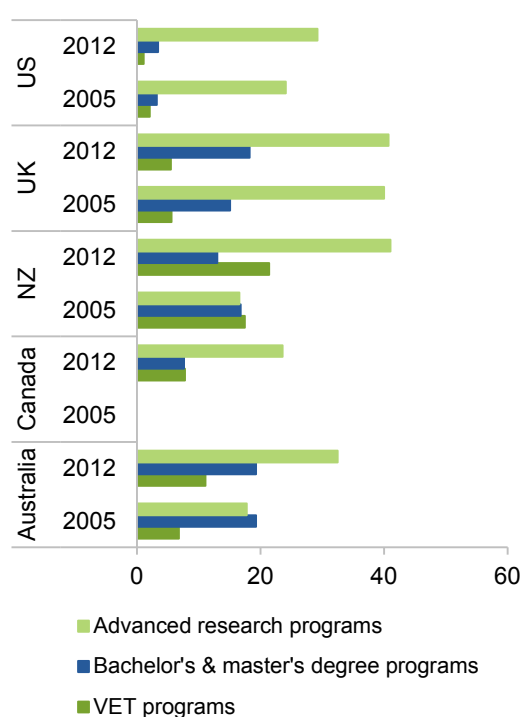
b. Total onshore education exports



c. Number and percentage of international tertiary student enrolments^a



d. International student enrolments as a percentage of total tertiary enrolments



^a Bubble size reflects the share of international students in total national tertiary enrolment.

In parallel with the growth in demand for international education, competition in the provision of international education is increasing globally. Many of the ‘traditional’ providers of IES are extending their international reach through the delivery of courses offshore, often in partnership with education providers in host countries or through consultancies for a corporate clientele.

Further, many countries in Asia and in the Middle East are seeking to develop world-class capacity in higher education and research, and are investing heavily in higher education systems. Countries such as Singapore and Malaysia have a significant interest in positioning themselves as regional hubs for higher education. China is also actively engaged in improving the range and quality of its education services.

The digital economy is broadening the options available to those seeking an education with an international orientation. Technological advances have enabled the growth of so-called massive open online courses, as well as a wider range of teaching and study modes. However, until these online offerings provide equivalent and recognised formal qualifications, they will be likely to remain a part of an educational offering rather than a substitute for traditional delivery modes.

Government involvement in international education

Government involvement in the IES sector is more ubiquitous than in many other sectors. This occurs for a number of reasons. Government itself is involved in the delivery of these services through the ownership of public education institutions.

More broadly, there are inherent features of that market that prevent it from operating efficiently without government intervention. These include the information asymmetries between providers and students, which prevent students from fully assessing the value of the education services they are purchasing, and the scope for poor quality providers to taint the reputation of all providers and/or adversely affect the perceived quality of Australian qualifications.

Further, the flow of international students into Australia is of necessity subject to immigration policy settings. The temporary migration and work rights afforded by international education (via student visas) directly affects its attractiveness. Hence, immigration policy directly affects the demand for international education services. Further, while the supply of international education is an export business, the provision of education to international students is largely a joint product with the provision of education to domestic students; indeed, many institutions purportedly use international student fees to cross-subsidise other activities such as research. To this extent, student visa policy settings can affect the financial viability of domestic education (more so in some segments than others) and can also affect (positively or negatively) the value of the qualifications of domestic students.

International education is also a pathway to permanent migration. While student visa policy settings should be set to achieve the desired short- and long-term immigration mix, governments can come under pressure from the international education sector to take their businesses into account. However, it is not the role of government to ensure a reliable supply of international students for the sector. Rather, an important role of government is to provide a stable and predictable policy and regulatory framework that supports behavioural responses by education providers, international students and other players that are consistent with broader immigration and education policy objectives, while enabling the market for IES to function efficiently and effectively within these objectives.

More generally, policies related to domestic education, notably in regard to quality, will spill over into the international education sector. The cost and quality of education services are key considerations for most students when choosing an international education provider. However, given the nature of education services and the information asymmetry between providers and purchasers, it is not easy for students to ascertain the quality of these services ex-ante. There is a role for government to support a regulatory regime that provides publicly available information on the relative quality of education services offered by providers, especially as poor quality providers can harm the reputation of other providers in Australia.¹

Governments at different levels are also involved in promoting Australia (or particular regions within Australia) as a destination for international education. Such marketing has some ‘public good’ characteristics in that the benefits are able to be captured by any education provider in that destination, and it is not possible to exclude providers that benefit from the marketing but do not contribute to the costs.

While government involvement is motivated by a variety of factors, it is only warranted when the benefits to the entire community from such intervention outweigh the costs of that intervention.

The sector is interconnected and needs an integrated policy response

A key feature of Australia’s international education system is that it provides for study pathways between the four subsectors — intensive English language courses, primary and secondary schools, vocational education, and higher education by coursework and research. Courses are delivered onshore, offshore and online, and by a mix of public and private providers. Even though institutions offer programs across a wide spectrum of study fields, more than half of all international students in both higher education and VET are enrolled in business-related courses.

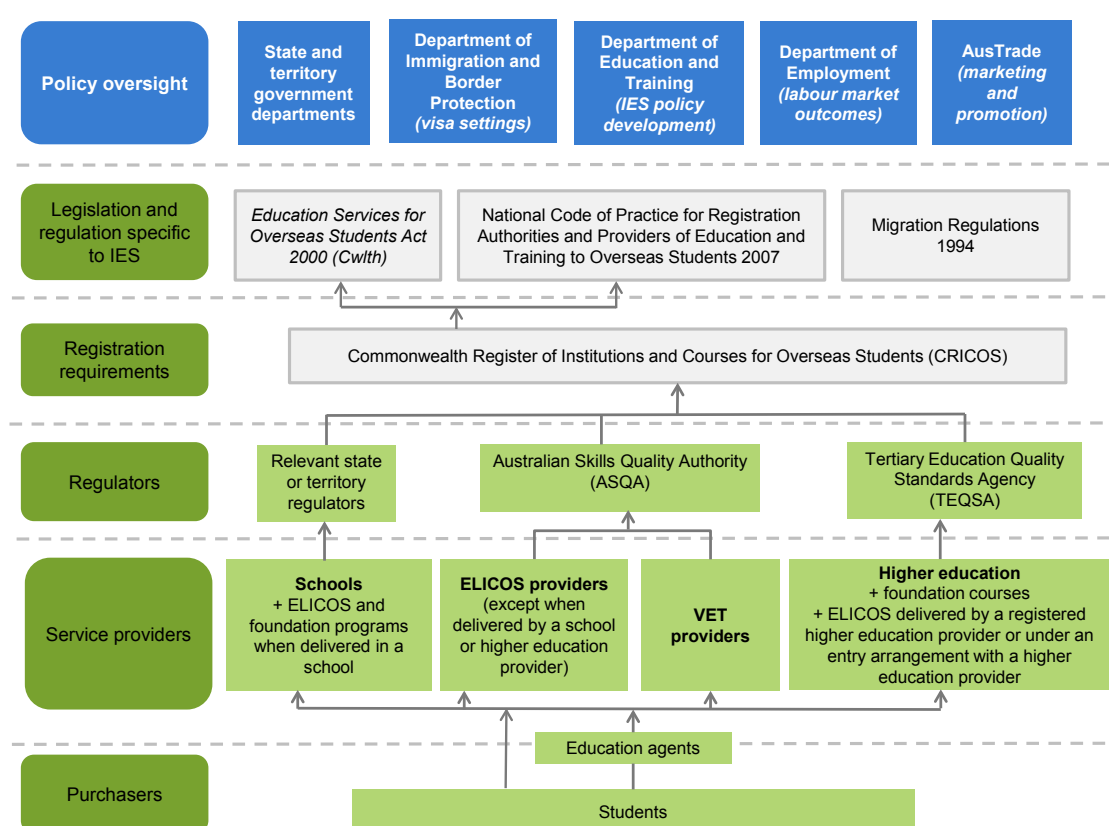
A range of agencies and regulators at different levels of government are involved in the international education sector (figure 2). Australian Government agencies have distinct and

¹ Self-regulation and the private provision of quality indicators also have a role, but are unlikely to supplant the need for government regulation and supervision given the pervasive interactions across a range of policy areas in IES.

separate responsibilities cutting across education, immigration, employment and marketing, with limited incentives to look at the sector on an holistic basis. Decisions made in one policy space have broader sectoral and economywide implications.

Further, the evidence base appears fragmented, with different datasets measuring different aspects of the sector and no obvious platform to support a whole-of-government approach to policy development and evaluation.

Figure 2 Policy and regulatory landscape for international education services



The sector has been extensively reviewed over the past decade, including the Chaney Review in 2013, which highlighted the urgent need to develop a more coordinated government approach to international education in Australia. In addition, several relevant reviews are currently underway, including reviews into SVP arrangements, border fees, charges and taxes, and into the framework and effectiveness of the skilled migration and temporary activity visa programs.

In April 2015, the Government released a *Draft National Strategy for International Education* for consultation. It noted that the Government agreed with all the Chaney Review recommendations, including those directed at developing better coordination of

policies and programs affecting international education. This ongoing process provides an opportunity to develop a comprehensive and integrated policy response to the opportunities and challenges facing the sector.

Swings in visa policy settings

Over time, visa policy settings have been reviewed and adjusted frequently — perhaps too frequently. The impulses for change have been as disparate as reactions to crises, the desire to smooth out the peaks and troughs in student numbers, and the intention to balance the sustainable growth of the sector against the risks to the integrity of the immigration system (and national security) associated with the intake of international students. The swings in visa policy settings are partly symptomatic of the use of one policy lever — student visa settings — to achieve multiple policy objectives.

Streamlined visa processing has created some perverse incentives

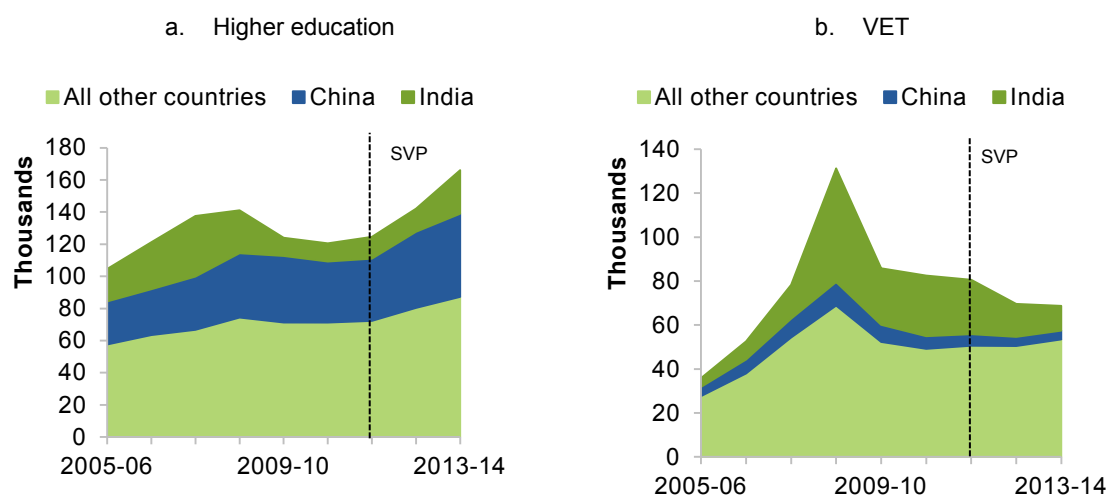
The stated objective of the student visa program is to support the growth of the international education sector, while maintaining high levels of immigration integrity (which is essentially about ensuring that international students are *genuine* in their intention to complete a course of study and do not use the program primarily as a de facto migration entry point). The requirements and restrictions attached to different visa sub-classes should be designed to meet this objective in the most efficient way.

The most recent substantive shift in student visa policy settings was the introduction of SVP in 2012, which originated from the Knight Review. Against a backdrop of falling student enrolments, the review contained a series of measures to improve the competitiveness of Australia's universities in the global market for international students.

Essentially, SVP treats international students applying to higher education courses as though they were from assessment level 1 (low immigration risk) countries, irrespective of their country of citizenship (box 1).

SVP is seen by eligible institutions (mainly universities) to have been beneficial to them and to their students — notably those from medium and high immigration risk countries. Notwithstanding the range of factors that drive demand for international education, student visa applications for higher education courses have increased by 33 per cent over the two years following the introduction of SVP (figure 3). By comparison, student visa applications for VET courses have fallen by 15 per cent over the same period.

Figure 3 Student visa applications by source country



The SVP framework has introduced a stratified system for student visa processing. Further, it has created a perception that provider access to SVP is a ‘stamp of quality’. The combination of these two factors has led to some perverse incentives for:

- agents — to channel international students into higher education pathways, regardless of their aptitude or career aspiration. This has disadvantaged high-quality VET providers
- some SVP-eligible providers — to adopt a relatively relaxed approach to immigration risk management so that they can expand their student intake up to the point that does not trigger a penalty by the Department of Immigration and Border Protection (DIBP)
- providers — to add advanced diplomas to their offering since the recent extension of SVP to these courses, with potential downside risks to the quality of these courses
- some prospective students and education agents — to target institutions with access to SVP initially, and once granted a student visa, to ‘course-hop’ to another institution offering an easier or cheaper course, potentially undermining the integrity of the visa system and imposing a financial impost on those institutions losing students to other institutions.

The challenges inherent in monitoring agents’ conduct, and concerns raised by some stakeholders about the effectiveness of enforcement of visa conditions, contribute to reinforcing these incentives.

This is particularly relevant to the issue of course-hopping. Students can change courses for a variety of reasons. It is therefore difficult to ascertain the prevalence of ‘illegitimate’ course-hopping given the often covert nature of this type of activity. However, enrolment data on actual transfers from higher education courses to VET courses point to an increase in those transfers since the introduction of SVP, both in absolute and relative terms

(figure 4), although recorded transfers are still a relatively low percentage of overall student numbers. There is also anecdotal reporting of agents being openly and actively involved in encouraging course-hopping by recruiting students already studying in Australia for transfers to cheaper, shorter or lower quality courses.

Conversely, visa data on transfers from higher education student visas (subclass 573) to VET student visas (subclass 572) show a relatively flat trend since the introduction of SVP (figure 4). While it is unclear why the pictures from these two datasets differ, the discrepancy is possibly broadly consistent with anecdotal evidence of under-reporting, whereby students are breaching their visa conditions by transferring between higher education and VET courses without applying for a new visa.

Box 1 What is streamlined visa processing?

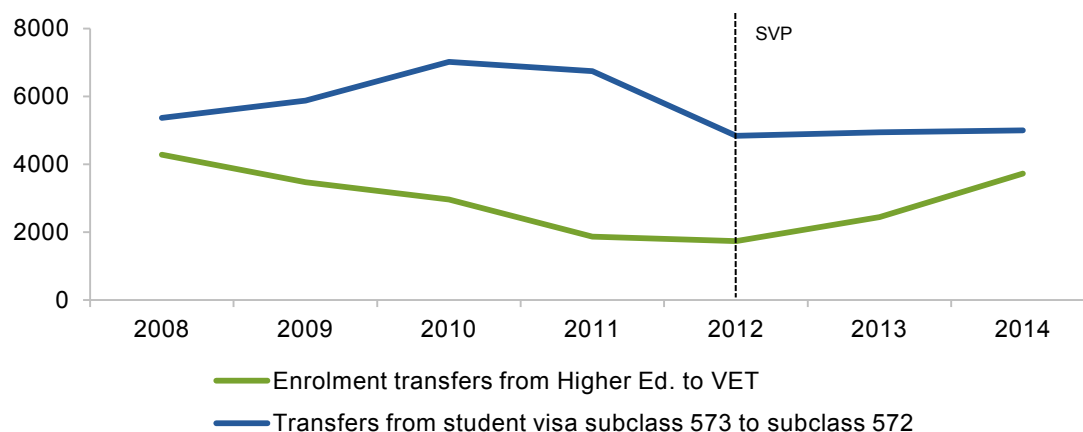
Commencing on 24 March 2012, streamlined visa processing (SVP) created a separate 'fast track' or 'light touch' visa processing pathway for international students applying to eligible courses. In order to be eligible for SVP, students had to be enrolled in:

- a principal course of study for either an advanced diploma (since November 2014), a bachelor's degree, a master's degree or a doctoral degree
 - the principal course of study is provided by an eligible education provider (any institution registered on the Commonwealth Register of Institutions and Courses for Overseas Students) and which offers courses at the advanced diploma level and above
- a course leading to a principal course of study provided by an SVP-eligible provider.

The SVP pathway is premised on education providers sharing the immigration risk attached to student visas in exchange for simpler and faster visa processing at the institution's level. All applicants are still subject to basic requirements such as having health insurance and not being a security or health risk. However, the Department of Immigration and Border Protection (DIBP) essentially take the institution's word that the student is suitable. In return, the institutions are accountable for the visa outcomes of their students. The visa outcomes of these institutions are reviewed regularly, and consistently poor outcomes can lead to a withdrawal of their eligibility for SVP. The effectiveness of risk sharing under SVP depends on whether the threat of having access to SVP withdrawn is credible.

If access to SVP is removed, institutions can still enrol international students, but they are processed under the assessment level framework — the 'traditional' pathway for the assessment of student visas, which usually takes longer and carries a more onerous regulatory burden. Under that framework, assessment levels are specified from 1 to 3, with assessment level 1 pertaining to low immigration risk passport holders, assessment level 2 — medium risk, and assessment level 3 — high risk. Evidentiary requirements for visa applicants are aligned to immigration risk, and the assessment is undertaken by the DIBP, taking into account rates of visa refusal, cancellation and non-compliance.

Figure 4 International student transfers from higher education to VET



The DIBP has recently conducted a number of information campaigns to encourage visa compliance, in combination with regular discretionary processes for visa cancellations. Nonetheless, the fact remains that the current configuration of the student visa processing framework inherently provides an incentive to course-hop, particularly for international students whose primary motivation may not be an educational outcome and who may not be suited to higher education.

The jury is still out on post-study work rights

Many international students consider host country work experience to be an attractive element of the overseas study ‘package’. In particular, they often see it as a potential pathway to obtaining permanent residency or to enhance employment prospects in their home country.

Changes to Temporary Graduate Visas in 2013 gave longer and less restrictive post-study work rights to higher education graduates than to VET graduates — thereby creating two distinct visa categories. These changes also came from the Knight Review, which argued that the absence of clearly defined post-study work rights puts Australian universities at a serious disadvantage against some of our major competitor countries.

Post-study work visas are far from uniform internationally, and Australia’s program differs in several ways from those of other countries that provide comparable education services (chapter 3).

Given that these changes were implemented in 2013, their impacts are yet to flow through to the take-up of temporary graduate visas. It is therefore premature to assess the link between the post-study work rights policy settings and labour market outcomes. In any case, there is a general lack of data to inform an analysis of the impacts of the relatively

large and uncapped pool of temporary migrants with work entitlements on labour market outcomes in Australia. More evidence in this area is needed for the purpose of informing policies related to post-study work rights for both higher education and VET students.

Nonetheless, some barriers to graduate labour market entry are emerging as an issue for international students. A recent study by Deakin University noted that many international graduates are poorly prepared for the labour market and have unrealistic expectations of graduate employment. The study pointed to the key role that universities can play in enhancing the employment prospects of these students, and in conditioning their expectations (either directly or through their agents).

Quality regulation is a ‘work in progress’

The quality and reputation of Australia’s education services rank highly as a determinant of student demand. Reputation can be hard to gain but easy to lose. Australia has a specific regulatory framework aimed at providing quality assurance and consumer protection for education services supplied to international students. This complements the regulatory framework that applies to the provision of domestic education services more generally. Two national regulators were established in 2011 — the Tertiary Education Quality Standards Agency (TEQSA) and the Australian Skills Quality Authority (ASQA).

Further, changes to student visa policy settings (notably the delinking of the student visa program from the pathway to permanent skilled migration since 2010) have removed some of the systemic incentives for providers and students to behave in a manner inimical to the provision of high quality IES in Australia.

Stakeholder concerns about the quality of IES appear to be mainly confined to some segments of the VET sector — although there is an acknowledgment that quality issues in one segment can have broader ramifications for the whole sector. Concerns about the VET sector stems partly from experience (namely, the emergence of poor-quality providers in the 2007–09 boom years) and partly from the very nature of the sector (relative to the higher education sector) in terms of:

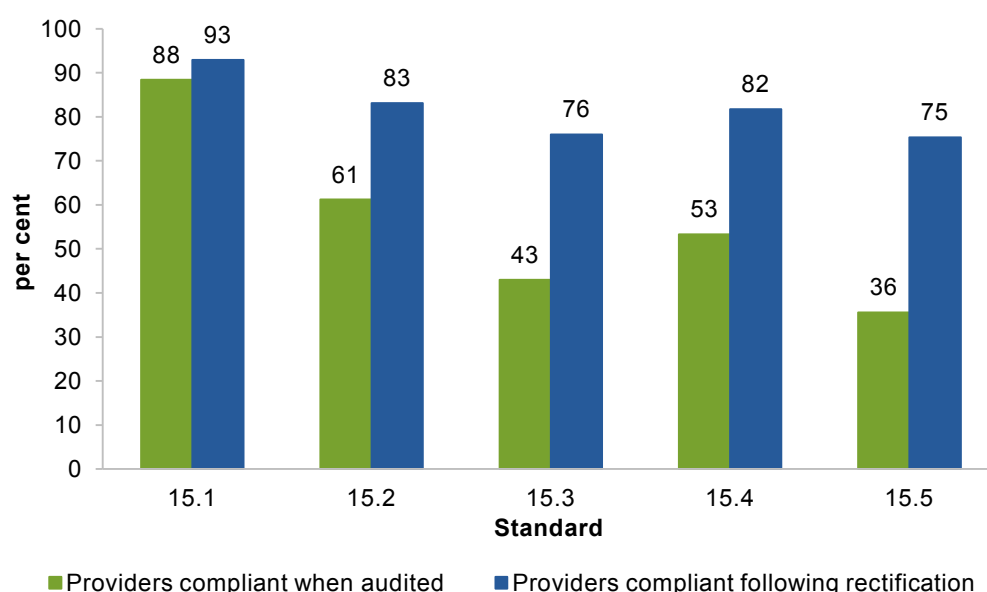
- the larger number of providers (around 500 registered to offer courses to international students, compared with 133 in higher education)
- the prevalence of small scale operations
- the prevalence of relatively short duration courses compared with higher education
- lower barriers to entry and exit for providers.

Ongoing risks to the quality of education services offered by some VET providers remain. Education providers’ compliance with regulations aimed at managing those risks has improved in recent years as evidenced by the ratio of registration applications approved to registration applications rejected rising materially. Providers also seem responsive to regulatory intervention.

However, poor levels of compliance against some key standards remain (figure 5, and chapter 4). In June 2014, ASQA reported that 33 per cent of all registered training organisations were rated as having a medium or high risk of their not complying with the relevant legislative obligations, with 11 per cent not yet having a risk rating assigned. Comparable data for TEQSA are not published. Recent media reports have also highlighted poor practices being used by some providers across both the higher education and VET sectors (chapter 4).

Australian providers of offshore education services (transnational education) that do not lead to Australian qualifications are outside the regulatory reach of TEQSA and ASQA. Thus, these providers also pose a potentially significant risk to Australia's reputation as a quality provider of IES. ASQA has planned a strategic review of transnational VET services in 2015.

Figure 5 Compliance with standard 15^a found at audits of providers registered under CRICOS^b to deliver VET 2013–14



^a S. 15.1 — Continuous improvement of training and assessment, S. 15.2 — Training meets the requirements of the training package, S. 15.3 — Required staff, facilities, equipment and material, S. 15.4 — Qualified and competent trainers and assessors, S. 15.5 — Assessment is undertaken properly.

^b Commonwealth Register of Institutions and Courses for Overseas Students.

There has been a move to risk-based regulation

Since their inception, both ASQA and TEQSA have moved to a risk-based framework, with resources targeted at areas that pose the greatest risk to quality. A pertinent question is whether the Australian Government's budget allocation to each agency is reflective of the

risks inherent in each segment. The Braithwaite Report noted that, in 2013-14, TEQSA would have funding of over \$117 000 for each provider it regulates on average, whereas ASQA would have approximately \$9500 for each provider on average.

The 2014-15 Federal Budget included a significant reweighting of funding for the two national regulators. Future funding for TEQSA has been significantly reduced below its 2013-14 appropriation of around \$24 million. Its funding for the three years from 2014-15 was reduced by around \$21 million. In contrast, ASQA's funding for those three years was increased by around \$68 million.

This raises a broader question about the sustainability and effectiveness of having two national regulators over the medium term. The Commission sees merit in revisiting the case for having one regulator for both the VET and the higher education sector, which would allow an even stronger focus on risk-based regulation, help reduce the regulatory burden (particularly for those institutions that offer both higher education and VET courses), and provide a more consistent approach to quality regulation across the board.

A rebalancing from teaching to learning standards is called for

In order to be registered as a higher education provider or a training provider, organisations must satisfy standards related to provider characteristics and governance, qualification, information, and the quality of teaching and learning. Within the teaching and learning standards category, the current quality assurance frameworks used by TEQSA and ASQA are largely underpinned by compliance with input-based or teaching standards, such as the quality of teaching and the availability of supporting infrastructure.

Such standards are valuable as leading indicators of quality. However, given that student achievement is the ultimate goal of education, outcome-based or learning standards such as the demonstration of generic and discipline-specific learning objectives (including competency in the English language), are equally important from a quality assurance perspective. This suggests that the current emphasis on teaching standards should be rebalanced to provide for learning standards to have a greater role in quality assurance arrangements.

That said, the Commission understands that both regulators already consider, to differing extents, various outcome measures in their risk framework. As these measures are already being collected and used, this suggests it could be a short step to formalise outcome measures in the mandated standards against which providers are assessed for registration and course accreditation purposes.

... as is better information to inform student choice

Information on courses for international students is available through various web portals hosted by government agencies, individual institutions, industry bodies and education agents.

While the regulatory regime imposes a requirement on providers to supply students with information that will enable them to make informed decisions about their studies in Australia, it does not require the national regulators to make public other information that would assist students to make comparisons *between* providers.

ASQA and TEQSA already collect such information. Their auditing of providers' against registration and/or course accreditation standards generates information about relative performance. At present, though, these audit results are not publicly available.

Equally, the current regulatory regime provides no publicly available information on the relative quality of education services offered by providers, or measures of comparative education outcomes such as completion rates or the distribution of levels of attainment for students completing their studies.

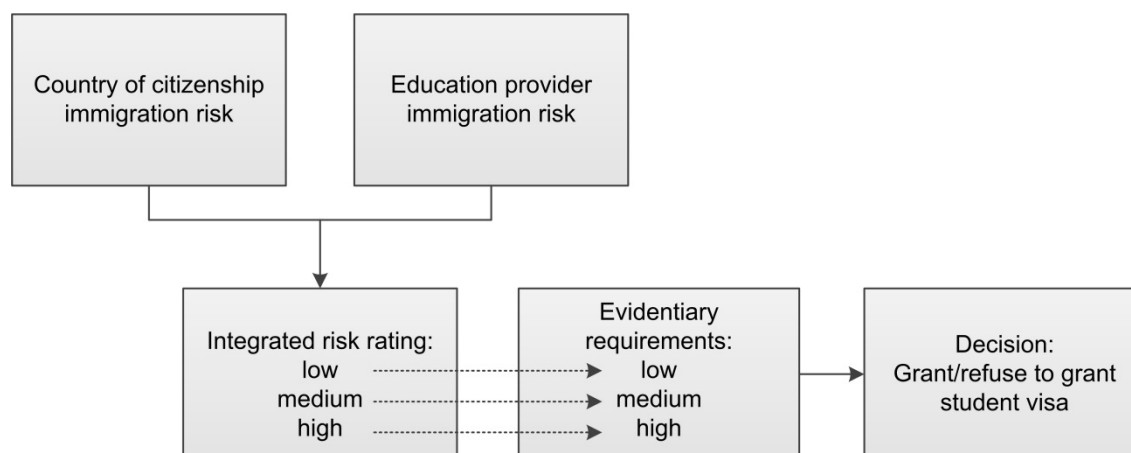
Notwithstanding the challenges in measuring relative quality outcomes, the availability of such information would offer greater transparency about the comparative 'quality' ranking of providers and would benefit prospective students — both domestic and international. It would help counteract misleading information provided to international students by education agents. It may also strengthen the incentive for individual providers to improve the quality of their education services.

Alternative frameworks for student visa processing

DIBP is currently undertaking a strategic evaluation of SVP arrangements and expects the evaluation to play a key role in informing the policy guidelines that expire in mid-2016. As part of its consultation informing the review, DIBP has proposed a revised model for assessing immigration risk that would take into account the immigration risk outcomes of a particular education provider (as is the case under the current system) *and* the immigration risk applicable to the student's country of citizenship (figure 6).

Such a model would have some advantages compared to the current model — it would simplify the framework by having a single visa processing system applicable to all education providers recruiting international students; and it would provide a more granular approach to the management of immigration risks.

Figure 6 **DIBP's proposed framework for student visas**



As always, implementation is the crux. How the proposed model is implemented will have implications for the effectiveness of the student visa program. Principles of good regulatory design would suggest that the proposed model should be clear and easy to understand, proportionate to the risks posed, transparent and accountable.

Further, there are strong connections between international and domestic education services. International education is also an established pathway to permanent migration. An optimal student visa program cannot be designed in isolation from broader education and immigration policy objectives. This calls for a coordinated approach to policy.

Indeed, it makes little sense for TEQSA or ASQA to be disciplining a provider while DIBP is rewarding the same provider with a streamlined visa process under an immigration risk framework.

Further, by focusing exclusively on immigration risk, the DIBP approach would do little to address the perception among students and agents that an institution's eligibility for SVP is a marker of high education quality.

If the DIBP model is universally applied, all education providers with low immigration risks, including VET providers, could potentially be granted access to SVP — and hence be perceived as institutions of high quality education. Yet there are a number of low quality providers. This presents a potential reputational risk to the international education sector.

While there are high quality VET providers, the very nature of VET, with a much higher churn rate of providers than in higher education, lends itself to relatively higher risks in terms of educational quality compared to the higher education sector. This was one of the reasons originally advanced by the Knight Review for limiting SVP to universities.

An expanded SVP program may also increase immigration risks, at least in the short-term. This is because it could encompass a large number of new VET providers, some with little or no experience in offshore student recruitment. In fact, the latter providers might initially be advantaged by a system that is primarily focused on providers' immigration risk history.

Two practical improvements to the DIBP proposal

One approach to mitigate the risks to perceptions of quality would be to build on the DIBP proposed model by incorporating an additional dimension to capture education provider quality risk — the risk that a provider would offer an international student a poor-quality learning experience. Provider quality risk could draw on compliance ratings as already assessed by the national regulators — TEQSA and ASQA — as an initial basis for assessing education provider quality risk. This approach could involve the same institutional settings currently used for the processing of student visas. However, it would harness a broader range of evidence on which to base decisions on student visa grants.

Under this approach, each risk — country of citizenship immigration risk, education provider immigration risk, and educational quality risk — would need to be assessed and weighted to give an overall risk rating for each student visa applicant. Evidentiary requirements for each risk rating should then be proportionate to the risks involved.

An alternative approach would seek to manage the systemic risks to quality that could emerge from an extension of streamlined visa processing by making the quality of education providers more explicit and transparent — as a way of breaking the nexus between access to streamlined visa processing and perceptions of quality. This would require TEQSA and ASQA to publish the quality risk ratings of individual providers and for DIBP to more explicitly and credibly advertise that SVP is not a quality marker. Perhaps this would involve a move away from terminology such as *streamlined* visa processing.

The benefit of this approach is that it would quarantine immigration risks to one regulator and one policy lever — DIBP through its visa settings and compliance framework, while education quality risks would be managed through another policy lever by the education regulators (TEQSA and ASQA) through their standards compliance regime.

Delineating responsibilities in this way could remove any misperceptions of educational quality surrounding current arrangements. In relation to education quality it would leverage off work already being done by TEQSA and ASQA, meaning that SVP requirements would not add to the compliance and administrative costs for educational quality assurance purposes.

Both approaches would require the DIBP and the Department of Education and Training to have a high level of engagement to minimise the risk of policy coordination failure.

The Commission understands that the DIBP is developing its option further. The preferred option should provide the highest net benefit to Australia as a whole.

The Commission's ongoing inquiry into migration and its current study on barriers to services exports will provide further opportunities to explore issues associated with student visas.

The use of education agents is extensive and risky

Education agents can play a useful advisory and intermediary role for international students and can be a cost-effective option for institutions looking to recruit students across a range of countries (at least in the short-term).

Educational institutions in Australia use agents extensively for recruiting international students, more so than in other comparable countries. Further, on average, Australian institutions tend to pay higher commissions to agents relative to other countries, although commissions paid by an institution are typically undisclosed. Commissions paid on a per student basis on admission create incentives for agents to maximise the volume of international students, with little regard to the quality of the advice provided to students (affecting student expectations) or the quality and aptitude of the students.

The Commission received considerable anecdotal evidence that suggested unscrupulous behaviour of agents is an issue, particularly in relation to providing false or misleading advice and information, and the onshore poaching of international students. Many of these concerns were also highlighted by the NSW Independent Commission Against Corruption in its recent report.

In some cases, problems arise because there is a misalignment of incentives between agents, providers and students. In other cases, incentives may be aligned, but providers, agents and students may be acting against the interest of the Australian community more broadly.

Agents are generally driven by their own profit motives (which are largely a function of the *quantity* of students they recruit and the level of the course fees paid by students). They are faced with inherent conflicts of interest because of the nature of their position — they work on behalf of both education providers and students, and they also work for a range of institutions in Australia and around the world. This is compounded by the limited ability of education providers to observe the actions of their agents on the ground. This information asymmetry, when combined with a misalignment of incentives, can lead to sub-optimal outcomes.

Like several other countries, Australia does not regulate education agents directly. At a national level, the National Code of Practice, established under the *Education Services for Overseas Students Act 2000* (Cwlth) sets out a range of specifications on the relationship

between providers and agents. At an institutional level, the risks are managed through their relationships with agents.

The lack of a system for tracking agents and their clients' outcomes, the lack of transparency about provider-agent relationships, and the offshore location of many agents make the oversight of the conduct of agents challenging. However, there are ways to mitigate these risks, including through internalising the risk and reducing the reliance on agents for recruitment through:

- a more direct recruitment approach by flagship Australian education institutions targeted to the higher end of the value chain
- greater transparency around the relationships between agents and providers (including the commissions paid)
- data systems that allow agent conduct and performance to be tracked over time (including by tracking student outcomes over the longer term)
- the provision of training and information exchange programs.

Overall, excessive reliance on agents may lead to a less than optimal mix of international students, with some of the best students enrolling in institutions in other countries such as the US and the UK. While agents will remain an important part of the Australian international education sector, there is scope for institutions to reduce their over-reliance on agents and the potential to thus better target the best students from source countries. This could be achieved by institutions investing more in the direct recruitment of students.

1 Introduction

1.1 The international education sector's contribution to the economy

In 2014, Australian international education services (IES) delivered onshore (box 1.1) contributed almost \$17 billion to the Australian economy, or around 1 per cent of gross domestic product. Of this, around half was made up of fees paid to education institutions, with the remainder being expenditure on goods and services (figure 1.1, panel a). The sector represented 27 per cent of services exports in 2014, and close to 5 per cent of total Australian exports (in gross value terms as measured in Australia's balance of payments).

In 2013-14, students enrolled in higher education (figure 1.2) provided the greatest contribution to export income (68 per cent). Geographically, students studying in New South Wales (\$5.8 billion) and Victoria (\$4.7 billion) generated the highest income for the sector (figure 1.1, panel b).

International education also makes a significant contribution to employment in Australia — both directly and indirectly. Deloitte Access Economics estimated that the expenditure of international students generated jobs for just over 130 000 full time equivalent workers in 2011 (DAE 2013). Further, international students add to the temporary labour pool in Australia as they have work rights both while they study and post study.

At a micro level, IES provide a major source of revenue for Australia's education institutions (figure 1.1, panels c, d). In 2012, international students accounted for 16 per cent of the revenue of public universities on average (figure 1.1, panel c) (TEQSA 2014b). However, the importance of international student fees for universities varies, ranging from around 5 per cent of revenue for universities such as the University of Notre Dame, the University of New England and Charles Darwin University to 20-30 per cent for universities such as RMIT University, Macquarie University, and the University of Technology, Sydney (DET 2014b).

International student fees account for a smaller proportion of revenue for public vocational education and training (VET) institutions (around 2.6 per cent), while limited data for private VET make comparisons difficult. Around 82 per cent of commencements in higher education in 2014 were at publicly-owned institutions, while the majority of commencements in the VET and English language intensive courses for overseas students (ELICOS) sectors were in private institutions (85 per cent and 78 per cent, respectively) (figure 1.1, panel d).

Box 1.1 **International education services data**

Data for offshore education services

Data limitations mean that it is difficult to determine the value of export services offshore. Typically there are four modes of services export: mode 1 is cross border supply (for example distance education provided to an offshore student); mode 2 is consumption in Australia (for example, international students studying in Australia); mode 3 is a commercial presence in a country of export (for example, an offshore campus of an Australian university); and mode 4 is the presence of natural persons in a country of export (for example, an Australian educator travels to deliver an education service abroad but returns to Australia within a 12 month period).

In general services exports provided through mode 3 are not included in balance of payments estimates and, moreover, there are limited data on exports through commercial presence (PC 2015a). This means that modes 1 and 4 are only partial estimates of the value of education export income derived from offshore services. Accordingly, where it is mentioned in this study, export values are based on the mode 2 definition.

Types of IES data

A range of data is collected to measure international education services. Each data set measures different aspects of IES (though sometimes overlapping), and therefore needs to be placed in context.

Enrolment data — counts a student enrolment in a course. A student enrolled in two different courses is counted as two enrolments. As a result, enrolment data generally do not represent the number of overseas students in Australia or the number of student visas issued, but rather, counts actual course enrolments. Enrolment data overstate the number of international students in Australia.

Commencement data — counted as a *new* student enrolment in a particular course at a particular institution. Commencement figures show the flow of international students in Australia.

Visa applications lodged — the number of applications received by the Department of Immigration and Border Protection (both in hard copy and electronically).

Student visas granted — the number of visas where the decision maker assesses the application and decides to award the visa. It usually includes primary visa holders (the student) and secondary visa holders (those who have satisfied a secondary criteria for the grant of a visa, generally dependants of the primary visa holder).

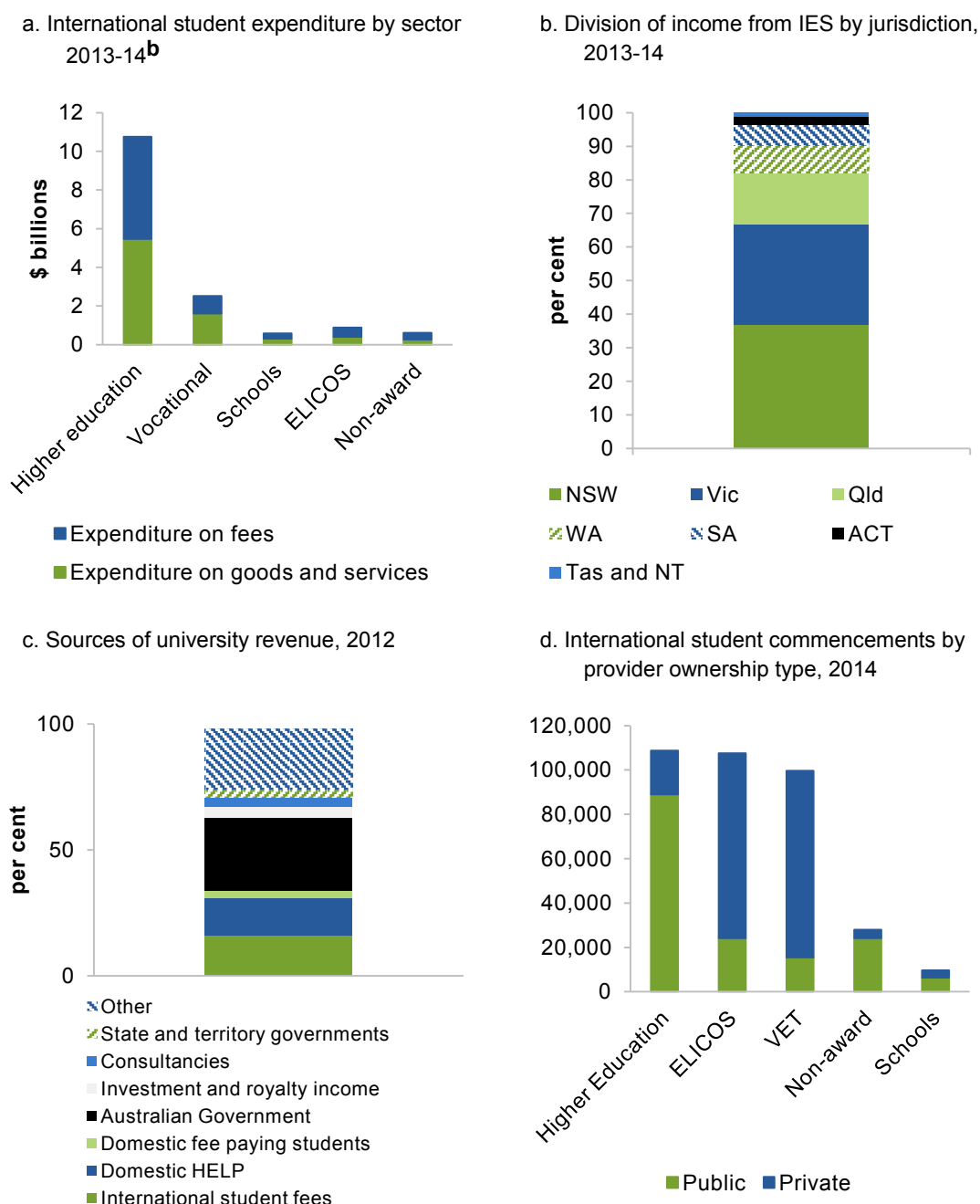
Student visa holders in Australia — the number of student visa holders in Australia at a particular point in time. Some student visa holders may not be in Australia at the time of the snapshot.

ELICOS data — most data for ELICOS are confined to those ELICOS students in Australia on a student visa (chapter 2, box 2.1).

Education institutions — particularly universities — state that revenue from international students allows institutions to expand their staff, increase funding for research and enhance their investment in infrastructure (Go8 2014b). Further, it enables them to enhance the quality and diversity of the courses that they provide, take advantage of scale economies

and diversify their funding base (provided they also make sufficient infrastructure and other investments to provide a quality learning environment for international students).

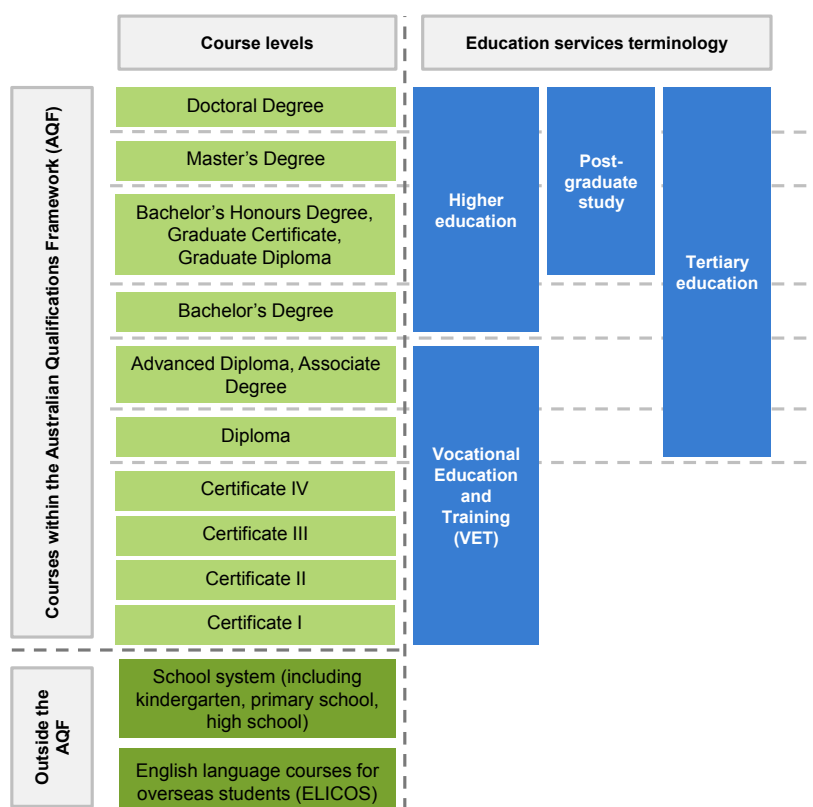
Figure 1.1 The significance of international education services^a



^a Data are for onshore international education services only. ^b Expenditure by those on a student visa.

Sources: ABS (*International Trade in Services by Country, by State and by Detailed Services Category, Calendar Year, 2013* Cat. no. 5368.0.55.004); Deloitte Access Economics (2011); NCVER (2014b).

Figure 1.2 Levels of education



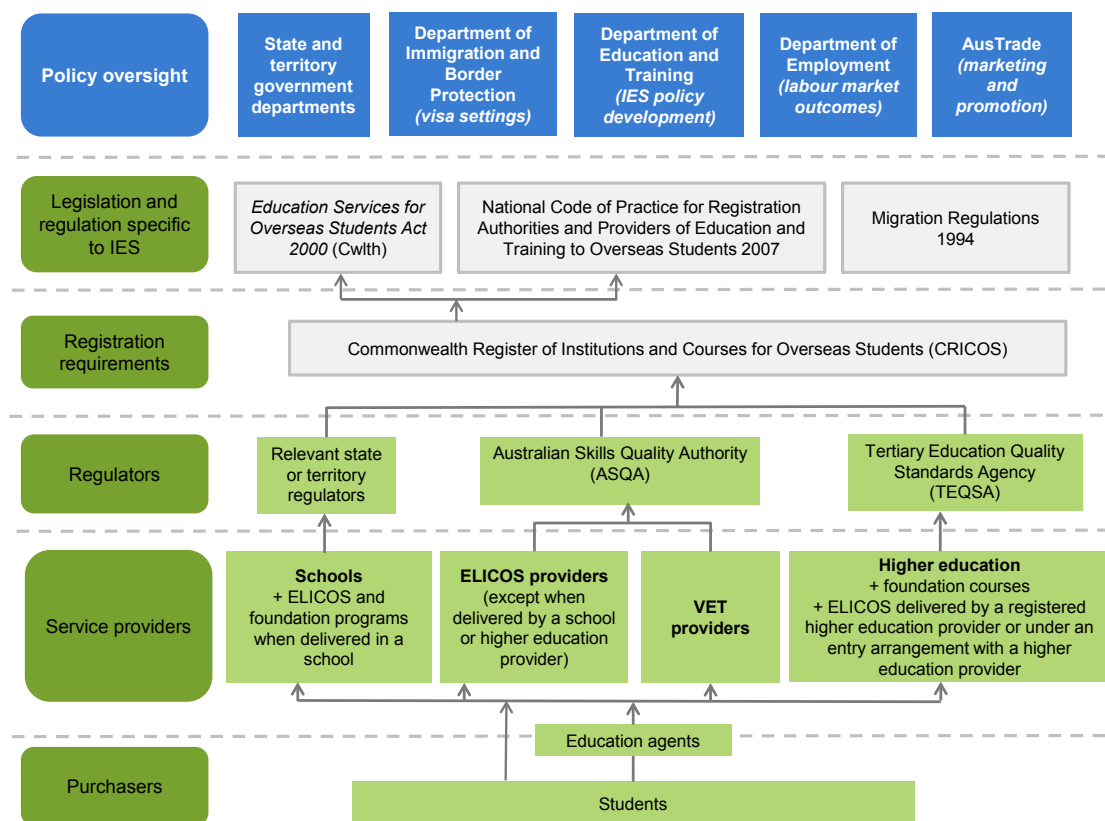
While it is not the intention of this report to quantify the net benefits of international education exports, the economic literature has generally found that international students bring broader benefits. For example, international students — and particularly postgraduate students — have been found to have positive impacts for innovative activity in the economy (Chellaraj, Maskus and Mattoo 2008; Stuenkel, Mobarak and Maskus 2012). Further, international students make a significant contribution to Australian society, diversifying and enriching communities, strengthening Australia's global networks and facilitating future research collaboration (ABS 2011).

1.2 Snapshot of the international education services sector

The sector is large and diverse

The IES sector is characterised by a complex network of institutions, government agencies, regulatory frameworks and other participants (figure 1.3).

Figure 1.3 **Policy and regulatory landscape for international education services**



The services undertaken as part of the sector — while focused on education — are broad and interconnected. Education is provided at a range of levels, in varied locations, through both public and private providers. It ranges from school level (primary and high school), through to ELICOS, VET and higher education both by coursework and research (figure 1.2; figure 1.4, panel a). Providers deliver courses to international students across a wide field of education sectors (table 1.1).

In 2014 there were just over 450 000 international students in Australia (DET 2015c). The number of total enrolments was higher at around 590 000 enrolments — reflecting that some students are enrolled in several courses concurrently (box 1.1; figure 1.4, panel b). About 5 per cent of all VET students are international students and around one fifth of all higher education students are international students (chapter 2).

Table 1.1 Number of courses and number of providers registered to deliver to international students by field of education^a

<i>Field of education</i>	<i>Courses</i>		<i>Providers</i>	
	<i>Number</i>	<i>Per cent</i>	<i>Number</i>	<i>Per cent</i>
Management and commerce	3 169	22.9	317	16.1
Society and culture	2 930	21.1	347	17.6
Engineering and related technologies	1 184	8.5	114	5.8
Health	1 065	7.7	111	5.6
Mixed field programs	1 070	7.7	453	22.9
Creative arts	899	6.5	120	6.1
Information technology	849	6.1	131	6.6
Natural and physical sciences	801	5.8	58	2.9
Food, hospitality and personal services	738	5.3	133	6.7
Education	480	3.5	86	4.4
Architecture and building	344	2.5	55	2.8
Agriculture, environmental and related studies	328	2.4	49	2.5
Total	13 857	100.0	1 974	100.0

^a Data as at February 2015.

Source: Department of Education and Training data 2015.

In 2014, the largest sub-sector for student enrolments was higher education (45 per cent of total international student enrolments), with VET the second largest sub-sector (25 per cent of enrolments) (figure 1.4, panel b). Of higher education international students, 81 per cent commenced with public providers, while only 15 per cent of VET international student commencements were with public providers (Austrade 2014b). The largest source country for international students was China, with 26 per cent of all international student enrolments in Australia, followed by India, with 11 per cent of total international student enrolments (figure 1.4, panel c) (DET 2014c).

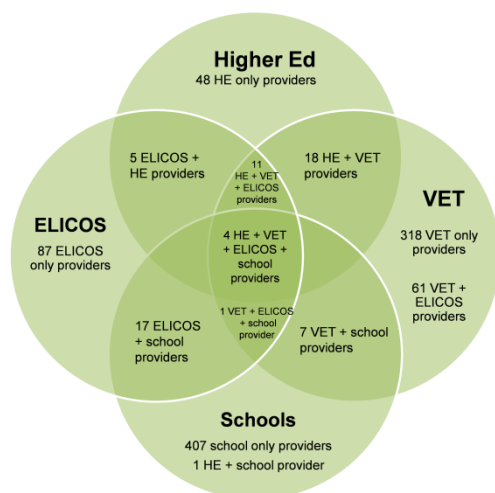
Transnational education may be delivered by an Australian institution based offshore or through a collaboration or partnership with local education providers. Offshore education currently represents just over one quarter of international education enrolments (figure 1.4, panel d).

The digital economy is also broadening the options available to those seeking an education with an international orientation. Technological advances have enabled the growth of ‘massive open online courses’ (MOOCs), as well as a wider range of teaching and study modes. The number and availability of MOOCs continues to grow but has so far not detracted from growth in traditional delivery modes.²

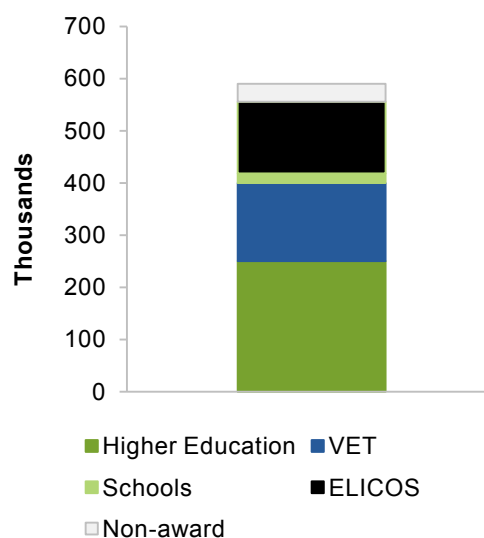
² MOOC providers include Khan Academy and Coursera, for example.

Figure 1.4 Profile of international education services

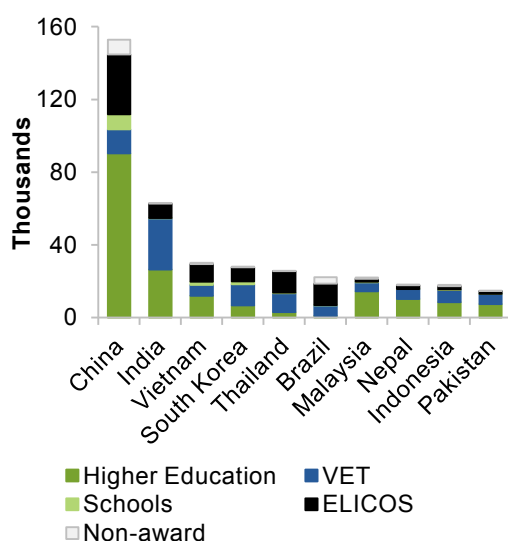
a. Number of international education providers, 2014^a



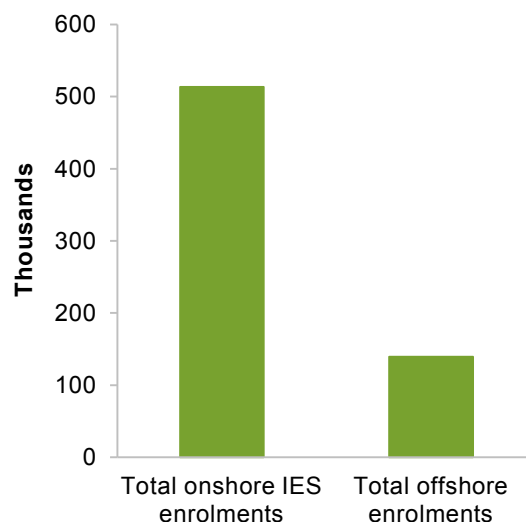
b. Number of students enrolled by sector, 2014



c. Student enrolment by source country, 2014



d. Student enrolments onshore and offshore, 2013^b



^a The diagram does not include around 70 providers in the higher education, VET, ELICOS and schools sectors that also offer 'other' courses. 'Other' courses are non-award courses such as foundation/entry requirement courses or study abroad courses. ^b Total offshore enrolments excludes distance education and private VET providers (for which accurate data are unavailable).

Sources: DET (2014c, 2014i); data from the Department of Education and Training.

Supporting the services provided by education institutions are other participants in the sector, such as education agents. Education agents identify prospective students for Australian institutions based in Australia and in competing countries, provide students with information about lifestyle, courses and education providers, assist students with enrolment and visa applications, and sometimes collect course fees on a provider's behalf (chapter 6).

Governance and promotion is through a range of organisations

A range of government agencies and regulators at different levels of government are involved in the international education sector, reflecting the Council of Australian Government's view that 'all governments are responsible for the international student experience' (COAG 2014, p. 2).

The *Education Services for Overseas Students Act 2000* (Cwlth) (ESOS Act) is the main legislation governing the sector and is designed to protect the interests of student visa holders. Australian Government agencies take a lead role in areas such as IES policy development (Department of Education and Training), visa policy settings (Department of Immigration and Border Protection), work opportunities (Department of Employment) and marketing the Australian brand (Austrade, through its Future Unlimited Study in Australia portal).

There are two national regulators of quality for the delivery of IES in the higher education, VET and ELICOS sectors³ — the Tertiary Education Quality and Standards Agency (TEQSA) and the Australian Skills Quality Authority (ASQA) (figure 1.3, chapter 4).

State and territory governments are intrinsically linked to the system, particularly as they fund and have ownership of many education institutions that teach international students. State or territory regulatory bodies remain responsible for the oversight of international students enrolled in schools. State and territory bodies (such as StudyNSW and Study Perth) market international education opportunities in their respective jurisdictions.

1.3 International education policy levers

Government involvement in international education

Government involvement in the IES sector is more ubiquitous than in many other sectors. This occurs for a number of reasons. Government itself is involved in the delivery of these services through the ownership of public education institutions.

³ In the VET sector, ASQA is the national regulator for all IES provided across Australia. For VET service providers that do not deliver IES, Victoria and Western Australia retain their own regulatory authorities, with ASQA regulating the rest of the country.

More broadly, there are inherent features of that market that prevent it from operating efficiently without government intervention. These include the information asymmetries between providers and students, which prevent students from fully assessing the value of the education service they are purchasing, and the scope for poor quality providers to taint the reputation of all providers and/or adversely affect the perceived quality of Australian qualifications.

Further, the flow of international students into Australia is of necessity subject to immigration policy settings. The temporary migration and work rights afforded by international education (via student visas) directly affects its attractiveness. Hence, immigration policy directly affects the demand for international education services. Further, while the supply of international education is an export business, the provision of education to international students is largely a joint product with the provision of education to domestic students (Johnston, Baker and Creedy 1997); indeed, many institutions purportedly use international student fees to cross-subsidise other activities such as research. To this extent, student visa policy settings can affect the financial viability of domestic education (more so in some segments than others) and can also affect (positively or negatively) the value of the qualifications of domestic students.

International education is also a pathway to permanent migration. While student visa policy settings should be set to achieve the desired short- and long-term immigration mix, governments can come under pressure from the international education sector to take their businesses into account. However, it is not the role of government to ensure a reliable supply of international students for the sector. Rather, an important role of government is to provide a stable and predictable policy and regulatory framework that supports behavioural responses by education providers, international students and other players that are consistent with broader immigration and education policy objectives, while enabling the market for IES to function efficiently and effectively within these objectives.

More generally, policies related to domestic education, notably in regard to quality, will spill over into the international education sector. The cost and quality of education services are key considerations for most students when choosing an international education provider. However, given the nature of education services and the information asymmetry between providers and purchasers, it is not easy for students to ascertain the quality of these services ex-ante. There is a role for government to support a regulatory regime that provides publicly available information on the relative quality of education services offered by providers, especially as poor quality providers can harm the reputation of other providers in Australia.⁴

Governments at different levels are also involved in promoting Australia (or particular regions within Australia) as a destination for international education. Such marketing has some ‘public good’ characteristics in that the benefits are able to be captured by any

⁴ Self-regulation and the private provision of quality indicators also have a role, but are unlikely to supplant the need for government regulation and supervision given the pervasive interactions across a range of policy areas in IES.

education provider in that destination, and it is not possible to exclude providers that benefit from the marketing but do not contribute to the costs.

While government involvement is motivated by a variety of factors, it is only warranted when the benefits to the entire community from such intervention outweigh the costs of that intervention.

Key policy levers — visa settings and quality regulation

A number of factors drive the demand for IES. These include income levels in source countries, fees and living costs, student visa policies in competitor countries, language of instruction and perceptions of quality, student safety and wellbeing. Some of these factors are outside the scope of Australian government policy (such as income levels in source countries). For others — such as the quality of the living environment, living costs and the availability of accommodation — government policy is an indirect mechanism through which to influence the IES sector.⁵

The Australian Government's two most significant and direct policy levers for enhancing the competitiveness of the IES sector are the student visa system and the regulation (and supervision) of quality in the delivery of IES. Over time, these levers have been adjusted, often in an attempt to rebalance the growth of the sector and to maintain the integrity of the system.

Visa arrangements

The student visa system is the main pathway to temporary entry into Australia for the purposes of study. The conditions attached to student visas are therefore an important driver of demand for Australian IES. As at 30 September 2014, there were around 390 000 student visa holders in Australia. However, not all international students are on a student visa. As English Australia noted, 'Non-student visa holders constituted a significant 38 per cent of all ELICOS student numbers in 2013' (comm. 1, p. 4).

A small proportion of international students studying in Australia on a student visa are funded through the support of scholarships. In some cases, scholarships are provided by the source country for its citizens to study overseas. The Australian Government also provides scholarships to international students to study in Australia, including through the Australia Awards and the Endeavour Scholarships and Fellowships (DET 2015a; DFAT 2014). These awards may involve a special visa class — the Foreign Affairs or Defence Sector visa (subclass 576).

⁵ The Commission has undertaken work in a range of areas which indirectly affect IES, including *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments* (2011); and *Housing Assistance and Employment in Australia* (2015b).

The conditions for granting a student visa include English language aptitude, academic performance and acceptance into a course of study, proof of sufficient financial support and a health assessment. Over time, many of these conditions have been reviewed and amended, often in response to trends in student numbers (box 1.2).

Streamlined Visa Processing (SVP) was introduced for the university sector in 2012 and has since been extended twice to a broader range of providers and courses. Under SVP arrangements, eligible students who are enrolled in a bachelor's degree, master's program, doctoral degree, advanced diploma or eligible exchange program at an eligible provider are subject to lower evidentiary requirements (particularly regarding English language proficiency and financial support) than what they may have been under the previous Assessment Level framework (figure 3.1, chapter 3), and a simpler visa processing system (DIBP, comm. 6).

The quality of education

The quality of education services is another key driver of student demand and underpins the long-term sustainability of the sector. Factors such as quality of teaching, quality of research and the reputation of institutions consistently rank among the most important factors for students in choosing an international education provider (chapter 2).

The Australian Government has the ability to influence the quality of the education system through the regulatory framework that governs the quality of education services provided to both domestic and international students. As with the visa system, the regulatory framework has been reformed over time, most recently with the establishment of two national quality regulators, ASQA and TEQSA (chapter 4).

1.4 The Commission's approach

This research paper is part of a series of research projects conducted by the Commission on topics of significant national interest. As with other research undertaken by the Commission, the analysis in this report has been underpinned by the overriding objective of increasing the welfare of the Australian community as a whole.

Box 1.2 The sector is highly reviewed

Reviews currently underway

- The Australian Government has released for consultation the *Draft National Strategy for International Education*. The strategy is intended to drive a coordinated approach to sustaining growth in Australian international education.
- The Department of Immigration and Border Protection (DIBP) is currently examining the efficacy of the current Streamlined Visa Processing (SVP) arrangements, exploring potential options for further simplification and deregulation while maintaining high levels of immigration integrity.
- A review of Border Fees, Charges and Taxes is focusing on identifying where the border charging arrangements can be improved to better support future border operations. The review is led by Australian Customs and Border Protection Service and DIBP, and will be conducted jointly with the Department of Agriculture.⁶
- The Department of Education and Training is reviewing the *Education Services for Overseas Students Act 2000* (Cwlth) and the associated National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students 2007.
- The DIBP is currently undertaking a review of the framework and effectiveness of the skilled migration and temporary activity visa programs.
- The Government has asked the Productivity Commission to undertake a broad-ranging inquiry into Migrant Intake into Australia. The inquiry is due to report in March 2016.

Recent reviews

- The *Strategic Review of the Student Visa Program* (Knight Review) was conducted in 2011. It examined several aspects of student visa policy, including: the Assessment Level system and risk management; post-study work rights; streamlined processing; and positive externalities of higher degree (postgraduate) students. The Government agreed in principle with all the recommendations and has since introduced a number of major changes such as SVP.
- The *Australia — Educating Globally* report, conducted by the International Education Advisory Council, and chaired by Michael Chaney, was released in February 2013. This broad review assessed aspects such as: coordination; quality; the Student visa program; and data analysis. The Australian Government's response to the Chaney report is included in the *Draft National Strategy for International Education*, which was released in April 2015.
- The *Stronger, simpler, smarter ESOS: supporting international students* (Baird Review) was released in February 2010 and reviewed the regulatory framework around the delivery of education to overseas students in Australia. The Government has since made a series of reforms in response to this report, including the strengthening of registration requirements of education providers and introducing the Tuition Protection Scheme.

Sources: ACBPS (2014); Australian Government (2015a); Baird (2010); Chaney (2013); DET (2014f); DIBP (2015a); Knight (2011).

⁶ From 1 July 2015, the Department of Immigration and Border Protection and the Australian Customs and Border Protection Service will be consolidated into a single Department of Immigration and Border Protection.

Scope and structure of the report

This report focuses on the two key policy levers the Government has at its disposal to influence IES: the visa system and regulation aimed at providing quality assurance in the delivery of education to international students.

The structure of the reports is as follows:

- key trends in the market for IES are outlined, including movements in the global IES market and developments in the Australian IES sector (chapter 2)
- Australia's student visa policy settings, and the use of visa settings as a policy tool in IES are examined, with a particular focus on SVP (chapter 3)
- the quality of IES and the role of regulation is reviewed. This includes an assessment of the regulatory framework, recent policy changes and areas of concern (chapter 4)
- an alternative framework for student visas which brings together immigration risk and provider quality risk is proposed (chapter 5)
- looking beyond the visa system, the role of education agents in the Australian IES sector and the related implications are examined (chapter 6).

How the Commission conducted the project

The Commission has contacted and consulted widely with relevant stakeholders, including education institutions, relevant peak organisations, student representatives, government agencies and other organisations involved in the sector (a list of consulted parties is available at appendix A).

The consultation process included a roundtable held in Melbourne on 4 December 2014. The roundtable discussion sought industry perspectives on IES. It focused on the specific issues of student visas and quality regulation and was an opportunity to discuss other policy relevant factors that affect IES.

The Commission has sought public comments from participants, and has made these available on the study website. During the course of the study it received comments from eleven participants.

2 Trends in international education services

Key points

- Global demand for international education services (IES) has been strong. Growth in demand has mainly come from middle income and populous Asian countries, notably China and India.
- A range of factors drive this demand, including the quality and reputation of educational opportunities, economic factors, English-language instruction, a variety of costs and whether they can be met through work rights, and student visa policy settings. Geographic proximity and local migrant communities also matter for some students. Some of these factors are more amenable to policy leverage in host countries than others.
- Australia and the UK have relatively higher shares of international student enrolments than the US and Canada. The flow of international students appears to have responded to policy changes in these ‘top 4’ English-speaking destination countries.
- Competition in the provision of IES has been increasing globally. Newly emerging suppliers include China, Japan, New Zealand, South Africa, South Korea, the Russian Federation, Singapore and the United Arab Emirates .
- Onshore, the Australian IES sector has experienced steady growth over the past decade, albeit with some setbacks. It has recovered from a major downturn in 2009 but the extent of the recovery differs between the higher education, vocational education and training (VET) and English language courses for overseas students sectors.
 - Reflecting global patterns, most of the growth in Australia’s international students between 2002 and 2013 was from China, followed by India and Vietnam.
 - International students are concentrated in New South Wales and Victoria. Some jurisdictions (the ACT, South Australia, Victoria and Tasmania) have higher proportions of IES as a share of exports than others.
- While offshore IES enrolments have grown, its rate of growth has been slower than onshore.
 - About one quarter of IES students are located offshore. Of these, most (around 70 per cent) are studying in the higher education sector. In the VET sector, private VET providers have a higher proportion of international students onshore while the opposite is true for public VET providers.
 - Transnational education providers are vulnerable to changes in regulatory settings in other countries.

2.1 Global trends in international education services

Demand for international education services has been strong

Alongside the growth and internationalisation of the market for skilled labour, increasing numbers of students are mobile worldwide. This movement has been accompanied by growth in the size of the post-secondary international education market.

Since 1975 the number of students enrolled outside their country of citizenship has grown more than fivefold — from around 0.8 million to over 4.5 million by 2012 (OECD 2014a). Further, between 2000 and 2012 the number of foreign tertiary students⁷ enrolled worldwide more than doubled with most of them going to Organisation for Economic Cooperation and Development (OECD) countries (figure 2.1, panel a). Similarly, internationally mobile tertiary students (a subgroup of foreign students) experienced strong growth, with an average annual growth rate of 5.5 per cent over the same period.

Worldwide growth in education has also been strong (The World Bank 2013). However, as only around 2 per cent of the world student population is internationally mobile every year (de Wit, Ferencz and Rumbley 2013; UIS 2014d), the surge in international student numbers largely reflects the worldwide growth in education.

Strong demand growth from middle income and populous Asian countries

Growth in tertiary education enrolments has been highly correlated with growth in gross domestic product (GDP) per person (British Council 2013). Given Asia's relatively fast rate of economic growth and that it represents around 60 per cent of the world's population, most of the growth in international tertiary students has largely come from this region (figure 2.1, panel b). Reflecting this, strong growth in international students has occurred among students from developing countries, particularly middle and upper middle income countries (figure 2.1, panel c).

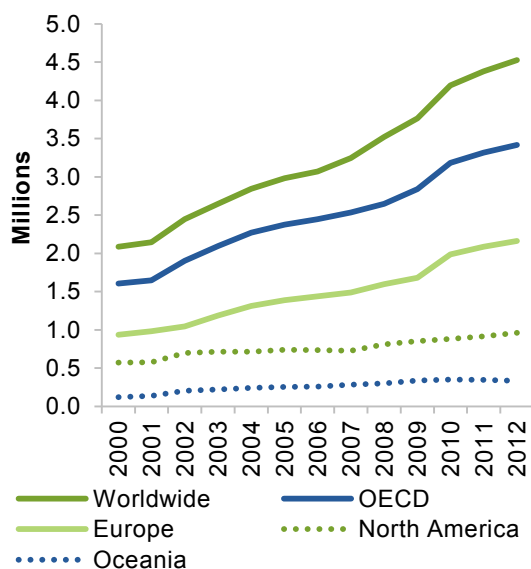
Within Asia, between 1999 and 2012, the number of outbound tertiary students from China eclipsed all other nations. Next in size has been India and South Korea (figure 2.1, panel d).

Alongside the growth in demand associated with the rapid increase in 'wealthy middle class numbers' in India and China (Gregory 2014), other high economic growth populous countries have included Mexico and Brazil (Choudaha and Chang 2012) as well as Russia (British Council 2013).

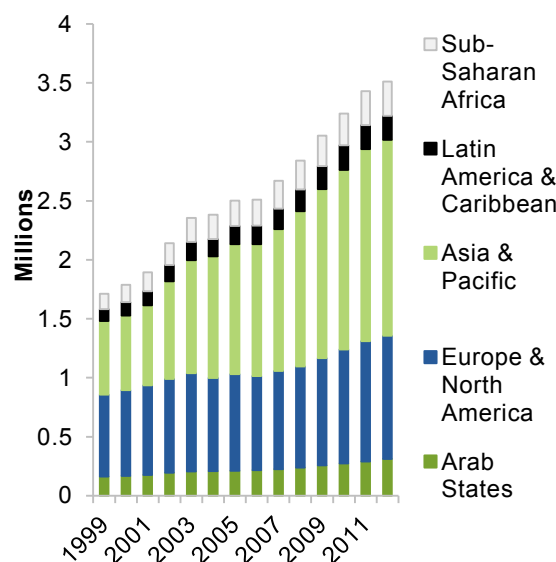
⁷ The OECD defines international students as those students who have crossed a national border to study, or are enrolled in a distance learning program abroad. They are not residents or citizens of the country where they study. They are a sub-group of foreign students — a category that includes those who have permanent residency in the host country. For this reason, the number of foreign students, globally, tends to be higher than the number of international students (UIS 2014d).

Figure 2.1 Worldwide mobility of international tertiary students

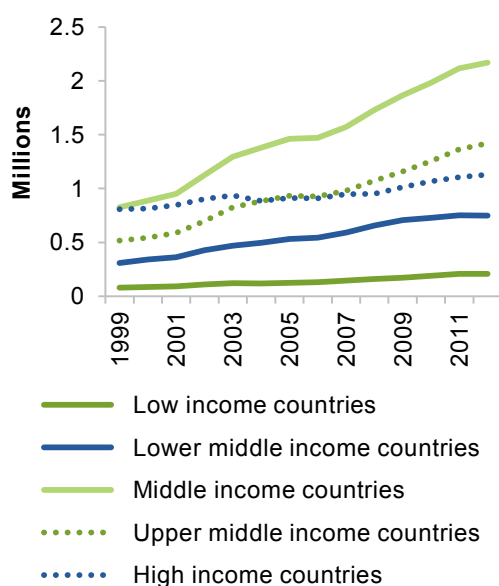
a. Tertiary students enrolled outside their country of citizenship by destination region



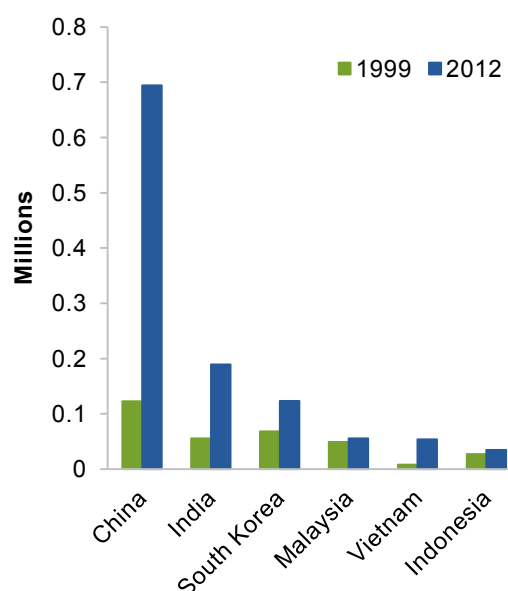
b. Outbound internationally mobile tertiary students by region of origin^a



c. Outbound international tertiary students by income status of country of origin^b



d. Outbound international tertiary students by selected Asian countries



^a Based on the UNESCO's Global Education Digest regions. ^b Based on World Bank income groupings.
Sources: OECD (2014b); UNESCO Institute for Statistics (2014c).

Enrolments in advanced research programs have grown in prominence

In 2012, on average across OECD countries, international tertiary student enrolments represented around 23 per cent of advanced research enrolments, 8 per cent of bachelor's or master's degree enrolments and 6 per cent of (largely) vocational education and training (VET) enrolments (OECD 2014a).⁸ In 2005, the respective percentages were 16, 7, and 4 per cent.

Within mainly English-speaking countries the proportion of international students within each type of tertiary level program varies. For example, in 2012 in New Zealand, international students represented 21 per cent of those undertaking VET programs compared with 11 per cent in Australia (figure 2.2, panel a). And in the US, for example, international students studying bachelor's and master's degree programs as a proportion of total enrolments in these programs was much lower than the comparable proportion undertaking advanced research programs (3 per cent compared to 30 per cent). The comparable figures for Australia were 20 and 33 per cent while the figures for the OECD average were 8 and 23 per cent.

International students enrolled in advanced research programs (principally doctorates) generally constitute the largest proportion of international student enrolments, and that proportion has grown over the period 2005 to 2012 (figure 2.2, panel a). For example, annual average growth rates in the proportion of international students enrolled in advanced degree programs in Australia and New Zealand were 9 and 14 per cent, respectively. Comparable rates over the same period for the UK, US and OECD were 0.3, 2.8 and 4.8 per cent, respectively. However, the ratio of the proportion of enrolments in advanced degrees by research to the proportion of enrolments in bachelor's and master's degree programs remains lower in Australia than in comparable countries.

Differential growth rates between countries were also observed in VET tertiary programs. For example, the proportion of international students enrolled in these types of courses increased by an annual average of 7 per cent in Australia but fell on average by 9 per cent per year in the US.

... while the distribution of students by field of study has remained relatively stable

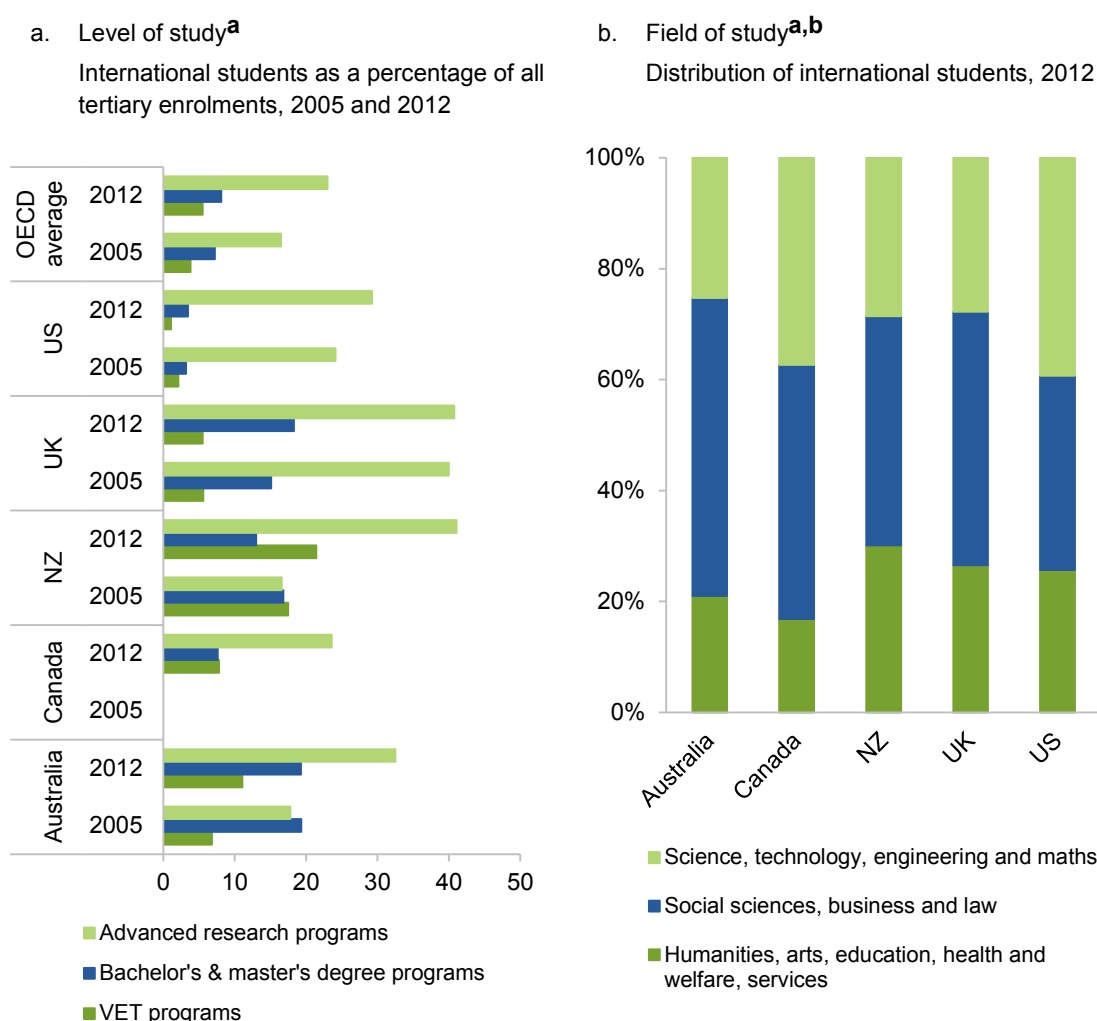
The main subject areas studied by international students also varies across countries. For example, in 2012, the share of international students undertaking science, technology, engineering and mathematics (STEM) courses was relatively high in the US and Canada (see also Ruiz 2014). By contrast, more than half of Australia's international students

⁸ The OECD classify these as tertiary-type A, tertiary-type B education and advanced research programs, respectively. These classifications are equivalent to 1997 International Standard Classification of Education (ISCED) 5A, 5B and 6, respectively (UNESCO 1997). In 2011 the ISCED was revised and ISCED 5A was separated into two categories: ISCED 6 (bachelor's degree or equivalent) and ISCED 7 (master's degree or equivalent). ISCED 5B became ISCED 5 (short-cycle tertiary education) and ISCED 6 became ISCED 8 (doctoral or equivalent).

undertook social science, business and law courses (figure 2.2, panel b), mostly in business-related courses (section 2.2).

The distribution of international students in mainly English-speaking countries by field of study has changed little since 2005. The main exception was in New Zealand, where the proportion of international students studying social sciences, business and law fell from 60 to 39 per cent between 2005 and 2012.

Figure 2.2 Enrolment patterns of international tertiary education students in mainly English-speaking OECD countries



^a No data is available for Canada in 2005 and 2012 data for Canada refers to 2011. ^b Includes all tertiary programs.

Sources: OECD (2007, 2014a).

A range of factors affect international student demand

Worldwide, student mobility has largely mirrored inter- and intra-regional migration patterns (OECD 2014a).

Purchasing an international education service (IES) can provide an opportunity to acquire valuable human capital in an increasingly globalised world. In some countries, international education forms an important pathway to permanent migration. For example, as a result of acquiring skills that are needed and recognised in the destination country, some international students may become permanent migrants (either in their country of study or a third country). For many host countries, including Australia, international students represent a major source of skilled migrants (Kahanec and Kralikova 2011; Azarias et al. 2014; Gregory 2014). This suggests that for those countries who wish to retain some international students as permanent migrants, it is important to attract the best quality students studying the most relevant curricula to suit the country's needs.

Some of the factors affecting the demand for education services by international students are intertwined with those factors which shape the demand for permanent migration, including the relative costs and benefits of migration and the relative strictness of immigration laws (Gregory 2014; Ortega and Peri 2009; PC 2011; She and Wotherspoon 2013; Wei 2013). While the potential for obtaining permanent residency in the host country may be a key factor in the choice of study destination (Blackmore et al. 2014; Tremblay 2005), for those who are principally seeking an educational outcome rather than a permanent migration outcome, other factors affecting their choice of study destination include:

- the quality of educational institutions, their reputations and course offerings. A significant 'push' factor may also be the lack of education opportunities in the student's source country (Capuano 2009)
- the language of instruction, with English commonly viewed as the 'lingua franca' (see also Lasanowski 2011)
- student visa policy settings in prospective host countries (Kato and Sparber 2013; HM Government 2013)
- presence of support networks (mainly through the presence of local migrant communities) (Beine, Noël and Ragot 2013; Perkins and Neumayer 2014)
- a range of costs, such as the cost of living in the destination country, tuition fees and visa fees (Iyanna 2012)
- the ability of the student and their family to fund these costs, including whether they can be offset through the ability to exercise work rights (including by their partners) during and after completion of their course of study (see also McGill 2013)
- distance from their home country (with longer distances considered a deterrent) (OECD 2014a)
- their wellbeing and safety in the destination country (Reilly 2012; Nyland et al. 2013)

-
- the returns to investment in skill (Beine, Noël and Ragot 2013; Perkins and Neumayer 2014; Wei 2013)
 - a range of ‘other’ factors such as geographical, trade or historical links and the like (Kahanec and Kralikova 2011; OECD 2014a).

The relative importance of factors is contingent on individual circumstances and motivations

To varying degrees and at various times, all of these factors have shaped students’ demand for IES in different countries. For example, in their analysis of higher education international student flows, Kahanec and Kralikova (2011) found:

... it is mainly the quality of the higher education as well as the availability of programs in English as the language of instruction that drive inflows of international students. (p. 9)

The importance of educational quality was echoed in the results of Beine et al. (2013), who examined factors influencing international students’ study preferences in 13 OECD countries between 2004 and 2007. They found that the number of students travelling from origin to destination country was determined by broader patterns of migration and destination-specific factors such as the quality of education institutions (proxied by the number of universities in each country in the Shanghai 500 rankings), living costs and host country capacity. They also found that some types of costs (such as accommodation expenses) mattered much more than others (such as registration fees). And Wei’s (2013) study — based on 48 countries and regions (including Australia) between 1999 and 2008 — found that education quality (primarily when measured in terms of higher education expenditure as a proportion of GDP but also when measured as student-teacher ratio of higher education and, the higher education enrolment rate) was also a significant factor affecting international student demand.

While the role of quality in attracting students appears highly relevant, the means by which students assess quality is less clear. For example, based on UK data, Soo (2013) found that university rankings did not appear to influence international student applications, suggesting word-of-mouth recommendations were more influential. Australian-based research also points to the importance of word-of-mouth advice (Abubakar, Shanka and Nkombo-Muuka 2010). Social media is playing an increasingly important role in transmitting this type of intelligence.

Alongside the quality of education, economic factors are also important, although the significance of this differs between groups. For example, Wei (2013) found students from developing countries (which comprise the largest share of Australia’s source countries) put more weight on economic factors than their counterparts from developed countries, where economic factors included trade flows and the gap between GDP per person in the source and destination country. Reaffirming the strength of economic factors, in a study based on Australian data, Chowdhury (2012) found a stable long run relationship between education services exports and the real exchange rate, terms of trade, real income of top 10 education

importers of Australia and openness of the trade regime. And, based on a multi-country study of enrolment patterns of tertiary students between 2004 and 2009, Perkins and Neumayer (2014) found per person income in the destination country was among the top factors influencing international student mobility.

While noting the prominence of English-language instruction as an increasingly important aspect of demand, data from the OECD (2014a) show that some international students prefer to study in countries with the same native tongue (such as those from mainly Portuguese or Spanish speaking countries). Similarly, Perkins and Neumayer (2014) found that the presence of a common language (rather than English-language teaching or educational quality) was one of the top factors influencing international student mobility.

Some work has also been done on the impact of visa policy settings on student demand. For example, Commission staff previously identified visa restrictions as one of a number of barriers to IES (Nguyen-Hong and Wells 2003). They found that Australia had moderate to relatively high restrictions on the export of education services from visa entry and registration requirements that related only to education exports. In the US, Kato and Sparber (2013), found that the US' decision in 2003 to 'drastically' reduce the number of H-1B visas — which allow temporary employment of foreign workers in specialty occupations — reduced the quality of applicants, as measured by the Scholastic Assessment Test (SAT) scores of international student applicants. Most recently in Australia, the Centre for International Economics (CIE 2014) investigated the effects of Streamlined Visa Processing (SVP) and post-study work rights on student numbers in New South Wales. Although they only examined visa applications for higher education, the CIE's econometric analysis found that the introduction of SVP was responsible for a 19 per cent increase in demand, while policy changes to post-study work rights was responsible for an 11 per cent increase in higher education visa applications.

Geographic proximity also matters for some international students. Cost factors, along with the ability of students from neighbouring countries to more easily discern institutional quality, are thought to underlie the high proportion of foreign students in OECD countries who come from neighbouring countries (OECD 2014a).

In all OECD countries, in 2012, an average of 21 per cent of all foreign students came from countries that share land or maritime borders with the host country. (OECD 2014a, p. 351)

Lower travel costs and cultural familiarity are thought to underpin the observation that students have been increasingly favouring destinations within regions (UIS 2014d). For example, the confluence of cultural affinity, location and educational quality has seen Malaysia attract a sizable cohort of international students from the Arab states (Ramia, Marginson and Sawir 2013).

The presence of support networks in the form of local migrant communities also has an influence on preferences. For example, Beine et al. (2013) calculated the implied subsidy rate provided by a local migrant network at around 49 per cent for Australia, with similar subsidy equivalents found in Canada, New Zealand, the UK and the US. And Perkins and

Neumayer's (2014) study found the presence of relational ties from colonial links and/or pre-existing migrant stocks was among the top factors influencing student demand.

The safety and wellbeing of students while abroad can also sway choice of destination country. The Commission heard that this aspect was a strong drawcard for international students considering Australian IES. For example, the 'bad press internationally over instances of violence towards Indian students' (Blackmore et al. 2014, p. 8) in Victoria in 2009 appeared to discourage the subsequent enrolment of Indian students. In recognition of the significance of this factor, many institutions provide accommodation assistance and support for international students — for example, the Australian National University's accommodation guarantee for first year, first semester international students (ANU nd).

Large national scholarship programs can also influence choice of destination country among international students. For example, the World Education Service (WES) stated:

Since 2006, the growth of students from high-income and non-OECD countries such as Russia, Saudi Arabia, Singapore and the United Arab Emirates has largely been driven by government scholarship initiatives such as the King Abdullah Scholarship Program and the Brazil Scientific Mobility Program. (WES 2015, p. 2)

Some factors are more amenable to the influence of policy levers than others

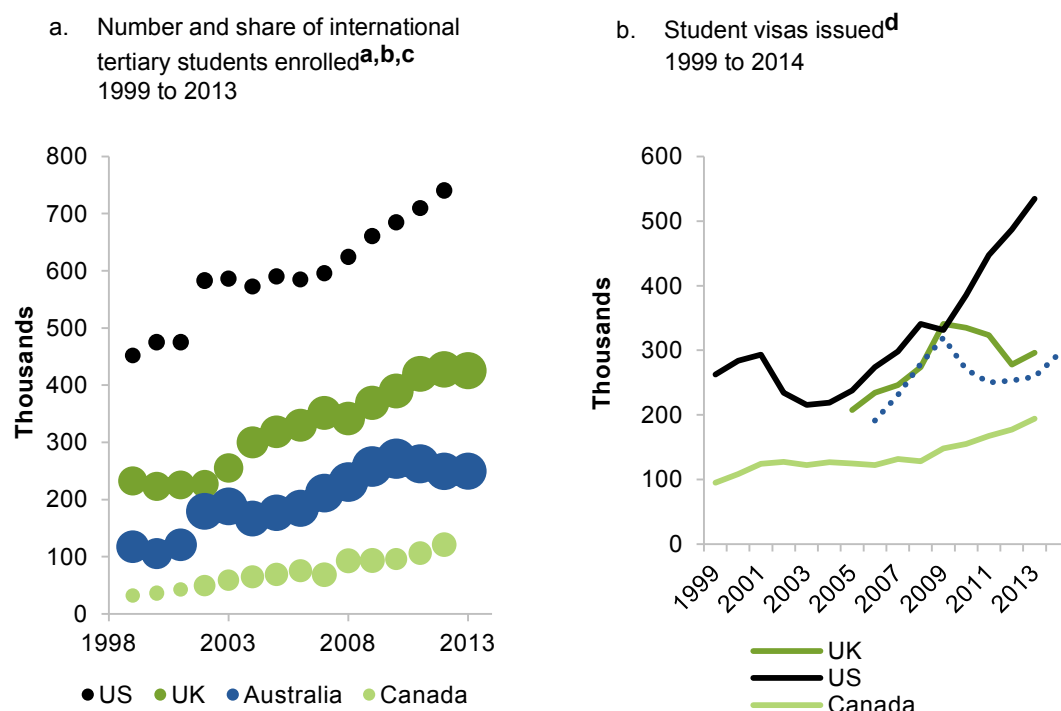
Some factors (such as language, geographic location, climate, access to education in the source country, and historical links) are not readily influenced by changes to policy settings in destination countries. However, other factors, particularly temporary and permanent migration policy and visa settings, the quality of education services and the safety and wellbeing of students are more amenable to government influence.

Four English-speaking destination countries have all experienced growth

Four English-speaking destination countries — the US, the UK, Australia and Canada — dominate the global IES market with shares of 16, 13, 6 and 5 per cent respectively (OECD 2014a). They have also experienced similar growth patterns (Choudaha and Chang 2012; figure 2.3, panel a).

While the US remains the leading destination for international students globally, international tertiary students as a proportion of total enrolments have remained modest (around 3 per cent over the period 1999 to 2012) (figure 2.3, panel a). In contrast, Australia and the UK do not host as many international tertiary students as the US, but the share of international tertiary students in these two countries is much larger. For example, international students as a proportion of total tertiary enrolments within Australia grew from 14 per cent in 1999 to 18 per cent by 2013 (peaking at 21.5 per cent in 2009). In the UK, the comparable share grew steadily from 11 to about 18 per cent (figure 2.3, panel a).

Figure 2.3 Growth in main English-speaking destination countries



^a Bubble size reflects the share of international students in total tertiary enrolment. ^b Due to missing data across several years in Canada, Choudaha and Chang's (2012) estimates of the percentages were used for the period 2002 to 2009. ^c Commission estimates for 2013 were based on unpublished data provided by the Department of Education and Training (for Australia) and published Higher Education Statistics Agency data for higher education (rather than tertiary education) for 2012-13 (for the UK). As such the UK 2013 estimate is not strictly comparable with the data for previous years, caution should be exercised in interpreting this estimate. ^d Data for the UK includes student visitors. US data is based on F-1 visa class. Data for Canada is international students with valid permits signed in the current year. Australian data is based on visa subclasses 570 to 576 inclusive and relates to financial year.

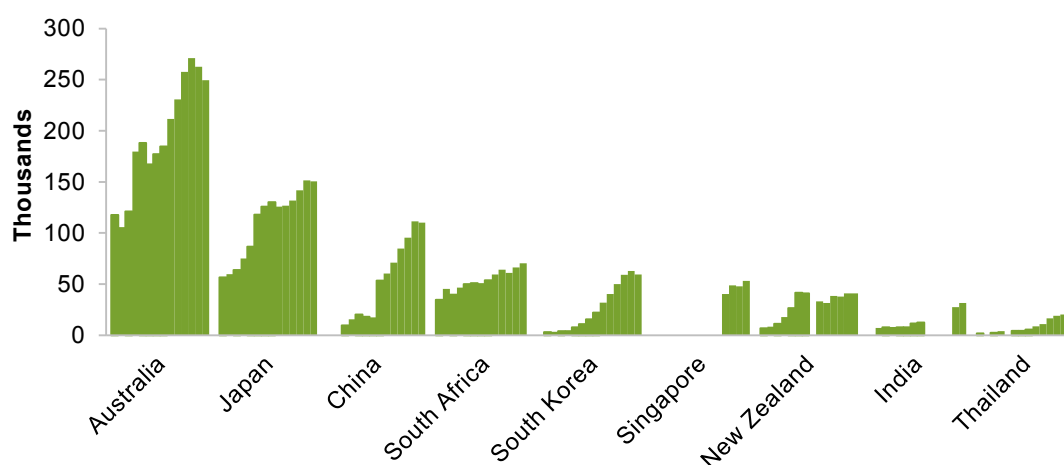
Sources: Choudaha and Chang (2012), p. 8; OECD (2014b); UIS (2014b); Government of Canada (2014); Higher Education Statistics Agency (UK) (nd); US Department of State (nd); HM Government (UK) (2014); and DIBP (2015b).

Moreover, the trends in figure 2.3 (panel b) suggest that international students appear to have responded to policy changes in these 'top 4' English-speaking destination countries. For example, the downturns observed in tertiary enrolments and in student visas appear to be correlated with the tightening of visa requirements in the US following the 9/11 disaster in 2001 and the introduction of stricter policies in the UK around 2009 (Bhandari and Blumenthal 2011; WES 2015). Further, the downturn in Australian student visas granted and in tertiary enrolments from 2009 occurred at a time when several policy changes coincided with safety concerns surrounding Indian students and the closure of some education providers (Koleth 2010; Birrell and Healy 2010).

... but there are a number of newly emerging suppliers

A range of ‘new’ countries have experienced strong growth in the provision of IES, including the Russian Federation and the United Arab Emirates (UIS 2014d). Other emerging destination countries neighbouring Australia have also experienced strong growth in international students, including Japan, China, South Africa, South Korea, Singapore and New Zealand (figure 2.4).

Figure 2.4 Number of inbound internationally mobile tertiary students in selected countries^{a,b}
1999 to 2012



^a Missing data for some countries result in discontinuous series. ^b China includes Hong Kong and Macau. As the data for mainland China is missing prior to 2006, the earlier part of the series relates only to inbound students to Hong Kong and Macau.

Source: UIS (2014a).

The emerging Asian economies in particular provide a source of competition for the ‘top 4’ destination countries (Bhandari and Blumenthal 2011; Hall and Hooper 2008). For example, just as English-taught courses are common in many non-English speaking European countries, this trend is also occurring in other Asia-Pacific nations such as South Korea (The Observatory on Borderless Higher Education 2007). Further, Lasanowski (2011) argued that other languages — such as Arabic, Spanish and Mandarin — are beginning to challenge the dominance of English as the primary global language, in turn reducing the attractiveness of English-speaking destination countries for international students. She concluded that Malaysia and Singapore, as well as aspiring regional education ‘hubs’ in the Middle East, are well positioned to take advantage of these likely transformations in global languages.

Transnational education has been growing too

IES may also be delivered offshore, for example, through a physical presence, via partnerships with foreign education providers, correspondence programs and the electronic transmission of lectures and programs overseas (Industry Commission 1991). While technological advances have also enabled the growth of so-called massive open online courses (Daniel 2012), the high dropout rates, course quality and student assessment remain key challenges (Hew and Cheung 2014).

Reliable data on the global scale of offshore or transnational education are not as readily available as onshore data. However, based on an examination of UK and Australian data (the two leading providers on the international stage) and the US, WES (2012) concluded that transnational education was significant and growing. Qian (2013) also pointed to predictions that growth in offshore IES would ultimately outstrip growth onshore.

UK data show the number of international students studying ‘wholly overseas’ for a UK higher education qualification is growing — from around 408 500 in 2009-10 to almost 637 000 by 2013-14 (HESA nd), representing an annual average growth rate of 10 per cent. Indeed, in 2012-13 offshore students comprised 58.5 per cent of the UK’s international student population studying in the higher education sector (HESA 2014a). Of these, most (87 per cent) studied outside of the European Union (EU), with the largest numbers of offshore students observed in Malaysia, Singapore, China and Pakistan (which between them accounted for one third of all offshore students). Among those students studying outside the EU, the majority studied with a partner organisation of a British university (HESA 2014b). In 2013-14, most (80 per cent) of UK’s offshore students studied for a degree course (HESA nd).

WES (2012) also pointed to Australian data which showed rising numbers of transnational education students — with almost one third of Australia’s international students studying for an Australian higher education qualification doing so offshore in 2010 (see below) — and a US report which noted the increasing popularity of joint and dual degree programs as a method of internationalisation among many US universities, albeit mostly at the undergraduate level. WES (2012) also noted that US universities lead the way with respect to the number of international branch campuses located offshore.

Provision of offshore education is often subject to additional regulations and restrictions compared with onshore provision of IES, bringing with it added risks for providers when regulatory settings in other countries change. For example, the tightening of the regulation of foreign education partnerships in China was reported to have resulted in ‘cutbacks and delays for joint vocational training programs’ among Australian technical and further education (TAFE) providers (Murray and Dodd 2015, p. 11). The UK Government has also noted other regulatory hurdles when dealing with China. For example:

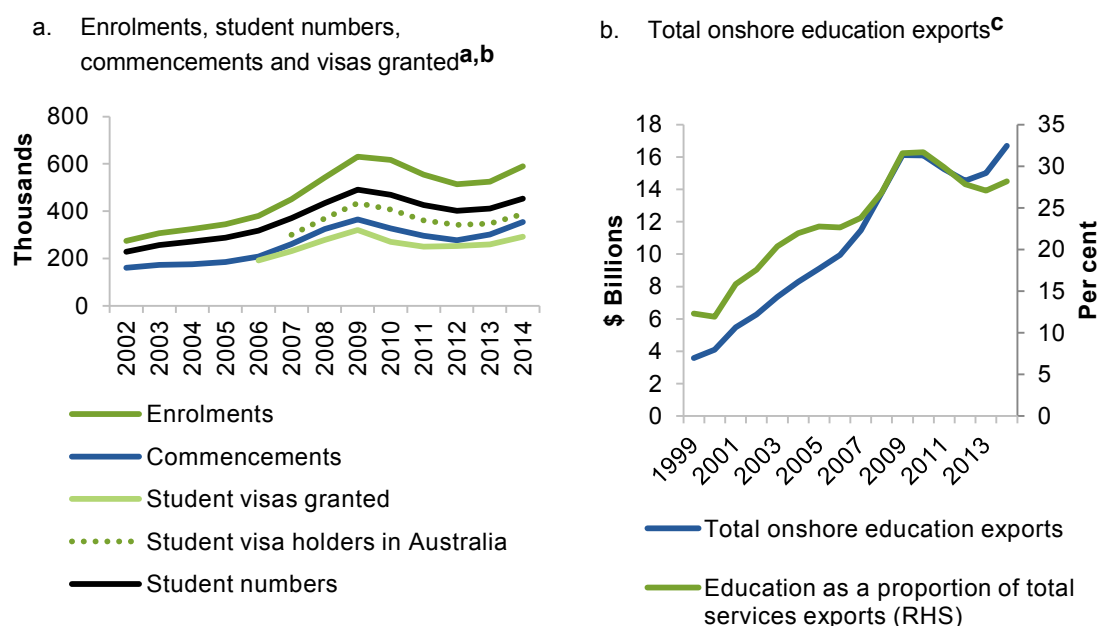
As UK [Further Education] colleges are autonomous, the Chinese Ministry of Education often does not accept colleges as legitimate despite UK domestic accreditation. (HM Government 2013, p. 79)

2.2 Trends in Australian international education services

Steady growth in student numbers with some setbacks along the way

Whether measured in terms of the stock of international students (measured by enrolments or student numbers) or their flows (measured by commencements and student visas granted), international students numbers have been trending steadily upwards since 2000. That said, both the stock and flow of international students declined following a peak in 2009 but since 2012 the growth rates of enrolments and commencements have exceeded their annual trend rate of growth (between 2002 and 2014) of around 6.7 per cent (figure 2.5, panel a). For example, the average annual growth in enrolments between 2012 and 2014 was 7.2 per cent while the corresponding figure for commencements was 13 per cent. The upshot of these strong growth rates in commencements is that international student enrolments in 2014 are above those projected in the Chaney Review's (2013) high growth scenario for that year.

Figure 2.5 The growth of international students in Australia



^a Visas granted is based on financial year and includes small numbers who do not take up their grant of visa and re-grants of visa as a result of a change in provider. Student visa holders in Australia are as at 30 September. Visa data includes primary and secondary (spouse and children) applicants. ^b Estimates of student numbers are based on onshore students on student visas and were provided by the Department of Education and Training. ^c Of the four modes in which a business can export services, onshore education exports is effectively mode 2 (consumption in Australia). Expressed in nominal values.

Sources: DET (2015b, 2015c); DIBP (2015b, 2015c); ABS (2015).

Similar patterns are observed when export values are examined. Australian Bureau of Statistics' (ABS) International Trade in Services data show IES (onshore) export values have been on an upward trend since 2000, reaching just over \$16 billion or almost one third of the value of total services exports in 2009 (figure 2.5, panel b). Following a decline in 2009, income from IES exports turned around in 2013 reaching \$16.7 billion in 2014. Over the period 1999 to 2014, this represented an average annual growth rate of 10.6 per cent.

It is important to recognise, however, that income generated from international students should not be equated with profit (ICAC 2015) or the presence of a net benefit to society (see also Johnston, Baker and Creedy 1997).

In 2014, around 9 per cent of all international student enrolments in Australia were in the non-award and schools sectors. Consequently, the focus of this report is on the three sectors which attract the bulk of international students: higher education, VET and English language intensive courses for overseas students (ELICOS).

Different growth patterns observed in higher education, VET and ELICOS sectors

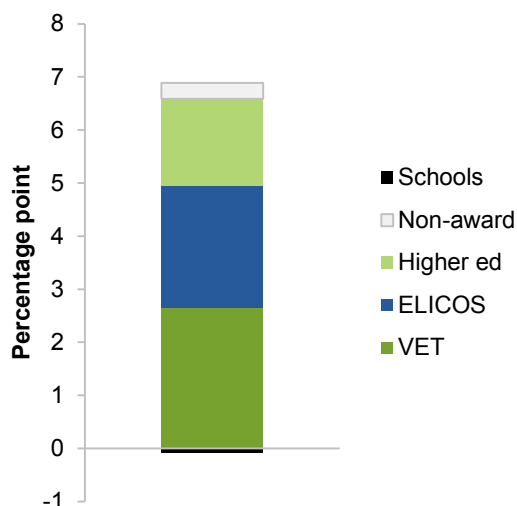
Measured in percentage points, the VET, ELICOS and higher education sectors accounted for virtually all of the 6.8 per cent average annual growth in commencements between 2002 and 2014 — with the small decline in commencements in schools offset by the modest increase in the non-award sector (figure 2.6, panel a).

However, the pattern of growth in the higher education and VET sector has differed over the past decade. For example, between 2005-06 and 2009-10, growth in VET student visas and commencements was steeper than higher education (with annual average growth rates of 51 and 12 per cent, respectively). Similarly, between 2008-09 and 2011-12, the fall in average annual growth rates of VET student visas granted was sharper than that experienced by higher education visas (12 per cent compared with 5 per cent, respectively). And the most recent recovery patterns have differed too (see below and figure 2.6, panels b and c).

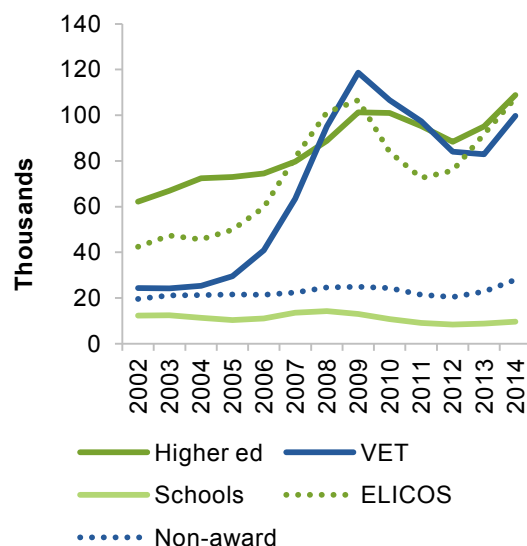
Various stakeholders have argued that the steep growth in VET commencements and enrolments until 2009 was largely the unintended consequence of student demand for courses that could yield a 'back door' permanent residency outcome (through the Migration Occupations in Demand List) (DIBP, comm. 6). This 'back door' provided an incentive for some privately owned registered training organisations to offer cheap, low-quality courses, particularly in hairdressing and cooking (Birrell, Healy and Kinnaird 2007; Robertson and Runanaikaloo 2013). Consequently, many students were willing to pay hefty fees in return for poor teaching, living and working conditions so as to reach their goal of permanent migration.

Figure 2.6 The growth of international students in Australia

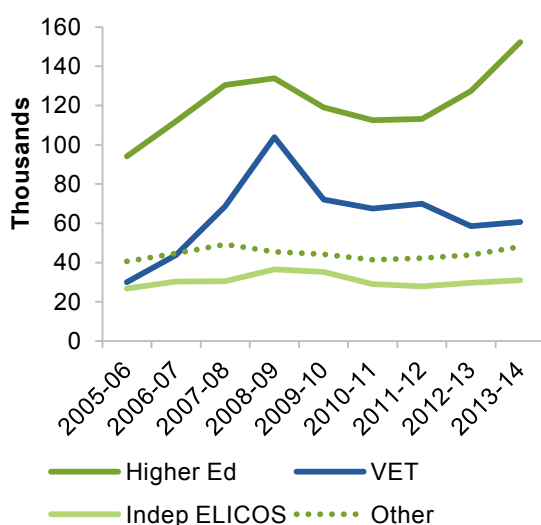
a. Contribution to average annual growth in commencements, 2002 to 2014



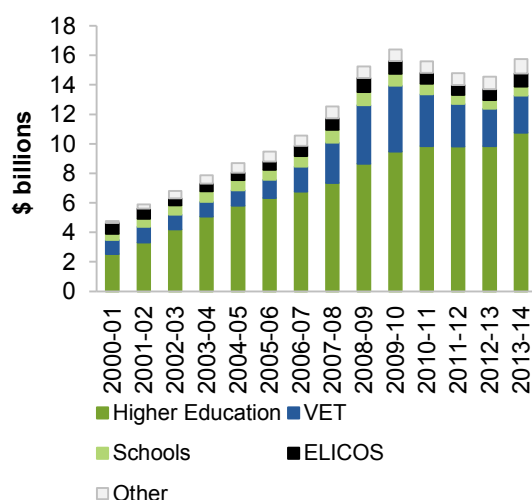
b. Commencements by sector^a



c. Student visas granted by visa subclass^{b,c}



d. Onshore education exports by sector^{d,e}



^a Commencement data for sectors do not necessarily align with type of education provider. Courses are classified to levels of study so if a university is providing a Certificate level course, those enrolments and commencements will be counted in the VET sector. ^b Visas granted is based on financial year. ^c Other includes Non-award (subclass 575), Postgraduate (subclass 574), Schools (subclass 571) and AusAID or Defence sponsored (subclass 576). ^d Estimates are based on mode 2 (consumption in Australia). A number of data-related issues mean that it has not been possible for the ABS to impute a reliable education-related component for non-student visa visitors undertaking ELICOS courses. Other includes New Zealand, non-award and AusAID/Defence. ^e Expressed in nominal values.

Sources: DET (2015b); DIBP (2015b); ABS (2014b).

These factors combined to harm Australia's reputation as a provider of high quality education. In response, through 2009 and 2010 the Australian Government sought to address this by enhanced integrity measures, and various reforms to the skilled migration program (Koleth 2010; Birrell and Healy 2010; table 3.2). Subsequently, international student enrolments in the VET sector fell from a peak of around 208 000 in 2009 to around 150 000 in 2014.

Other factors also contributed to the downturn observed in the IES sector between 2009 and 2012. Meek (2013), for example, pointed to the dampening effect on demand of the (then) appreciating Australian dollar and increasing competition from traditional (mainly English-speaking) countries, combined with the maturation of higher education systems in the Asia-Pacific region (see, for example, UIS 2014e). She also noted the adverse effect on demand from a small number of highly publicised attacks on mainly Indian international students in 2009 (see also Blackmore et al. 2014).

At present, there is no clear picture of the extent to which the VET sector has recovered from this downturn. Student visa grant data (figure 2.6, panel c) suggests little in the way of recovery as yet while commencement data (figure 2.6, panel b) indicates significant growth in 2014.⁹ While the Australian Trade Commission (2014a) suggested that student visa grants is a leading indicator of activity in this sector, it is probably too early to tell. Indeed, this mismatch between visa and enrolment data by sector might also indicate switching between sectors after a visa is granted. (This issue is discussed further in chapter 3.)

Further, growth patterns in the ELICOS sector appear more like the VET sector than the higher education sector. However, commencements in the ELICOS sector recovered earlier than in the VET and higher education sectors following the slowdown after 2009 (figure 2.6, panel b). That said, some caution is warranted when using ELICOS commencement and enrolment numbers (box 2.1).

Data on education exports by sector largely confirm these broad trends. Figure 2.6 (panel d) shows that most of Australia's international education export revenue is generated from activity in the higher education sector (increasing its share of education exports from 53 per cent in 2000-01 to 68 per cent by 2013-14). In contrast, the VET sector reduced its share of export revenue (from 20 per cent to 16.5 per cent) over this period, and although its share reached a high of 27 per cent in 2009-10, it has declined steadily since then. The relative share of export revenue from student visa holders in the ELICOS sector declined from around 16 per cent in 2000 to around 5 per cent in 2013.

⁹ International student enrolment and commencement data do not necessarily correlate with student numbers in Australia or the number of student visas issued. This is because each student can commence studying and be enrolled in more than one course of study during the reporting period and consequently be represented in the Department of Education and Training's international student data several times (Austrade 2014c).

Box 2.1 Limitations of data on ELICOS student numbers

The Department of Education and Training's (DET) commencement and enrolment data for international students relates only to those in Australia on a student visa. The ELICOS population, however, comprises not only students who have a student visa but also holders of working holiday, visitor and other temporary visas. To reconcile this, DET funds English Australia to conduct an annual survey of the entire ELICOS student cohort. English Australia's (2014) survey of ELICOS enrolments in 2013 indicated that while most (62 per cent) ELICOS students held student visas, 19 per cent held a visitor visa, 15 per cent a working holiday visa and 4 per cent had an 'other' type of visa. The proportion of ELICOS students holding student visas increased slightly between 2011 and 2013.

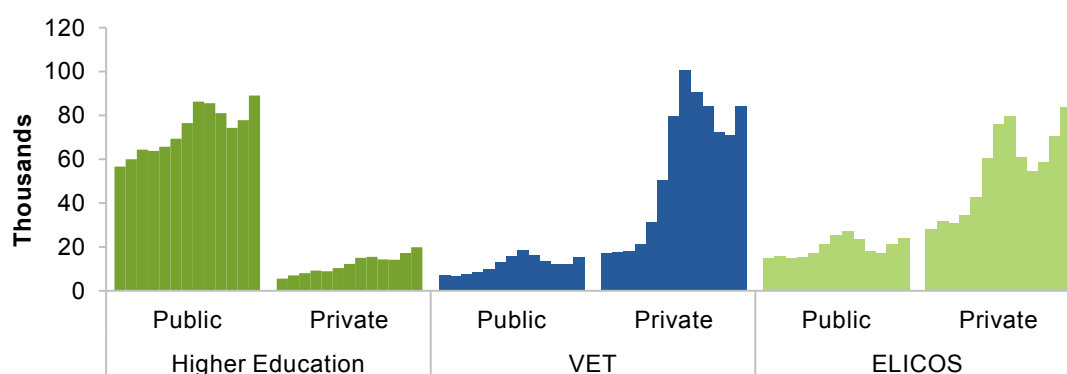
This means that the number of international students in the ELICOS sector is almost 40 per cent higher if these non-student visa holders are incorporated into the total numbers. Similarly, export revenue from international education services would be slightly higher if non-student visa holders were able to be included in the ABS' estimates for the ELICOS sector.

Sources: DET (2014d); English Australia (2014).

Most VET and ELICOS onshore IES are delivered by private providers

The majority of IES in the VET and ELICOS sectors are delivered by private providers. By contrast, in higher education, most IES are delivered by public providers (figure 2.7). That said, the market share of private higher education providers has increased, from around 3 per cent of enrolments in 2008 to 13 per cent in 2013 (ACPET 2014) and by 2014, it was almost 16 per cent.¹⁰

Figure 2.7 International student commencements in Australia by sector and type of provider
2002 to 2014



Source: Austrade (2015).

¹⁰ Commission calculations based on Austrade's Market Information Package (MIP) (Austrade 2014b).

A number of study participants argued that the preferential treatment of international higher education students in terms of SVP and post-study work rights arrangements adversely affected the VET and ELICOS sectors, notably private providers (see, for example, ACPET, comm. 7). However, any differential effect on private providers in the three main sectors from SVP is not readily apparent in figure 2.7. Chapter 3 explains SVP arrangements and examines its effects in further detail.

Some source countries have dominated growth

International students from Asia make up the lion's share

Consistent with the global trends outlined earlier, Asian countries dominate Australia's international student enrolments. In 2014, 75 per cent of all international students enrolled in Australia were from Asia. Further, Asian students comprised 81 per cent of international students enrolled in higher education and VET in that year.¹¹

The contributions of source regions and countries to the growth in international student commencements differs markedly. Asia is the dominant contributor with close to 5 percentage points of the annual average growth rate of 6.8 per cent (figure 2.8, panel a). Among the source countries, China contributed most to the growth in total commencements between 2002 and 2014, followed by India and Vietnam (figure 2.8, panel b).

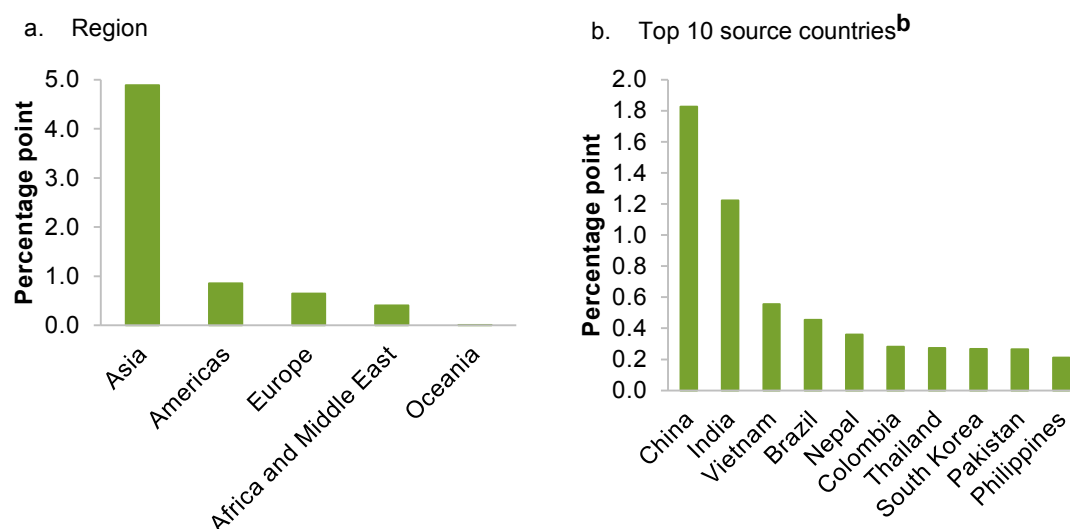
Different source country patterns in higher education, VET and ELICOS sectors

Over the 2002 to 2014 period, China and India were the top two source countries for commencements within higher education and ELICOS sectors. Over the same period, India and South Korea were the top two source countries for the VET sector. A range of other countries also contributed to growth in these three sectors (table 2.1). While commencements in the higher education sector have been relatively stable across most source countries, commencements in the VET and ELICOS sectors have fluctuated.

Several other data sets confirm the growing importance of Asia-Pacific nations as source countries of international students into Australia. For example, English Australia's survey results revealed that in 2013 most ELICOS students came from Asia-Pacific countries. The top 10 source countries in 2013 were: China, Japan, South Korea, Brazil, Thailand, Colombia, Taiwan, Vietnam, Italy and Saudi Arabia (DET 2014d). Data from the Department of Immigration and Border Protection (DIBP) on student visas granted also demonstrate the relative importance of international students from Asia-Pacific countries (figure 2.9, panel a).

¹¹ Commission calculations based on Austrade's MIP (Austrade 2014b).

Figure 2.8 Contribution to average annual growth in international student commencements by source region and country^a
2002 to 2014



^a As growth rates in regions and countries can be affected by low base numbers, annual average growth rates were adjusted to account for the number of international student commencements from each region or country. ^b These top 10 source countries differ slightly from those identified in figure 1.3 panel c, which focuses on top 10 source countries in 2014.

Source: Austrade (2015).

Table 2.1 Contribution to average annual growth rate in commencements by top 10 source countries within sector
2002 to 2014

Higher education		VET		ELICOS	
Top 10 source countries	Contribution to average annual growth rate Percentage point	Top 10 source countries	Contribution to average annual growth rate Percentage point	Top 10 source countries	Contribution to average annual growth rate Percentage point
China	2.98	India	2.81	China	1.77
India	1.06	South Korea	1.01	India	0.88
Nepal	0.47	China	0.94	Vietnam	0.83
Vietnam	0.44	Thailand	0.80	Colombia	0.82
Pakistan	0.30	Philippines	0.66	Brazil	0.80
Saudi Arabia	0.18	Vietnam	0.64	Thailand	0.59
Philippines	0.14	Nepal	0.59	Saudi Arabia	0.43
Sri Lanka	0.09	Brazil	0.55	Italy	0.30
Iran	0.07	Pakistan	0.52	Spain	0.26
Nigeria	0.04	Indonesia	0.44	Nepal	0.22
Av annual growth rate across all countries (per cent)	4.78		12.46		8.06

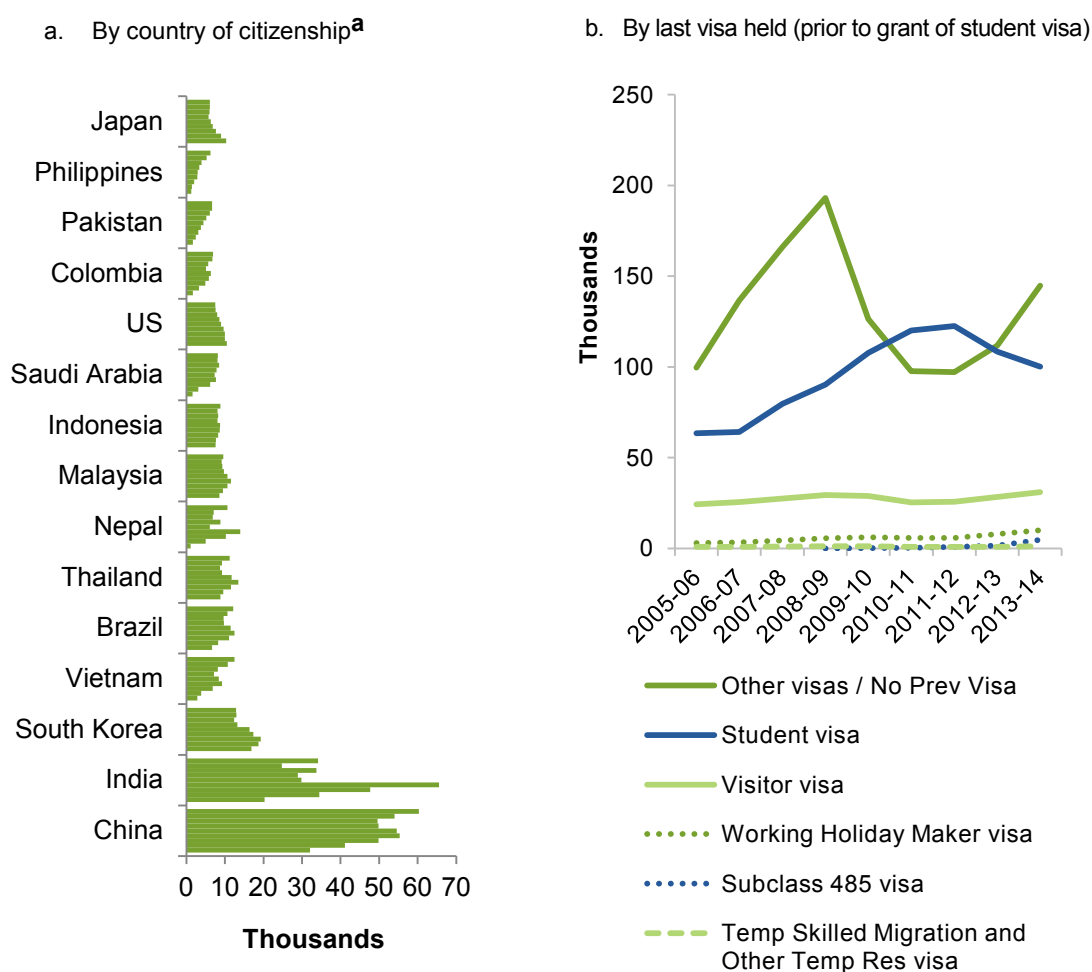
Source: Austrade (2015).

There are different entry pathways to a student visa

DIBP data also show that the downward trend in total student visas granted after 2009 could have been steeper but was offset by modest growth in the number of student visas granted to those who already held a student visa. However, the most recent data available indicate a reversal of this pattern (figure 2.9, panel b).

These data also demonstrate that student visa holders are largely sourced from those who have not previously held a visa (or have held a visa other than those identified in figure 2.9, panel b) (so called ‘new entrants’) but a considerable proportion of student visa holders at any point in time have previously held another student visa (so called ‘churners’).

Figure 2.9 Trend in student visas granted
2005-06 to 2013-14



^a 2005-06 data are represented as the bottom most bar for each country.

Source: DIBP (2015b).

Slightly different patterns emerge within each sector (higher education, VET and ELICOS) when the data on previously held visas are analysed. For example, the recent trend among student visa holders in the VET sector suggests they are mostly ‘churners’ while the relative importance of ‘new entrants’ and ‘churners’ has waxed and waned in the higher education sector over time.

An analysis of the study pathways of international students in Australia was undertaken by the Department of Education and Training (DET 2014h). It concluded that:

... the majority of international students undertake study in more than one educational sector. The [ELICOS] sector is the first step in an Australian study pathway for two of every five international students who study in Australia’s tertiary sector. Many other pathways are also followed by international students. (p. 1)

Further, that study found that almost a quarter of ELICOS students eventually progressed to VET and over one third eventually progressed to higher education. Just over half of the international students who commenced in higher education sector were ‘new entrants’, with a similar pattern observable in the VET sector (DET 2014h).

International students are concentrated in New South Wales and Victoria

The destinations of international students to jurisdictions within Australia largely reflects Australia’s population distribution. Growth in export dollars from IES within each jurisdiction is shown in figure 2.10 (panel a). This growth has typically mirrored the patterns of international student commencements in each jurisdiction over time. Some jurisdictions have higher proportions of trade in this sector than others, for example the ACT, South Australia, Victoria and Tasmania (figure 2.10, panel b).

... and in management and commerce courses

In 2012 around 50 per cent of Australia’s international students in higher education were enrolled in management and commerce (followed by 10 per cent in engineering and related technologies) (Chaney 2013). Similarly, around 55 per cent of Australia’s international VET students were enrolled in management and commerce (followed by food, hospitality and personal services with 14 per cent of enrolments) (Chaney 2013).

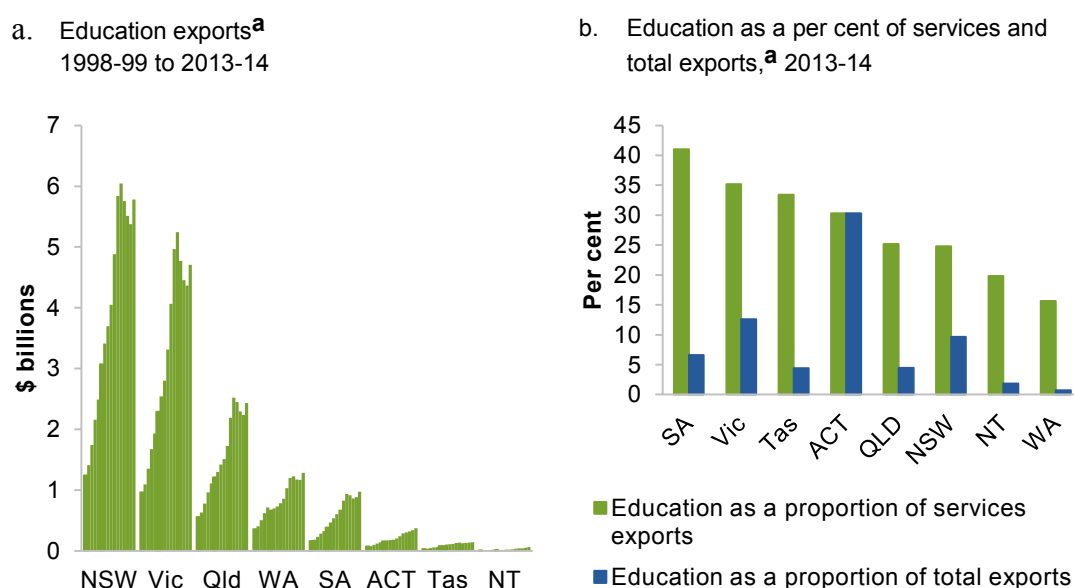
While the Chaney Review acknowledged this distribution largely reflected Australia’s high level of teaching expertise in these fields of study, it also said:

The relatively low cost of providing Management and Commerce courses increases Australia’s vulnerability in these areas to competition from the [UK] and the [US] ... (Chaney 2013, p. 13)

A recent analysis of enrolment patterns in higher education by the Group of Eight (Go8 2014a) indicated that the field of study patterns of Chinese students — who

accounted for 40 per cent of higher education enrolments in 2013 and were heavily concentrated in management and commerce courses — influenced this aggregate picture. By contrast, they found that the field of study of undergraduate and higher degree students from countries other than China was more evenly spread.

Figure 2.10 Trends across states and territories



^a Estimates are based on mode 2 (consumption in Australia) and are expressed in nominal values.

Sources: ABS (2014a) and (2014b).

Trends in Australian transnational education services

Australian education providers have been ‘early adopters’ of transnational education to deliver Australian qualifications offshore (Austrade 2014a). The Australian higher education sector’s approach to offshore education has matured from a ‘cottage industry’ to a core business, supported by sophisticated business plans and quality assurance mechanisms (Meek 2013).

In 2013, almost 160 000 international students were studying courses delivered by Australian providers abroad (figure 2.11). This total was comprised of:

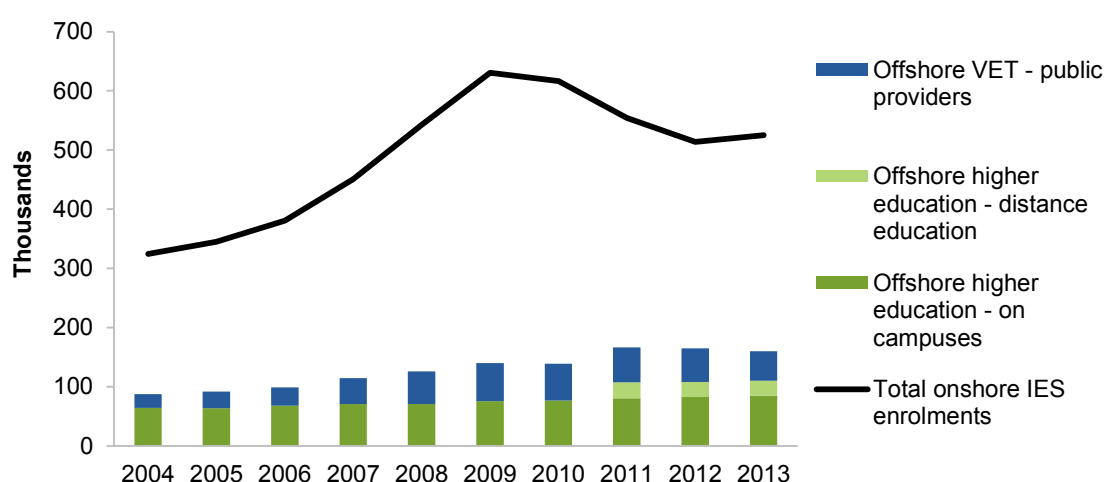
- 85 000 students studying higher education courses at offshore campuses. In addition, there were around 25 000 higher education students studying offshore via distance education, bringing the total number of higher education offshore students to around 110 000 (DET 2014i)
- around 49 700 students studying VET courses by public providers offshore. Limited data are available on offshore students studying with private VET providers but one

estimate was that 6800 students studied VET courses abroad through private providers in 2011 (DET 2012b).

Enrolments onshore have grown faster than offshore

While enrolments in transnational education have been growing, its rate of growth has been lower than onshore (figure 2.11). Over the period 2004 to 2013, the average annual growth of enrolments onshore was 5.5 per cent compared with 4.9 per cent offshore (excluding distance education and private VET providers).

Figure 2.11 Trends in onshore and offshore enrolments^a



^a The number of offshore higher education enrolments studying by distance is not published prior to 2011.
Source: DET (2014g).

Data limitations make it difficult to assess whether the trends in offshore enrolments are also apparent in the value of offshore services exports. In particular, while the value of some offshore education services (for example, distance education and lecturers presenting courses in the country of export for less than 12 months) are included in Australia's balance of payments figures, another type of offshore education services (education export services produced offshore via a commercial presence abroad) are not (chapter 1; PC 2015a).

Leaving this issue aside, there are a number of possible causes underlying the observed trend in offshore student enrolments. For example, the Commission heard that some providers had been previously 'burnt' and are consequently more cautious when developing transnational education trade opportunities; doing so more as partnerships with other institutions than via standalone arrangements in host countries. This accords with Meek (2013) who also noted:

In the latter half of the 2000s, the number of offshore programs were substantially reduced, either through consolidation or closure due in part to quality assurance concerns ... (p. 9)

Along with the regulatory requirements imposed by the delivery of Australian qualifications offshore, there are country-specific regulations and restrictions in providing IES offshore, augmenting risks for providers setting up offshore.

Further, differential growth patterns within the sectors have led to a convergence in the proportion of students in the VET and higher education sectors studying offshore. In 2004, just over half (52 per cent) of international VET students studied in offshore campuses compared with 28 per cent of international higher education students.¹² In 2013, the corresponding proportion stood at 27 per cent in both sectors.¹³ However, the decline in the proportion of VET students studying offshore was largely as a result of stronger growth in onshore enrolments compared with offshore.

Most transnational education students study higher education

Of the 160 000 offshore students in 2013, around 69 per cent studied with higher education providers with the balance at VET providers.

Transnational education in the higher education sector is mainly delivered to students at offshore campuses, while just under a quarter of offshore higher education students studied through distance education (including online learning and by correspondence) in 2013 (DET 2014i).

Between 2004 and 2013, the number of offshore higher education students (excluding those studying by distance education) grew steadily from around 63 400 to 85 900, representing an annual average growth rate of 3.4 per cent. In 2013, the top five source countries for these students were Singapore, Malaysia, China, Vietnam and Hong Kong. The number of students studying in Singapore and Vietnam increased steadily from 2004 while increases in transnational education students in China have only occurred since 2012. By contrast, numbers in Malaysia have fallen since 2011 while numbers from Hong Kong have steadily declined since 2004. Besides these top five countries, other countries have contributed to the average annual growth rate (3.4 per cent) of higher education offshore (figure 2.12, panel a).

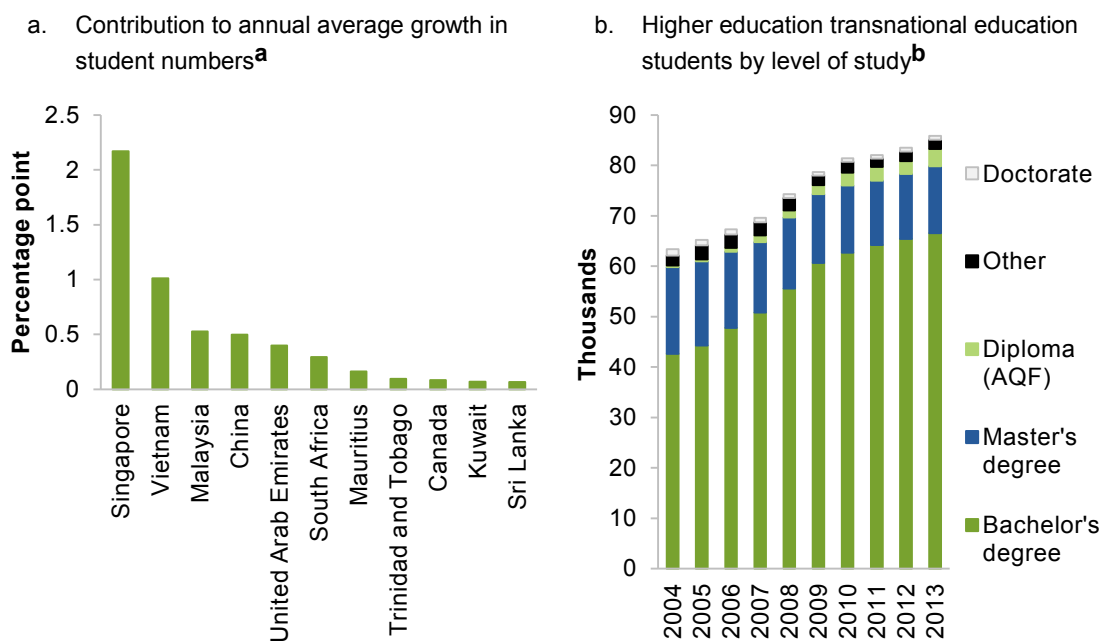
¹² To obtain a consistent time series, the estimates for offshore higher education exclude those learning via distance education. All distance education students are typically recorded as receiving an education onshore. The Department of Education and Training (DET) commenced separately reporting distance education in 2011 (DET, pers. comm., 12 February 2015). There appears to be very little in the way of distance education among VET providers. For example, in 2013, most (97 per cent) of VET offshore students did so on an offshore campus (NCVER 2014a).

¹³ Including distance education as 'offshore' increased the proportion of international higher education students who studied offshore to around one third in 2013.

The vast majority of offshore higher education students study either a bachelor's or a master's degree by coursework. But there has also been a noticeable increase in numbers studying at the diploma level since 2004 (figure 2.12, panel b). The composition of students by level of study has also changed over time, with a growing concentration on bachelor degrees and diplomas.

Similar to their onshore counterparts, higher education transnational education students are concentrated in management and commerce. The proportion of students studying this area (62 per cent) has not changed over the period 2004 to 2013.

Figure 2.12 Trends in higher education transnational education
2004 to 2013



^a As growth rates in countries can be affected by low base numbers, annual average growth rates by country were adjusted to account for the number of international student numbers from each country.

^b Bachelor's degree includes pass and honours. Master's degree includes by coursework, research and extended.

Source: Unpublished data purchased from DET's higher education statistics area.

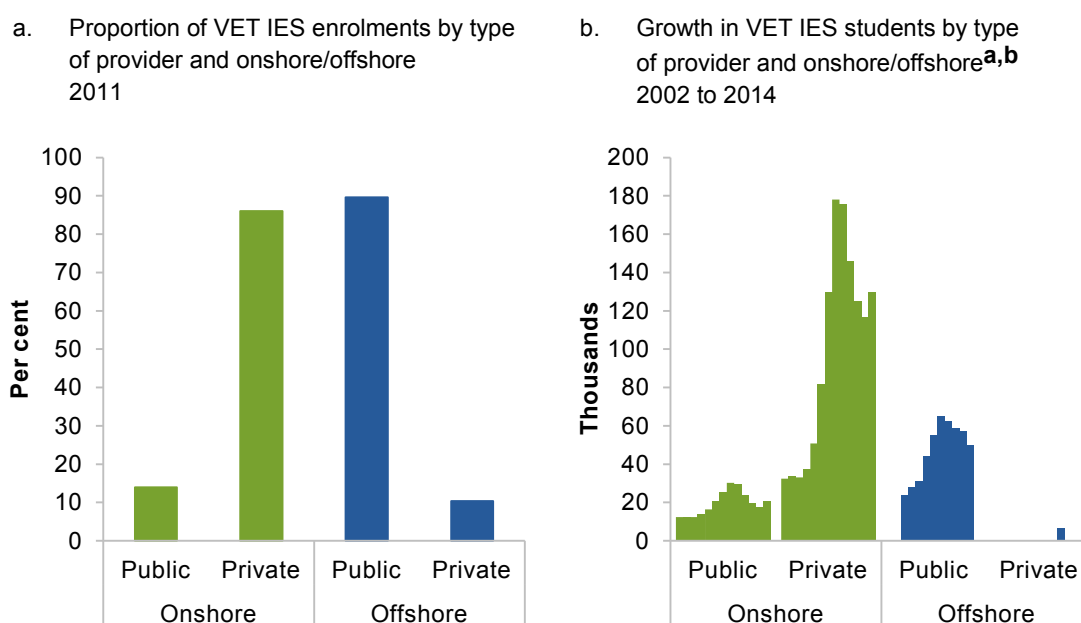
Most of the growth in transnational VET appears to be among public providers

Within the VET sector it is apparent that private VET providers have a higher proportion of international students onshore while the opposite is true for public VET providers. For example, in 2011 86 per cent of onshore VET enrolments were with private providers while 90 per cent of offshore VET enrolments were with public VET providers (figure 2.13, panel a).

The number of VET IES students studying offshore through public providers increased between 2004 and 2013 (from 23 500 to 49 700) (figure 2.13, panel b). The number of countries in which public VET providers delivered offshore courses also expanded from 21 in 2004 to 35 by 2013. Over the past decade, on average just under three quarters of offshore VET students were based in China (figure 2.14, panel a). Other major countries where students studied VET courses delivered by public providers in 2012 included Kuwait, Fiji, Vietnam, South Korea, the Philippines and India (DET 2014j).

In 2011, private VET providers concentrated their delivery effort in Singapore, followed by Sri Lanka, China and Hong Kong (DET 2012b).

Figure 2.13 Vocational education and training — onshore and offshore



^a Only one year of data (2011) is available on the provision of offshore VET IES by private providers. ^b Data on provisions of offshore VET IES by public providers is for 2004 to 2013.

Sources: Austrade (2015); and NCVER (various) *Offshore delivery of VET by public providers*.

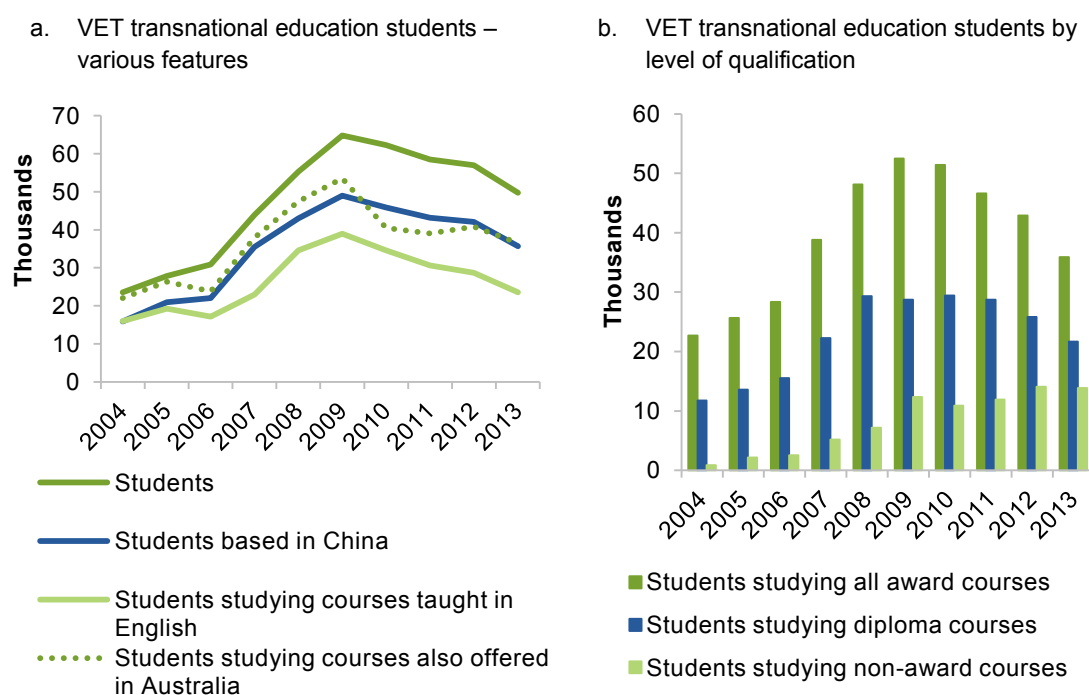
Although most offshore VET students study courses that are taught in English, the proportion of courses taught in English fell from over two-thirds to just under half between 2004 and 2013 (figure 2.14, panel a).

Notably, students studying non-award VET courses grew swiftly — albeit from a relatively low base — in contrast to the growth in students studying diploma courses and all award courses (figure 2.14, panel b).

There have also been noticeable changes in the distribution of students by fields of study. Between 2005 and 2013 there were declines in the proportion of students studying information technology (from 14 to 4 per cent), society and culture (from 20 to 14 per

cent) and education (from 7 to 1 per cent). However, these were offset by increases in management and commerce (from 45 to 54 per cent) and engineering and related technologies (from 3 to 11.5 per cent) (see NCVER 2006 and 2014a).

Figure 2.14 Trends in VET transnational education



Sources: NCVER (various), *Offshore delivery of VET by public providers*.

3 Student visa policy settings

Key points

- Along with the quality of Australia's education services, the student visa program is one of the main vehicles by which policy can influence the international education services (IES) sector and, specifically, the ability of Australian institutions to attract international students.
- The stated objective of the student visa program is to support the growth of the sector while maintaining high levels of immigration integrity.
- The program has been subject to numerous changes over the past 15 years. Both the uncertainty over policy settings and their volatility have likely been, and continue to be, important influences on students' decisions. The most recent substantive changes were the introduction of Streamlined Visa Processing (SVP) for higher education students in 2012 and post-study work rights in 2013.
- The introduction of SVP appears to have had several impacts. It has:
 - contributed to a reversal of an overall downward trend in the IES sector, with a significant increase in grants of the higher education sector visa. Data suggest it has, so far, not helped to diversify the source country of students, as the increase in student numbers has primarily been from China and India
 - resulted in market distortions by providing an incentive for students to be channelled into higher education pathways and institutions providing these pathways. These distortions are being reinforced by a perception by students and agents that SVP is a 'stamp of quality'
 - introduced incentives for students (often, via agents) to apply to SVP-eligible courses simply for the benefit of the streamlined process, only to then change courses in order to meet other objectives. While anecdotal evidence suggests that so-called 'course-hopping' is occurring, it is not clear how widespread the practice is. The evidence is broadly consistent with anecdotal evidence of under-reporting whereby students are breaching regulations by transferring between courses without changing their student visa
 - necessarily meant a shift in administrative costs to eligible education providers, as well as some burden of immigration risk. Education providers vary in how many resources they are spending on SVP-associated administration.
- The recent changes to post-study work rights were designed with similar expansionary objectives to those of SVP. Given their recent implementation, it is too early to determine empirically how effective the changes to post-study work rights have been.
 - The current conditions applying to temporary graduate visas provide some incentive for students to choose higher education courses over VET courses (regardless of SVP). However, the post-study work rights applicable to VET graduates remain relatively attractive internationally.

3.1 The student visa program

The student visa program is designed to allow *genuine*¹⁴ international students to enter Australia for the specific purpose of completing a course (or courses) of study. While the program has many conditions of entry, there is no overall cap on the number of international students. There are currently seven categories of student visa, which are generally based on the qualification sought. The student visa program is administered by the Department of Immigration and Border Protection (DIBP). The broad objective of the student visa program is to support the growth of the international education sector, while maintaining high levels of immigration integrity.

Student visa policy has been subject to frequent change

The recent history of student visa policy shows that governments have adjusted their approaches to student visa settings relatively frequently, often in an attempt to rebalance the growth of the sector and to maintain the integrity of the visa system (table 3.1). In some cases, this may have reflected changes to the objectives of the student visa program, whether explicit or not. However, there are many factors driving student numbers that are outside the direct control of governments — as such, changes to visa settings are also reflective of a reactive approach to policy.

¹⁴ The term ‘genuine’ is used in student visa program regulations and refers to those students who use the student visa program for its intended purpose — to undertake studies in Australia.

Table 3.1 A brief history of the student visa and selected post-study visas, 1998-2014

<i>Date</i>	<i>Change</i>	<i>Stated objective</i>
July 1998	Points test for skilled migration grants five additional points where qualification obtained from an Australian educational institution.	To maximise the economic benefits of skilled migration.
May 1999	Migration Occupations in Demand List (MODL) introduced comprising occupations in national shortage; skilled migrants with occupations on the list receive bonus points and processing priority.	Not available.
July 2001	Introduction of Assessment Level (AL) framework.	To provide a rigorous framework for the assessment of student visas based on risk.
	Australian-trained overseas students with key skills (particularly Information and Computer Technology qualifications) could apply onshore for permanent residency and were exempted from skilled work experience where they met other general eligibility requirements.	To ensure that Australia is able to maintain a competitive edge over other countries to attract overseas ICT workers and provide workers quickly to meet industry demand.
July 2003	Graduating overseas students in Australia applying for general skilled migration required to complete a minimum of two years study physically in Australia before qualifying for bonus points or work experience exemption (previously a minimum of one year).	Not available.
December 2003	Greater range of financial evidence accepted for students from some high-risk countries. English proficiency requirements recognised previous study in another English-speaking country and permitted foundation English-language courses prior to undergraduate study.	To ensure the international education industry continues to grow.
April 2005	Rising numbers and falling non-compliance led to a lower English language requirements and financial tests for students from certain countries and education sectors.	To recognise the increase in student visa approvals and falling non-compliance levels.
May 2005	Additional trades and engineering related occupations added to the MODL, including cookery and hospitality.	To make Australia's skilled migration arrangements more competitive.
September 2007	In response to the Evaluation of the General Skilled Migration Categories, temporary visas were provided for former overseas students exempt from work experience requirements to enable them to gain work experience in Australia. Increase in English proficiency and skilled work experience requirements.	To give migrants the best chance of success in the Australian labour market.
April 2008	Student visas include an automatic right to work up to 20 hours a week while their course is in session, rather than having to apply for permission to work.	To reduce red tape, and to allow more efficient use of department resources and assisting industries suffering serious labour shortages.

(continued next page)

Table 3.1 (continued)

<i>Date</i>	<i>Change</i>	<i>Stated objective</i>
August 2009	Increase in financial requirements for a student visa. Students required to demonstrate access to \$18 000 per year in living expenses (up from \$12 000 per year).	To better reflect student costs in Australia.
July 2010	MODL revoked and replaced with a targeted skilled occupations list focusing on high value professions and trades. Review of the points test used to assess migrants.	To ensure the skilled migration program selects the best and brightest, in recognition of the MODL being outdated.
November 2011	Genuine temporary entrant requirement introduced to determine if applicants intend to stay in Australia temporarily. These include the applicant's circumstances in their home country and Australia (such as personal ties or economic circumstances) and relevance of the course to future employment. This was a Knight Review recommendation.	To improve the integrity in the student visa program.
March 2012	Streamlined Visa Processing introduced (Knight Review recommendation), with eligible applicants subject to evidentiary requirements similar to the lowest risk level (AL1) regardless of country of citizenship.	To promote sustainable growth in genuine international students seeking to study in Australia.
March 2013	Post-study work rights (PSWR) under the Temporary Graduate Visa (subclass 485) changes expanded (Knight Review recommendation).	To make Australian providers more competitive.
April 2013	Cessation of automatic and mandatory student visa cancellations for breaches of visa conditions (Knight Review recommendation).	The explanatory memorandum refers to fairer outcomes for students and a reduction in the administrative burden allowing a more strategic use of integrity resources.
March 2014	The AL framework was simplified by removing the two highest risk levels (AL4 and AL5).	To assist providers (particularly in the VET sector) and make access to Australia's education system more attractive.
November 2014	Streamlined Visa Processing extended to eligible advanced diploma students.	To make Australia more attractive to overseas students while ensuring immigration risk is properly managed.

Sources: Bowen (2012); DIBP (comm. no. 6); Evans (2008, 2009, 2010); Evans and Bowen (2011); Knight (2011); Koleth (2010); Pyne and Morrison (2013, 2014); Ruddock (1998, 2001); Vanstone (2003, 2005a, 2005b, 2006).

The frequency of policy changes is noteworthy — table 3.1 provides only a brief overview of changes and is by no means exhaustive. The Commission heard from many stakeholders that both the uncertainty over policy settings and their volatility are likely to be important influences on students' decisions — regardless of what the settings may be (COPHE, comm. 5; ACIC, comm. 9).

Such policy changes can often affect outcomes for students who have already made relevant decisions regarding their studies — such as the conditions on post-study work rights that were introduced in 2013 and applied to students who *began* their studies after

5 November 2011. Knight (2011) also found that some student visa conditions, such as the cost of living requirement,¹⁵ remained stable for several years before undergoing a sudden and substantial increase (p. 124). As such, there is a need for governments to find a balance between improving policy settings and allowing sufficient stability and predictability for students to make rational decisions.

This chapter focuses on the most recent substantive changes to the student visa program, namely the introduction of Streamlined Visa Processing (SVP) and post-study work rights. The main changes included:

- streamlined visa processes for courses at the advanced diploma level and above as an alternative to the Assessment Level (AL) framework
- effectively treating all SVP-eligible students as an equivalent AL1 immigration risk student
- shifting some administrative responsibilities and some of the immigration risk burden to SVP-eligible education providers
- changing the conditions of the temporary graduate visa to make post-study work rights more attractive for higher education graduates.

Student visa conditions and the risk framework

Of the seven subclasses of student visa, the higher education and VET subclasses account for most of the student visa grants (table 3.2). The various student visa subclasses are generally subject to a common set of conditions. For instance, all students must be *genuine* students and meet the *genuine temporary entrant* requirement.¹⁶ Most students need to have met requirements in relation to English language competency, financial capacity and academic achievement. The extent of evidentiary requirements depends on the applicable level of immigration risk, which comprises risks related to identity, character and compliance (discussed further in chapter 5).

¹⁵ This visa condition requires students to have a certain amount of funds in order to support themselves each year in Australia.

¹⁶ The *genuine temporary entrant* (GTE) requirement is an integrity measure to ensure that the student visa program is used as intended by international students and not as a way of maintaining de facto permanent residency in Australia.

Table 3.2 Student visa applications and grants by subclass, 2013–14

<i>Student visa subclass (subclass number)</i>	<i>Visas lodged</i>	<i>Visas granted</i>
	No.	No.
Independent ELICOS Sector (570)	33 248	30 964
Schools Sector (571)	11 478	9 959
Vocational Education and Training Sector (572)	68 701	60 648
Higher Education Sector (573)	166 094	152 344
Postgraduate Research Sector (574)	11 684	11 321
Non-Award Sector (575)	19 549	19 933
Foreign Affairs or Defence Sector (576)	7 234	6 891
Grand Total	317 988	292 060

Source: DIBP (2014e).

In addition to enrolment in a registered course, visa holders are required to comply with a number of conditions, depending on their subclass of student visa.

- Students studying in the English Language Intensive Courses for Overseas Students (ELICOS), schools, Vocational Education and Training (VET) or non-award sectors must have both satisfactory attendance and course progression.
- Students across all sectors must not work prior to the commencement of study, and work no more than 40 hours per fortnight when the course is in session (except for postgraduate visas, or in circumstances where a Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) course requires specified work).
- Students across all sectors must maintain adequate health insurance.

Some additional conditions apply to students who are subject to the most stringent visa application Assessment Level (discussed below).

The framework for assessing and assigning immigration risk is an integral part of the student visa program.

The Assessment Level framework

A key principle underpinning the student visa policy framework is that successful integrity (ex-ante) measures aim to ensure that *genuine* students are granted visas, reducing the need for compliance (ex-post) action (ANAO 2011). Under the *Migration Regulations 1994 (Cwlth)*, Assessment Levels were established for each subclass of student visa. Assessment Levels are specified from 1 to 3, with AL1 pertaining to low risk passport holders, AL2 a medium risk, and AL3 a high risk. Evidentiary requirements for visa applicants vary in intensity according to the assessed risk level.

The Assessment Level (AL) assigned to a particular country is not required to be the same across each subclass of visa. The current AL framework considers immigration risk by taking into account several statutory criteria (box 3.1). Immigration risk is largely determined by the compliance history of the applicant's country of citizenship, as well as the specific sector of education that the applicant is seeking to study.

SVP was introduced in 2012, and represented a departure from the prevailing AL framework.

Box 3.1 Country immigration risk

Following both the Australian National Audit Office (2011) review of student visas and the review by Knight (2011), changes were made to the Assessment Level (AL) risk factors; and following the DIBP (2013) review of the AL framework, the risk factor weightings were amended.

Currently, the AL framework involves a statistical analysis of risk indicators; consultation with stakeholders; and an analysis of other country specific or regional issues.

The statistical analysis first considers the total number of active students, finalisations, and expiring visas for the given country for a given period (typically 12 months). It then compares the statutory risk factors to the overall number of students, giving a risk indicator rate as a percentage of all students. Weightings are then applied to the risk indicator rates, to yield an overall Country Risk Index.

Specifically, the statistical analysis considers the rate:

- of applications refused due to fraudulent documentation or other reasons
- of visa cancellations
- at which visa holders overstay their visa
- at which visa holders apply for certain other permanent visas.

These rates are then weighted into a single Country Risk Index, which is then translated into broad assessment levels:

- Country Risk Index < 1 = AL1
- Country Risk Index between 1 and 2.7 = AL2
- Country Risk Index > 2.7 = AL3.

Source: Department of Immigration and Border Protection (2013).

What is SVP?

SVP was introduced in March 2012, as an outcome of the Knight (2011) review (box 3.2). The review recommended the introduction of SVP, along with a raft of reforms to higher education, in response to a downturn in international student numbers across the sector. Overall, the Knight reforms were designed to:

... help make Australian providers, particularly Australian universities, more competitive. (p. vii)

The stated objective of SVP arrangements is to support the sustainable growth of international student numbers through simpler and faster visa processing while maintaining immigration integrity (DIBP 2014a). While there may be different views on what constitutes ‘sustainable growth’, it could be loosely characterised as follows:

- growth in the number of *genuine* students — without appropriate visa integrity measures and their enforcement, growth in non-genuine students can arise from the use of the student visa program primarily as a migration entry point (Chaney 2013) Department of Immigration and Border Protection 2014, (ANAO 2011)
- sustaining or improving quality and reputation — in an increasingly competitive global environment for IES and one where social media provides an effective tool for sharing information and influencing perceptions, the quality and reputation of education providers is critical in sustaining the long-term growth of the sector
- a sustainable supply of education and associated services including the availability of teaching infrastructure, student accommodation and transport facilities
- a diverse international student cohort — as almost half of international student visas granted in Australia are from two countries (China and India), education providers have reportedly stepped up their recruitment activities in other countries to diversify their student body. This is partly aimed at reducing the sensitivity of the sector to adverse developments affecting the demand for international education services from a specific country (ANAO 2011). The level of diversity also affects the quality of the learning experience for domestic and international students and may encompass the range of courses on offer.

As noted above, one of the key features of SVP (box 3.2) is that it provides an alternative to the AL framework (box 3.1). For students from some countries, this means that the evidentiary requirements are lower than they would be under the AL framework (figure 3.1). This is because under SVP, all eligible students are subject to evidentiary requirements largely equivalent to AL1, regardless of their country of citizenship. This essentially bypasses the AL framework for assigning country immigration risk (outlined in box 3.2).

Box 3.2 Streamlined Visa Processing (SVP)

Commencing on 24 March 2012, SVP created a separate pathway for international students to apply for student visas. Although technically students applying for SVP are exempted from the Assessment Level process, the effect of SVP was that eligible students would still be required to meet standards 'broadly based on previous requirements for AL1 (low risk) applicants, which has the least onerous requirements' (Migration Regulations 1994, p. 39).

In order to be eligible to access SVP, the student had to be an eligible student for higher education and postgraduate visas.^a That is:

- the student had to be enrolled in a principal course of study for either a bachelor's degree, a master's degree (by coursework or research) or a doctoral degree
- the principal course of study is provided by an eligible education provider (defined as any university or non-university which is registered on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) and offers courses at degree level and above)
- if the applicant proposes to undertake another course of study before, and for the purposes of, the principal course of study — the applicant is enrolled in that course, and that course is provided by the eligible education provider or an educational business partner of the eligible education provider.

SVP also benefited students undertaking courses less than 10 months in duration, enabling them to apply for a wider range of visas after the completion of their course, as well as reducing students' evidentiary requirements.

Following an extension of SVP in 2014, advanced diploma courses became eligible for SVP while courses below the advanced diploma level remain ineligible.

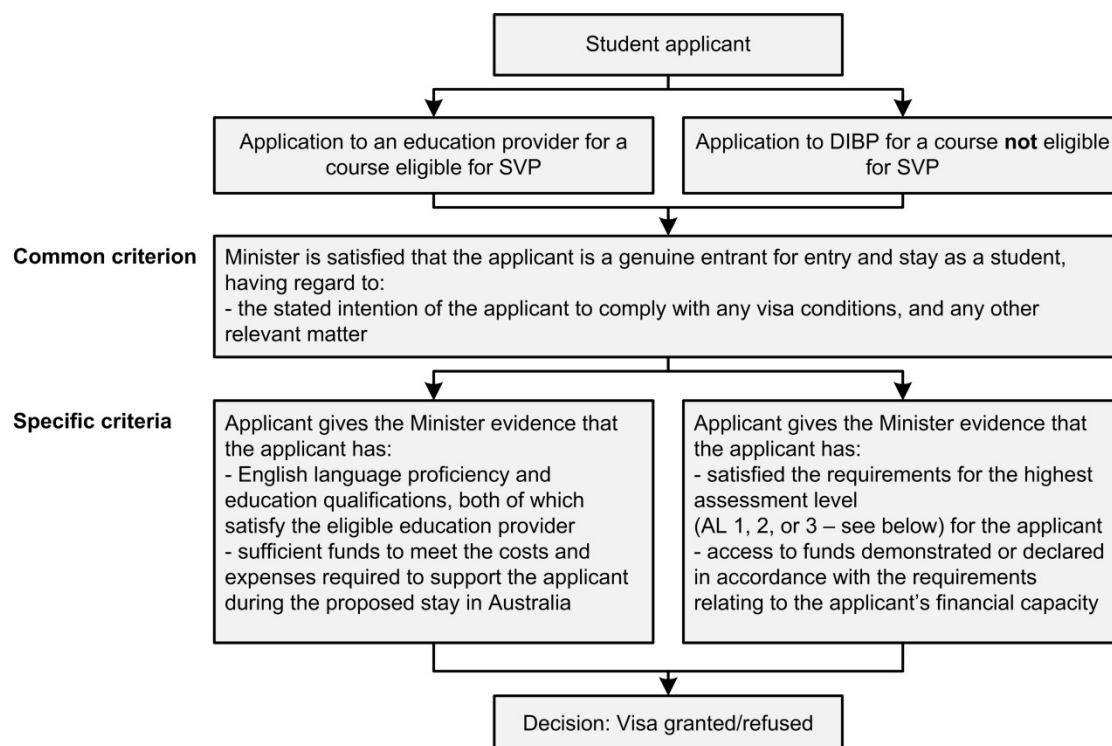
^a Certain non-award students were also made eligible for SVP but have not been included here.

Sources: Bowen (2012); Migration Regulations 1994 (Cwlth).

Another key feature of SVP relates to the parties that are responsible for administering the scheme and sharing the immigration risk burden associated with the intake of international students. DIBP is responsible for assessing applicants under the AL framework, whereas applicants under SVP are assessed by the respective eligible institution to which they apply. However, DIBP remains involved in the SVP assessment process to some degree. For instance, education providers that operate under SVP are also required to submit information to DIBP on how they will manage immigration risk (box 3.3). DIBP also undertakes a regular risk assessment of its student visa caseload and reviews Assessment Levels to align them to evidence of immigration risk (DIBP 2014a).

Figure 3.1 Requirements for visa applications for Streamlined Visa Processing (SVP) and non-SVP courses^a

Broad criteria for VET, higher education and postgraduate visas



Specific requirements for AL 1:

- Satisfies the education provider that the applicant has a sufficient level of English proficiency
- applicant declares that they have access to funds sufficient to meet course fees, living costs, and travel costs from the day of the applicant's expected arrival to the date of their expected departure
- for higher education visas: gives evidence that the applicant has educational qualifications required by the proposed education provider

Specific requirements for AL 2:

- Satisfies the education provider that the applicant has a sufficient level of English proficiency
- demonstrate funds from an acceptable source sufficient to cover course fees and living costs for the first 12 months
- a declaration that the applicant has access to funds from an acceptable source sufficient to meet course fees and living costs for the remainder of their stay in Australia
- evidence that the applicant has funds from an acceptable source that are sufficient to meet travel costs
- for higher education visas: gives evidence that the applicant has educational qualifications required by the proposed education provider

Specific requirements for AL 3:

- English proficiency requirements of achieving a minimum score in the previous two years, or satisfies specified education requirements which were conducted in English
- demonstrate funds from an acceptable source sufficient to cover course fees and living costs for the first 12 months
- a declaration that the applicant has access to funds from an acceptable source sufficient to meet course fees and living costs for the remainder of their stay in Australia
- evidence that the applicant has funds from an acceptable source that are sufficient to meet travel costs
- evidence that the regular income of any individual (including the applicant) providing funds to the applicant was sufficient to accumulate the level of funding being provided by that individual
- evidence that the applicant has successfully completed education qualifications sufficient to apply for the visa
- evidence that the applicant is enrolled in a principal course, or is enrolled in a prerequisite course and is enrolled in the principal course, or is enrolled in a prerequisite course and has an offer in a principal course

^a Other common criteria apply.

Source: Migration Regulations 1994 (Cwlth).

Box 3.3 **Key information education providers must give to DIBP**

Education providers eligible for SVP must provide a range of information to DIBP. Non-university education providers face a similar process for adopting SVP as universities, though with additional criteria and provisions. All institutions must satisfy an Assessment Panel that is comprised of members of the DIBP and possibly other Australian Government agencies, and is chaired by DIBP. The education provider must:

- specify the number of overseas students the university intends to recruit in the time period covered by its Education Plan, and the countries in which it intends to focus its recruitment
- specify the percentage of overseas students to domestic students at their university in the past five years and expected over the period of the Education Plan, and in the courses most popular with overseas students
- satisfy the Assessment Panel that it has in place strategies aimed at ensuring education agents recruit quality students rather than just volumes of students
- satisfy the Assessment Panel that it has strategies to ensure that students have appropriate levels of English language proficiency at the commencement of their courses
- satisfy the Assessment Panel that it has strategies in place to ensure that students continue to develop their English language proficiency during their studies
- satisfy the Assessment Panel that it has arrangements in place to minimise incentives for students to deliberately arrive under AL1 type arrangements and then purposefully transfer out of or downgrade their eligible course to take advantage of the SVP arrangements. Strategies should include:
 - arrangements with nominated educational business partners, agents and other third parties, if relevant
 - how the education provider minimises the risk of students purposefully transferring out courses or otherwise changing education providers once assessed against the reduced student visa requirements (similar to AL1) to achieve an immigration outcome rather than an educational outcome
- satisfy the Assessment Panel that it has in place strategies to ensure prospective students have sufficient funds to support themselves and any dependants during their studies in Australia.

Sources: DIBP (2014c, 2014d).

While SVP allows education providers more control over their international student intake — including decisions on immigration risk management — the framework contains statutory conditions which affect those decisions. For instance, although education providers have the ability to decide their own approach to immigration risk, they are bound by minimum standards on immigration outcomes (box 3.4).

Box 3.4 **Immigration risk and SVP-eligible education providers**

Just as each country is assigned a level of immigration risk according to the immigration outcomes of its citizens, education providers are also assigned a level of immigration risk based on the immigration outcomes of their international students. This risk is calculated using the same statistical methodology outlined in box 3.1.

Currently, education providers must achieve a risk index of 2.7 or below to be eligible to participate in SVP (for those providers that provide permissible courses). Eligible education providers are responsible for the actions and outcomes of their nominated educational business partners (if there are any) as part of the SVP arrangements.

Eligible education providers are periodically reviewed by DIBP in order to remain eligible for the SVP arrangements. If an education institution receives a review which places them as an AL3 (that is, a risk index > 2.7), then the institution has six months within which to remedy that and return to either AL2 or AL1, or have their access to SVP revoked.

In practice this means that although education providers are able to accept students from countries that would, under the AL framework, be classified as either AL2 or AL3 countries, eligible education providers are effectively only required to assess the applicants as if they were from an AL1 country. Moreover, providing that the education provider's rating does not exceed AL2, the provider remains eligible to access the SVP arrangements.

Sources: DIBP (2014c, 2014d).

Recent developments in SVP

On 23 November 2014, access to SVP was extended to advanced diploma courses offered by eligible education providers at both the higher education and vocational education and training (VET) levels. The extension was expected to benefit the high quality VET and higher education sectors, support sustainable growth in the international education industry and boost the economy (Pyne and Morrison 2014). In 2011, the Knight Review explicitly stated that SVP should not apply to advanced diploma courses, or to any other VET course (Knight 2011, p. xiii). This was part of a broader recommendation that there should be little change to arrangements relating to the VET sector (except for integrity measures) as it was too early to assess the effects of changes affecting the sector (which included changes to migration arrangements and the implementation of a new national regulator) (Knight 2011). This distinction was made on the basis that universities were fundamentally different to other education institutions (box 3.5).

DIBP is currently undertaking a strategic evaluation of the SVP arrangements and expects the evaluation to play a key role in informing the policy guidelines which expire in mid-2016 (DIBP 2014a).

Box 3.5 Reasons advanced in justifying different treatment for universities

The Knight Review put forward the following justifications:

- the universities are the spearhead of Australia's international reputation for education
- quality is high right across the entire Australian university sector
- governments and regulators traditionally treat universities differently to other education providers
- high quality is preserved by keeping the number of institutions recognised as universities relatively small
- because it is relatively small, the university sector is much easier to monitor and regulate
- the university sector is very stable
- Australian taxpayers have a large financial stake in Australian universities
- international students generally stay longer in a university course than courses at other educational providers
- overall university students have proven to be a relatively low risk from a migration integrity perspective

Source: Knight (2011), pp 28-31.

3.2 Implications of Streamlined Visa Processing

SVP constitutes a major shift in visa processing, particularly for students and institutions in the higher education sector. An important question is whether the introduction of SVP has generated net benefits. The evidence gathered through the consultations for this research project is mixed (box 3.6).

Growth in visa applications and student numbers

As noted in chapter 2, there are several factors that drive international student demand. It is therefore difficult to isolate the effect of SVP on student numbers, particularly given its recent introduction. However, some initial analysis from the Centre for International Economics (CIE) found some significant positive impact of SVP on student numbers, after accounting for exchange rates and other factors (CIE 2014).

Box 3.6 Stakeholder comments on SVP

Impacts on students and agents

Agents and student[s] view SVP as a government 'stamp of quality' and can only get an SVP visa if they choose an ELICOS course with an SVP provider. (English Australia, comm. 1, p. 7)

Whether intended or not, SVP has created a system that signals quality. Potential international students and their families, key stakeholders, governments and agents see providers with SVP status as a sign of quality, which unintentionally skews the sector. (ACPET, comm. 7, p. 21)

Impacts on education providers and the international education market

The priority of access and perceived quality which SVP attracts has led to distortions in the international education market. (ACPET, comm. 7, p. 6).

The current arrangement [SVP] has resulted in reputable high quality providers of VET services up to diploma level with low immigration risks being disadvantaged by not having access to streamlined visas for their students. (ACPET, comm. 7, p. 19)

The Government approach to managing the immigration risk has been to impose onerous compliance and reporting requirements on all providers, rather than recognizing and rewarding low risk ones, and targeting resources to the minority of problem ones. This has led to inefficient and unnecessary processes ... (Council of Private Higher Education, comm. 5, p. 3)

While acknowledging that [changes to the ESOS framework and SVP] have had the effect of enhancing the quality of higher education in Australia, some recognition should be made of the costs imposed on education providers as a result of increased regulatory compliance and reporting, where previously such responsibilities were the function of the Department of Immigration and Border Protection. This cost burden has resulted in the need for increased staffing and resources such as ours where international student numbers are significant and the SVP risk index rating is low. (The University of Sydney, comm. 10, p. 2)

There are numerous examples where SVP has created market distortions and driven provider and student choices detrimental to study outcomes and experiences. Based on information gathered from Victorian international education stakeholders, continuation of the SVP in its present form:

- places unreasonable processing burdens on providers
- risks further entrenching non-SVP providers in their perceived or actual lower status, and effectively stratifies the sector
- distorts students choices and has seen a rise in non-Genuine Temporary Entrant (GTE) students into higher education courses
- disadvantages some longstanding quality providers due to the focus on history of risk. In some cases this has advantaged those in the sector with little or no experience in offshore student recruitment
- has the potential to encourage providers to consolidate their recruitment in a small number of 'safe' markets, an approach in direct opposition to the mantra of diversity. (Victorian Government, comm. 11, p. 2)

Compliance, integrity and immigration risk

Current arrangements provide no incentive for providers to support the integrity of the student visa program. Low quality providers fail to report any students for lack of attendance or progress and no-one cares. (English Australia, comm. 1, p. 8)

Given that SVP was implemented relatively recently, there are limited observations available for analysis. This section focuses on the number of *student visa applications* in estimating the effect that SVP may have had on student demand, which is the same variable used by CIE in its analysis (2014).¹⁷ However, the estimates in this section should be taken as indicative.

The available visa applicant data indicate that the introduction of SVP has led to a material change in demand by international students for higher education services in Australia, and that this growth has been concentrated in offshore visa applications (figure 3.2, panel a). The growth in offshore student visa applications was also specific to the higher education sector (figure 3.2, panel b). Over the period from 2012 (when SVP was introduced) to 2014, the Commission estimates growth in the number of international students to have been 4.6 per cent in the higher education sector; 2.9 per cent in the vocational education and training (VET) sector; and 11.8 per cent in the ELICOS sector.

Over the past decade, the number of higher education visa applicants increased relative to those for the VET sector (where providers became eligible for SVP in 2014 for advanced diploma and higher courses). Moreover, there appears to have been some growth in visa applicants in the VET sector in 2013-14, following a sharp decline in 2012-13 (figure 3.3, panel a). Furthermore, offshore visa applications for higher education grew by 66 per cent over the two years to 2013-14, returning growth to levels not seen since 2006-07 (figure 3.3, panel b). In the past three years, perhaps reflecting the availability of SVP, higher education students made a much larger contribution to total student visa applications than VET students.

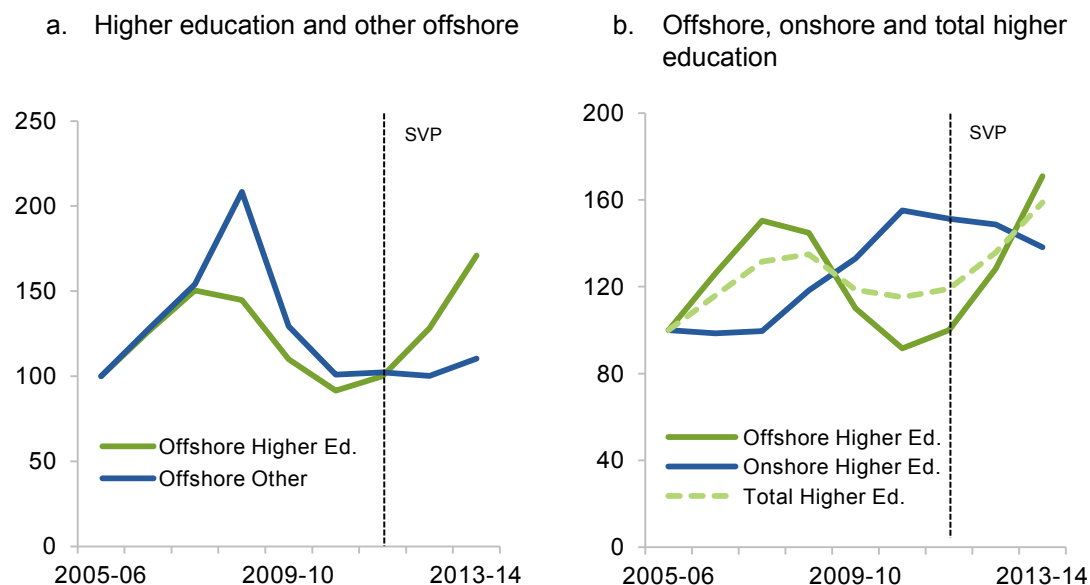
A number of factors are likely to have contributed to this rebound, including improved economic conditions following the global financial crisis. However, given the timing of the rebound and its incidence in higher education, the evidence is consistent with anecdotal evidence that SVP is one of the main drivers of the recent growth.

The observed trends may also reflect recent changes to post-study work rights, although these changes were only made in 2013, and would not account for the growth that occurred prior to that.

¹⁷ Other variables that could be used to estimate the growth in IES student demand include student visa grants, student enrolments and student commencements. While all provide useful information, the number of student visa applications is a closer approximation of student demand, given that student visa grants are affected by department decisions. Moreover, both enrolments and commencements relate to the number of courses rather than students and, therefore, are both likely to overstate the actual number of students.

Figure 3.2 Student visa applications over time

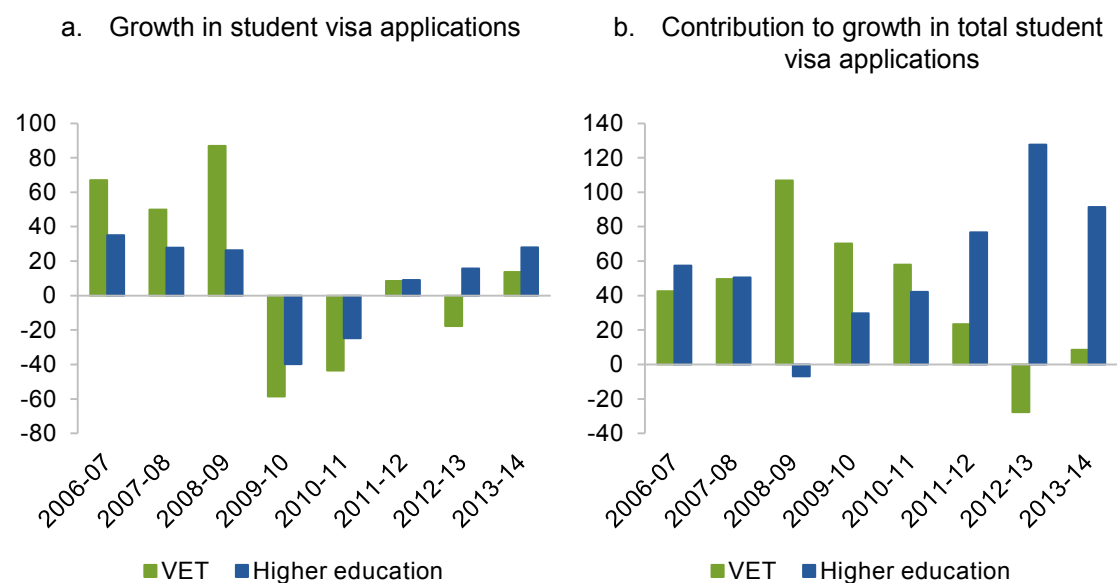
Indices 2005-06 = 100



Source: DIBP (2014e).

Figure 3.3 Growth in offshore visa applications for VET and higher education

Per cent



Source: DIBP (2014e).

The limited available empirical evidence accords with anecdotal evidence from several higher education providers, who noted that SVP had led to strong growth in student numbers. Specifically, education providers noted that SVP had simplified and expedited the process for international students, allowing for better planning and fewer deferrals. They also credited SVP with improving students' perceptions of Australian visa processes.

SVP, diversity, and sustainability

One of the stated objectives of SVP is to achieve sustainable growth in international student numbers. Many stakeholders told the Commission that the diversity of source countries of the international student population was an important aspect of the sustainability of student numbers and of lowering commercial risk for institutions (UoW, comm. 2; Victorian Government, comm. 11). To this end, some education providers have reportedly been altering their recruitment strategies to reduce their exposure to fluctuations in demand from individual source countries. For example, the University of Wollongong noted that around 40 per cent of its international students were from China, and, for strategic reasons, the University was attempting to diversify its student base (UoW, comm. 2).

The relationship between student diversity and growth in student numbers is exemplified by the 'boom and bust' experience of the past decade, which was largely characterised by the rapid growth and subsequent decline of the numbers of Chinese students in higher education and of Indian students in VET (figure 3.4). While many other student populations showed similar trends in these years, the volatility in the numbers of Chinese and Indian students had a major impact on the sector. For example, among applicants for higher education student visas:

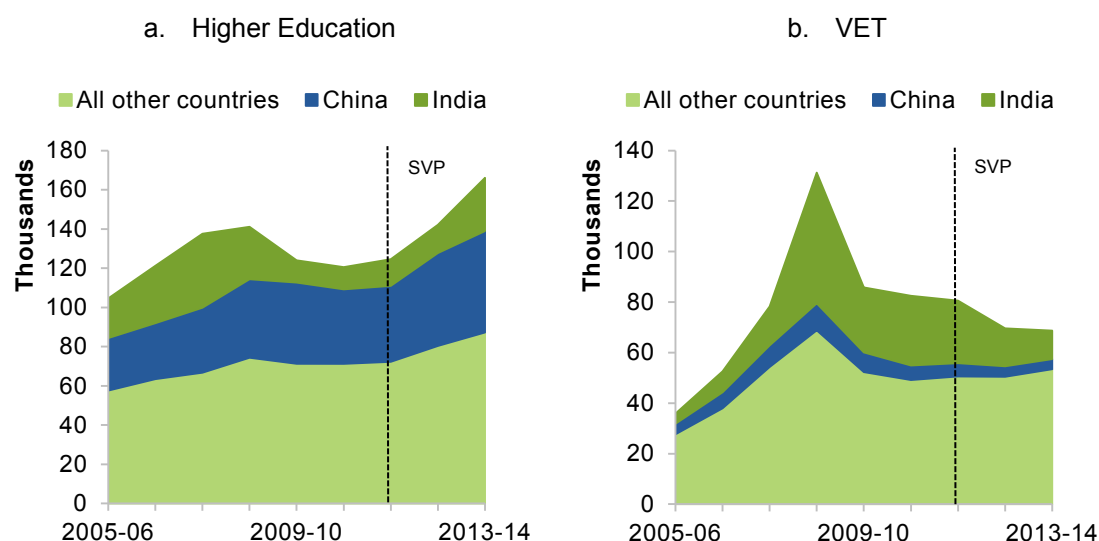
- in 2009-10, the number of applicants from India dropped by around 15 000 compared to the previous year — this was more than the combined number of higher education applications for the next two largest source countries
- in 2013-14, the number of applicants from India grew by over 12 000 compared to the previous year — which was more than the total number of applicants from the next largest source country. The number of applicants from China grew by a similar level in the two years between 2011-12 and 2013-14 (DIBP 2014e).

As such, the relationship between diversity, growth and sustainability appears to be relatively important for Australia. Perhaps unsurprisingly, growth in overall student numbers has been achieved relatively quickly with settings that favour the most prominent source countries, although this creates a diversification risk. That is, if student demand in these countries is volatile, then the concentration of source countries can be expected to increase commercial risk for the sector, as well as leading to volatility in related sectors.

As shown in figure 3.4, the introduction of SVP in 2012 occurred after a period of volatility which firmly established China and India as prominent source countries for students. SVP represented an effective reduction in risk rating for several source countries, including China and India. This had two countervailing effects on diversification. On the one hand, students from a greater range of source countries saw their risk assessment change from AL2 or AL3 to the equivalent of AL1 as a result of SVP. On the other hand, SVP made it easier for students from the already dominant source countries to obtain student visas.

Figure 3.4 Student visa applications by source country for higher education and VET

Number of visa applications lodged

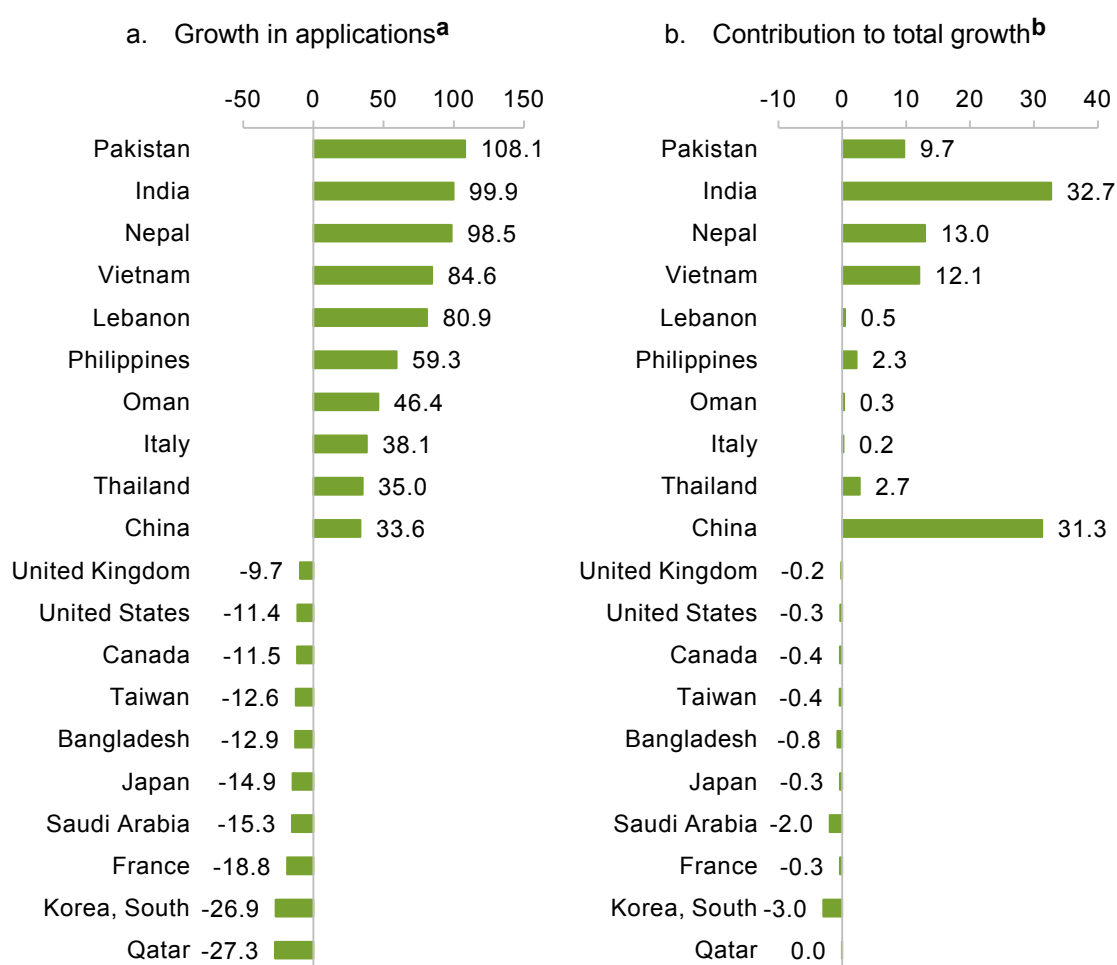


Source: DIBP (2014e).

Data available since the introduction of SVP suggest that there have been relatively rapid increases in student populations from a number of source countries that have not traditionally contributed to a large share of international students to Australia, such as Lebanon and the Philippines (figure 3.5). However, many of the countries experiencing rapid growth previously had a very small base population of students. As such, their overall contribution to the growth in student numbers has been outweighed somewhat by that of more prominent source countries.

While it could be expected, all other things being equal, that the absolute number of visa applications would reflect population size, it is useful to see if the *growth* in applications had changed after the introduction of SVP. Overall, the data suggest that SVP has not increased international student diversification in higher education (table 3.3). This is reflective of the substantial increase in the number of visa applications primarily from India and China.

Figure 3.5 Growth over two years in higher education visa applications; and contribution to total growth in applications, selected countries



^a Percentage growth in visa applications 2011-12 to 2013-14. ^b Percentage share of total growth in visa applications 2011-12 to 2013-14. The contributions to total growth of the selected countries alone do not sum to 100 per cent, as the total includes several other countries not shown.

Source: DIBP (2014e).

Table 3.3 Concentration of higher education student visa applications^a
Shares of higher education student visa applications; Herfindahl Index

	<i>Units</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>
China	Per cent	32	31	33	31
India	Per cent	9	11	10	16
10 next largest source countries	Per cent	37	36	37	35
10 next largest source countries	Per cent	11	11	10	8
Remaining source countries	Per cent	11	11	10	9
Herfindahl index	Index	0.125	0.124	0.138	0.140
Concentration ratio (top 12)	Index	0.777	0.779	0.802	0.827
Concentration ratio (top 2)	Index	0.368	0.359	0.368	0.352

^a Concentration is measured by the Herfindahl Index, which grows larger when market concentration is greater. In this case, the index is calculated as the sum of squared percentage shares of total enrolments attributed to each source country. The level of the Herfindahl Index for visa applications reflects the prominence of the top ten or so source countries, as well as the existence of 210 total source countries for higher education.

Source: Commission estimates.

The full impact of SVP on the sustainability of growth in the sector is only likely to become apparent over time as more data become available. The increase in students from smaller source countries may contribute to a more sustainable student population base for future growth, depending on the share of those students in the international student base, the capacity of source countries to sustain growth and the stability of that growth relative to that of China and India. However, given Australia's already established reliance on China and India as source countries, and given that SVP also caters to these countries, SVP appears unlikely to increase the diversity of the international student intake.

Other impacts of SVP

In general, stakeholders who have access to SVP see it as effective in improving the competitiveness of Australian institutions in international education services. However, SVP has also had negative impacts on the sector more broadly, outside of the program's stated objectives — including the introduction of market distortions and exposing potential integrity concerns.

Market distortions

The implementation of SVP to date has made a specific distinction between eligible and non-eligible courses. That some courses (and thereby, institutions) are eligible for a streamlined process means that, effectively, the student visa framework has introduced preferential treatment for some courses (and their providers) over others. This creates a distortion in the IES market, to the extent that a faster or easier temporary migration process may influence students' decisions between courses.

A related source of distortion involves students' perceptions of quality. Although SVP-eligible institutions are statutorily unable to advertise their SVP status as a mark of quality, the Commission heard that both students and education agents perceive SVP as a proxy for quality. The initial recommendation by Knight (2011) that SVP only be awarded to higher education institutions, and that institutions would have reputational incentives to maintain their SVP status, suggests that a link to quality is likely.

This link has introduced a level of distortion to the market, though only at the margin of the population, where students are ambivalent between SVP and non-SVP related paths of study or for whom easier access to a temporary visa is more important than the actual education outcomes. This results in both 'vertical' distortions (between higher education and other sectors), and 'horizontal' distortions (between providers in the same sector, particularly in the ELICOS and VET sectors).

The 'vertical' manifestation of this distortion is where students may be making choices between courses at the advanced diploma level or higher (which are SVP-eligible) and courses at the diploma level or below (which are not eligible for SVP). It is likely that some students have opted for more advanced courses than they otherwise would have, due to the influence of SVP as a deciding factor. This type of distortion is inevitable where there is a threshold level for eligibility — the expansion of SVP to advanced diplomas in November 2014 simply moved the incidence of the distortion down from bachelor's degrees. The negative impact of the distortion is that it reduces the incentive for an appropriate match between the courses students wish (and are able) to complete and those in which they enrol.

SVP also disadvantages education providers within the same sector ('horizontally'), where otherwise similar providers may be differentiated by whether they have an SVP partnership. In the ELICOS sector, for example, English Australia advised that SVP provided a competitive advantage for SVP pathway providers in the ELICOS sector (English Australia, comm. 1), placing other providers at a disadvantage. Similar concerns were cited by ACPET for their members in the VET sector (ACPET, comm. 7).

Some education providers advised the Commission of their impressions of being akin to 'second class citizens', with falling student numbers and perceptions that they are not 'quality' providers simply because they are not eligible for SVP. There was some concern that falling enrolments presented a commercial risk that could lead to the financial collapse of some education providers that were low-risk from an immigration perspective.

The magnitude of these distortions is difficult to observe and, therefore, difficult to measure. In terms of the distortions between higher education and other sectors, for example, the data show that international student numbers for VET have decreased steadily since the late 2000s, while higher education student numbers have only increased recently, coinciding with the advent of SVP (figure 3.6). Among ELICOS providers, there has been a slight increase in the proportion of students enrolling in SVP partner institutions since 2012, when SVP was introduced (figure 3.6). However, many of those providers that later became SVP partners were already dominant players in terms of the numbers of

enrolments. Overall, while the incentives remain an important part of the regulatory framework, there is little empirical evidence of the impacts of these distortions, particularly in the VET sector.

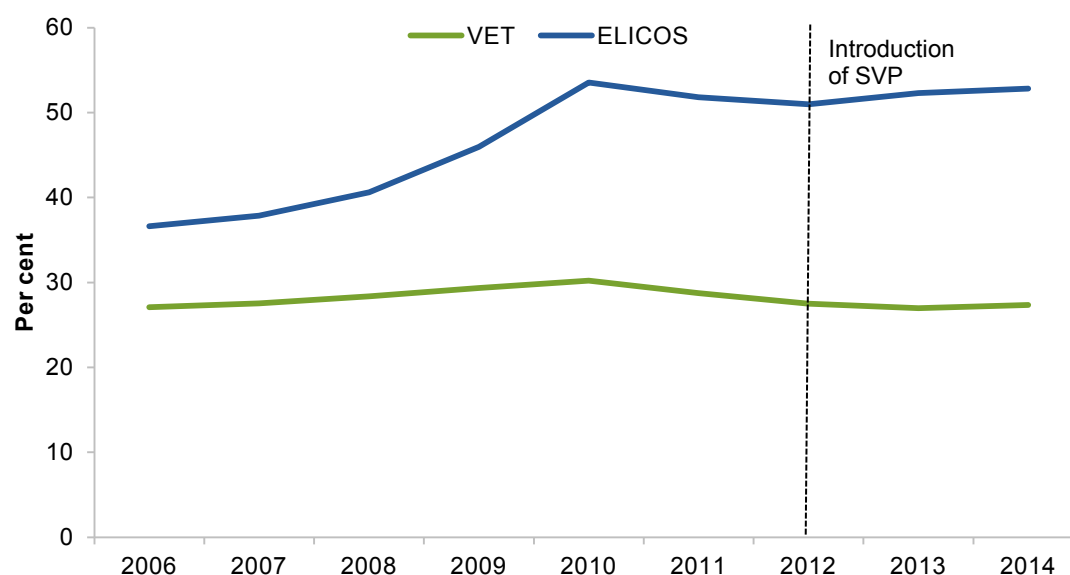
Incentives for providers

One of the impacts that the introduction of SVP has had on incentives is the potential to improve the alignment of incentives between education providers, agents and immigration policy objectives. This is because poor immigration outcomes (such as high rates of incidence of non-genuine students) could eventually lead to both:

- an agent losing its contract with the education provider, and
- the education provider losing its eligibility for SVP.

This presents a new area of risk for education providers, in that they stand to lose the SVP status if their students' immigration outcomes are poor. While the underlying immigration risk is still borne by DIBP, this represents a change in how immigration risk is shared between DIBP and education providers.

Figure 3.6 Share of total sector enrolments in SVP-partnered ELICOS providers and SVP-eligible VET providers
Per cent



Source: DIBP unpublished data.

The introduction of SVP has raised the importance of the relationship between education providers and agents, and the risks associated with agents are now more prominent for the

sector than before. The SVP framework provided new direct regulatory incentives for an education provider to ensure that agents provide genuine students.

However, some of the enforcement mechanisms in the SVP framework have also had some influence on the incentives faced by providers. The eligibility of education providers for SVP was initially based, in part, on an assessment of their historical immigration risk outcomes. According to the guidelines for accessing SVP, providers needed to demonstrate an immigration risk rating of either AL1 or AL2, and providers would face regulatory consequences if a provider's outcome deteriorated beyond AL2.

While the benefit of this system is that it provides a minimum standard risk rating for SVP providers, it does not provide granularity of incentives for immigration risk management. For education providers with very low immigration risk ratings (AL1), the framework does not provide any incentive to improve or to manage their risk *except* to ensure that it does not exceed AL2. This would potentially allow some providers to expand their student intake by using a more relaxed approach to risk management, allowing their immigration outcomes to deteriorate to a point where their risk rating is just below the AL2 threshold.¹⁸ In such a situation, a provider would not face any penalties per se (although DIBP can monitor education provider immigration risk outcomes).

Aside from the lack of granularity, the SVP framework brings into focus the importance of credible enforcement. Currently, the 'line in the sand' is drawn at the top of the AL2 rating. If, hypothetically, enforcement of this 'line' were to lapse, it could offer incentives for providers to move beyond the line.

A further issue is that SVP may also affect providers' incentives in relation to course offerings — particularly in the VET sector. Given that courses at the advanced diploma level or above are eligible for SVP, VET providers may find it beneficial to increase the number of student places for courses at the advanced diploma level or higher, relative to the number of places at the diploma level or lower, irrespective of the quality of their offerings.

Regulatory burden on education providers

By design, the SVP process places the onus on education providers to manage the evidentiary requirements of the visa assessment process. This, of course, entails some increase in the regulatory burden and compliance costs for providers. Several higher education providers advised the Commission that they benefited from SVP, despite the administration costs. At a sectorwide level, there is a broader question on the extent to which SVP is leading to some level of duplication as each institution does its own research

¹⁸ The incentive to take a relaxed approach to risk management does not come from any assumed inherent benefits of accepting non-genuine students. Rather, there would be inherent benefits for an education provider to expand their IES intake while reducing (in relative terms) the associated administration costs.

and assessment of immigration risk without a framework to share that information with other providers.

ACPET stated that its members have invested heavily into additional staff, training and monitoring, given the time and resources required to understand each country's risks and other emerging developments (ACPET, comm. 7). Institutions also bear the cost of gathering and providing data that is required by DIBP to assess students' immigration risk. Some stakeholders said only a handful of institutions had the capacity to act as 'de facto' immigration agents and manage this additional compliance burden.

While this additional compliance burden would apply to all SVP-eligible institutions, the ratio of associated costs and benefits would vary for different institutions. For instance, two universities may both spend the same amount on SVP-related administration, but this does not imply that both will experience the same quantum of increase in their international student intake or achieve the same outcomes in terms of risk management. Stakeholders presented a range of views.

- Smaller providers viewed SVP as burdensome, anticompetitive, and biased towards larger providers (such as universities) which are better placed to absorb compliance costs (ACPET, comm. 7).
- The Commission was told, anecdotally, that education providers who were of relatively high quality and low immigration risk were investing disproportionately more resources into SVP risk management, in order to protect their relatively valuable reputations.

It is unclear whether institutions are well enough equipped to provide risk assessments of similar quality and diligence to those of DIBP. It is also unclear whether the distribution of risk management efforts across institutions is consistent with a risk-based approach to the management of immigration risks, or whether it is an efficient method to assess immigration risk.

Compliance and integrity

Ex post compliance occurs in relation to breaches of visa conditions. International students found to have breached a visa condition may have their visa cancelled. As compliance is resource intensive, active monitoring by DIBP is not feasible, meaning it must prioritise its compliance workload (ANAO 2011).

Concerns about compliance are not new to the student visa program. In 2011, the ANAO found that the student visa program presented more processing challenges for DIBP than any other temporary visa class and that DIBP had introduced a number of changes to manage the growing caseload (ANAO 2011). However, the ANAO also found that many of DIBP's processes, and its relationships with the Department of Education and Training

(DET) were not sufficiently robust.¹⁹ The ANAO made a number of recommendations aimed at strengthening student visa processing and compliance and the quality of DIBP's relationship with DET.

Since the introduction of SVP, some specific concerns have been raised by stakeholders in relation to enforcement.

- Where breaches were reported, there was a lack of enforcement. This reduced provider incentives to report breaches (English Australia, comm. 1).
- Low quality providers had no incentive to report breaches (English Australia, comm. 1).
- Concerns that students were applying for visas for SVP-eligible courses and then transferring to non SVP-eligible courses for 'illegitimate', non-study reasons — 'course-hopping' (discussed later).

However, views were mixed on the incidence of these problems. Some participants considered SVP to be a well-managed process attracting *genuine* students and that default rates under SVP were broadly comparable to those under the previous visa arrangements. Other participants were concerned that non-genuine students were still able to flout the visa system. According to the Council of International Students Australia, students were not only 'course-hopping' but failing to attend classes (Loussikian 2015).²⁰

Views were also mixed on the outcome of the replacement of mandatory and automatic visa cancellation with a discretionary framework in 2013. While it has enabled DIBP to target resources at breaches that threaten the student visa program or a student's welfare (DIBP, comm. 6), in cases where fraud is confirmed, the process is administratively burdensome for providers and open to manipulation by students (University of Sydney, comm. 10).

Course-hopping

A specific concern raised was the potential incentives and opportunities for education agents (both in source countries and in Australia) to encourage students to apply for SVP-eligible courses, only to then change to their preferred non-SVP-eligible course, after having benefited from the streamlined process. Students could potentially choose to do this for several legitimate and desirable reasons — for example, they may have simply changed their minds about their course preferences. However, the term 'course-hopping' refers to

¹⁹ At the time of ANAO's review, DIBP was then the Department of Immigration and Citizenship, and the Department of Education and Training was then the Department of Education, Employment and Workplace Relations.

²⁰ Where students fail to attend classes, it would suggest that instead of pursuing a course of study, people were using student visas as de facto longer term tourist visas with some working rights. And while some tourist visas do allow people to work, it is the misappropriation of the student visa that presents an issue, as it undermines the Australian Government's ability to manage the student visa system specifically and the immigration more generally.

instances where students make such transfers based purely on non-study objectives, including those related to paid work or migration.

There are different motivations underlying course-hopping. For example, if students were primarily interested in enjoying their temporary stay in Australia, and not at all concerned about their field of study, they may have the incentive to initially enrol into an SVP-eligible course and, subsequently, switch to a less intensive or less expensive course, or to a provider that is less likely to monitor progress or attendance. If a student were primarily concerned with permanent skilled migration, they may have the incentive to switch to a shorter or cheaper course that would still provide some benefit in the permanent skilled migration test. Some of the visa conditions relevant to course-hopping are currently under review as part of the review of the Education Services for Overseas Students (ESOS) framework.

Where students change from one sector (say, higher education) to another (say VET), they are required to apply for a new student visa. Course-hopping can potentially occur more easily where there are lapses in enforcement of these regulations (including notification of a transfer).

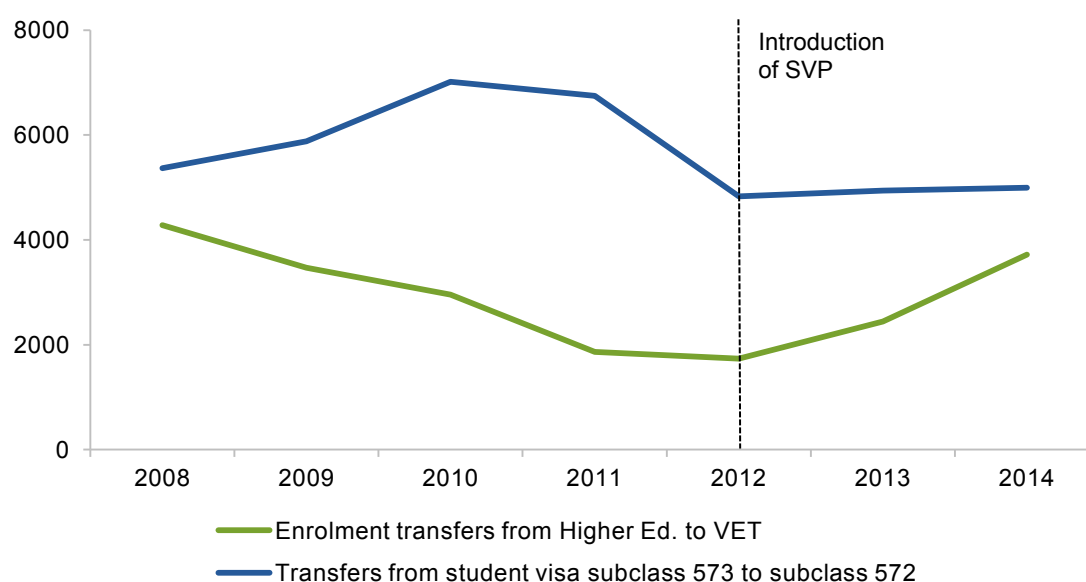
The transfer of students from SVP-eligible courses to courses at lower levels may not necessarily be an adverse outcome. However, there are some concerns about the impact of course-hopping within the current SVP framework. First, the intentional misuse of SVP undermines the integrity of the student visa system and the ability of governments to manage the system, which may then have an impact on students' and agents' perceptions of the enforcement regime. Second, education providers manage their own international student intake within the context of their broader financial management and, for SVP-eligible institutions, this includes the administration expenses related to SVP. Course-hopping undermines education providers' ability to manage these issues.

According to the Committee for Melbourne, some providers reported that agents were 'openly and actively' working on or near campuses to recruit their students (comm. 3), presumably to recruit students to 'course-hop'. ACPET highlighted that those education providers who were receiving transferring students could reduce course-hopping through more extensive due diligence (comm. 7). The Australian Government commenced a social media campaign in early 2014 in response to concerns that international students perceived course-hopping as acceptable behaviour (Cash 2014).

It is difficult to establish empirically how prevalent course-hopping might be, given the often covert nature of this type of activity. However, enrolment data from the DET on transfers from higher education to VET provide some evidence suggesting that 'course-hopping' may have increased after the introduction of SVP — both in absolute numbers and as a percentage of higher education visa holders (figure 3.7). However, this should be taken as indicative only, as the data do not distinguish between transfers made for legitimate reasons and those reflecting the intentional misuse of SVP.

Conversely, visa data from DIBP show that the number of students transferring from higher education student visas (subclass 573) to VET student visas (subclass 572) has largely been stable since the introduction of SVP. Moreover, the number of students transferring from higher education to VET, as well as the percentage of higher education students making such transfers, are lower after the introduction of SVP than was the case in the two years prior to SVP. This is at odds with enrolment data from DET. While it is unclear why the datasets differ, it is broadly consistent with anecdotal evidence of under-reporting whereby students are breaching regulations by transferring between courses without applying for a new student visa.

Figure 3.7 Transfers from higher education to VET^a



^a Enrolment data are in calendar years while visa data are in financial years.

Sources: Unpublished DET and DIBP data.

Regardless of the observable measure of ‘course-hopping’, it is important that policy settings minimise the potential for perverse incentives. Initiatives such as the Subsequent Temporary Application Charge (STAC), which was introduced in July 2013, increase the transaction costs of changing courses, which is likely to have put downward pressure on the number of people changing courses overall. However, an increase in transaction costs will effectively target those students for whom a change of course provides relatively little benefit — those changing on a whim, or those trying to achieve a relatively small financial benefit. Where students see a genuine financial benefit from switching courses, this increase in fees may not act as a deterrent, particularly for those students who can better afford it.

Some education providers have sought greater use of data and other intelligence to monitor compliance, particularly the Provider Registration and International Students Management

System (PRISMS) database, in which institutions record non-commencement of a course, changes to a course and particulars of student visa breaches. Through PRISMS, data on student course variations are provided to DIBP and it is the primary source of information on whether students are meeting their visa conditions (ANAO 2011). Education providers were concerned that this was not being used effectively as a compliance tool.

DIBP advised that it has recently conducted a number of information campaigns to encourage visa compliance, in combination with regular discretionary processes for visa cancellations (DIBP, comm. 6). However, the compliance issues identified by stakeholders, which increase the potential for the granting of visas to non-genuine students, suggest that the student visa program is not fully meeting its objective in relation to immigration integrity.

3.3 Post-study work rights

There are important links between student visa programs and the options students face after completing their study, which include both other temporary and permanent migration visa programs. Many international students choose to remain in Australia after completing their study.²¹ While some such decisions may be made during study or after graduation, students are likely to consider these options when initially applying to study in Australia — as such, these options can affect the applicant's ultimate decision as to whether or not to study in Australia. In this way, students' early decisions around international study will be affected by, among other things, their perceived opportunities in the labour market and their ability to obtain post-study work rights (and the ability of their accompanying dependents to obtain work rights).

At various points in recent history, the permanent skilled migration program has provided significant advantages to applicants who had completed studies in Australia. This was accomplished partly by awarding additional points towards permanent migration for occupations included on the Migration Occupations in Demand List (MODL). In the mid-2000s, for example, the MODL added several trade occupations, leading to major growth in overseas student enrolments in VET sector courses (such as hairdressing and cookery) (ANAO 2011). The role of permanent migration in contributing to the growth of student visas has been recognised by DIBP (comm. 6).

Aside from permanent migration, international students (and their accompanying dependents) may be eligible for temporary post-study visas that include rights to undertake paid work. These graduate visas allow students to seek access to work for a specified time period after the completion of their studies.

²¹ By contrast, the Foreign Affairs and Defence Sector student visa (subclass 576) requires students to leave Australia for at least two years after the completion of their study.

Changes to post-study work rights

Australian work experience before returning home is highly valued by international students. Post-study work rights commenced in 2001, under the *Graduate-Skilled (Temporary), Subclass 497 visa* (497 visa). The visa was specifically created to afford recent graduates more time to obtain the necessary documentation in order to apply for a permanent skilled migration visas.²² Hence the 497 visa represented a transitional pathway for recent graduates to gain permanent residency in Australia.

Following the 2006 *Evaluation of the General Skilled Migration Categories*, the 497 visa was replaced with the *Subclass 485 Skilled — Graduate visa*. The 485 visa was a provisional visa that specified that international students would be permitted 18 months temporary stay in Australia at the completion of the studies. The rationale for the introduction of the visa was to enable students the time required to satisfy the requirements of permanent General Skilled Migration visas, in particular to attain qualifying scores under the points-based assessment system.

A series of further amendments delinked post-study work rights from permanent migration visas, leading to the current settings.

Current policy settings

In March 2013, the 485 visa was amended to accommodate new post-study work arrangements arising from the Knight Review's recommendations. At that time, the visa was renamed the *Temporary Graduate (Subclass 485) visa*. A new set of requirements were applied to the 485 visa (box 3.7).

One of the main differences between current settings and previous post-study working visas is that the 485 visa no longer provides a pathway to permanent skilled migration, and instead requires applicants who are not higher education graduates to nominate an occupation from the Skilled Occupations List (SOL). These changes involved creating two separate streams — the post-study work stream (for those completing bachelor's degrees or higher) or the graduate work stream (for those completing other courses of study), each having different conditions (table 3.4).

²² The Skilled — Independent Overseas Student (Residence) (Class DD) visa, or Skilled — Australian-sponsored Overseas Student (Residence) (Class DE) visa.

Box 3.7 **General requirements for a Temporary Graduate visa (subclass 485)**

The Temporary Graduate visa allows higher education and VET graduates to stay and work in Australia. Higher education graduates are eligible for a visa period of 2–4 years (under the Post-Study Work stream), depending on the qualification, while VET graduates are eligible for 18 months (under the Graduate Work stream).

The applicant needs to satisfy the following criteria:

- holds an 'eligible student visa' (as defined), or another eligible visa if they held a student visa six months before applying
- is less than 50 years old
- meets the English language requirements
- applied for an Australian Federal Police check during the 12 months immediately before the day the application is made
- has adequate health insurance arrangements
- various public interest criteria such as: satisfies the character test; assessed as not a security risk; has no outstanding Commonwealth debts; satisfies various health check requirements; and if the applicant seeks to remain permanently or temporarily for more than 12 months, the applicant is likely to become established in Australia without undue personal difficulty and without imposing undue difficulties or costs on the Australian community; has provided no false documents; and, if over the age of 18, satisfies the values statement.
- those under the Graduate Work stream must have a qualification that relates to an occupation on the Skilled Occupations List. While technically, this may include either VET or higher education graduates, all higher education graduates would be eligible to apply for the Post Study Work stream, which is less restrictive.

The Australian study requirement requires the applicant to have completed an award at an Australian educational institution which was:

- a registered course
- completed in a total of at least 16 calendar months
- completed as a result of a total of at least two academic years of study
- conducted in English
- undertaken while on a visa authorising study (for example, a student visa).

Source: Migration Regulations 1994 (Cwlth).

Post-study work rights in competitor countries

Post-study work visas are far from uniform internationally, and Australia's program differs in several ways from those of other countries which provide comparable education services (table 3.4). The US does not have a post-study visa option for graduating students to undertake work, although it does allow some extensions to student visas in particular courses for this purpose.²³ Other countries, such as the UK, Canada, and New Zealand, have comparable visa options.

Table 3.4 Post-study work rights in Australia and in competitor countries

<i>Broad eligibility criteria</i>	<i>Visa length</i>
Australia	
For VET graduates:	18 months
<ul style="list-style-type: none"> • satisfy the Australian study requirement • nominate a specified skilled occupation listed in the Skilled Occupations List • applicant's skills were assessed in the last 3 years, and assessment is still valid • applicant studied a registered course while holding their student visa 	
For higher education graduates (degree or higher):	2–4 years, depending on the qualification completed
<ul style="list-style-type: none"> • satisfy the Australian study requirement • qualifications obtained at Australian university or non-university provider • student visa granted on or after 5 November 2011 	
Canada	
Post-Graduation Work Permit Program (PGWPP):	8 months–3 years, visa cannot be issued for a period longer than the study period
<ul style="list-style-type: none"> • studied full-time in Canada and completed a program of study that lasted at least eight months • graduated from a post-secondary institution such as a college, trade/technical school or university • applied for the PGWPP within 90 days of receiving written confirmation that the applicant has successfully met the requirements to complete the study program • completed the program of study and received notification that the applicant can obtain their award • studied under a valid study permit when the PGWPP application was made 	PGWPP can count towards permanent residence requirements
New Zealand	
Post-study work visa:	Up to 12 months
<ul style="list-style-type: none"> • work in the field of qualifications • have successfully completed a qualification in New Zealand that meets the study to work qualification requirements^a • apply no later than three months (six months for doctoral qualifications) after the end date of the student visa for that qualification • provide evidence of a minimum of NZ\$4200 for the duration of the 12 month visa 	

(continued next page)

²³ Specifically, student visa extensions are available for the purposes of paid work experience in the US for science, technology, engineering and mathematics (STEM) courses.

Table 3.4 (continued)

<i>Broad eligibility criteria</i>	<i>Visa length</i>
United Kingdom	
Tier 2 (General) visa: <ul style="list-style-type: none"> • eligible qualifications are bachelor's degree or higher • applicant must have been offered a skilled job from an employer that is a licensed sponsor • the job must meet salary criteria, which varies depending on the profession 	3 years, and can be extended to a total stay of 6 years
Tier 5 (Temporary Worker – Government Authorised Exchange) visa: <ul style="list-style-type: none"> • applicant must have been offered a job from an employer that is a licensed sponsor • applicant is able to pass a points-based assessment 	12–24 months, depending on the scheme applied for
Tier 5 (Youth Mobility Scheme) visa: <ul style="list-style-type: none"> • applicant is aged between 18 and 30 • applicant has £1890 in savings • has certain types of British Nationality or are from certain countries • meet other eligibility criteria 	12–24 months, depending on the scheme applied for
Tier 1 (Entrepreneur) visa: <ul style="list-style-type: none"> • applicant wants to start their own business • a graduate who has been officially endorsed as having a genuine and credible business idea (endorsement by UK Trade and Investment or applicant's higher education institution if authorised) • from outside the European Economic Area and Switzerland • meet other eligibility criteria 	12 months, and can be extended to a total stay of 24 months
<p>^a The education qualification requirements stipulate that the course must have been at graduate diploma, graduate certificate, bachelor's degree or higher and have comprised at least one academic year study in New Zealand. If the course was a two year Certificate IV or diploma then the student must have studied the course for at least two academic years in New Zealand. If the student undertook two qualifications at the Certificate IV or diploma levels, each course must have required at least one academic year of study in New Zealand, and the second qualification must be at a higher level than the first.</p> <p><i>Sources:</i> Australian Migration Regulations 1994 (Cwlth), New Zealand Qualification Authority (2015), Immigration New Zealand (2015), Government of Canada (2015), Education UK (2015).</p>	

Implications of changes to post-study work rights

The CIE (2014) investigated the effect of SVP and post-study work rights on student numbers in NSW. The CIE found that post-study work rights were responsible for an 11 per cent increase in higher education demand in NSW. Such results are likely to be sensitive to the econometric approach (and the availability of data). Moreover, given that major changes to post-study work rights were made relatively recently, it may be premature to infer that any estimates would be representative of the likely overall impact.

The effect of these policy changes on overall international student demand is likely to be related to the take-up of Temporary Graduate Visas themselves. That is, if fewer students take up these Temporary Graduate Visas over time, it would seem likely that changes to

the visa settings would have a diminishing impact on student demand. However, it appears too early to conclude how the changes to policy settings will affect their take-up. While there appears to be a reduction in take-up in 2012-13 and 2013-14, this may be reflective of difficulties in transitioning from one system to another (table 3.5).

Table 3.5 Applications lodged for Temporary Graduate Visas, subclass 485

<i>Visa type</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>
	No.	No.	No.	No.	No.	No.	No.
Graduate Work	—	—	—	—	—	2 135	17 104
Post-Study Work	—	—	—	—	—	<5	1 359
Skilled Graduate	14 482	28 906	37 839	38 630	33 842	22 551	—
Total	14 482	28 906	37 839	38 630	33 842	24 687	18 463

Source: DIBP (2014b).

The working rights that students have during the course of their studies also have implications for the broader labour market. There is some evidence that the working experiences of international students has changed over time. For instance, those from non-English speaking backgrounds are now more likely than 25 years ago to work during their studies, while the time period between arrival and permanent residence has also increased for these students (Gregory 2014). Over this period, the working rights available to international students — both during and after their studies — have changed frequently and substantially.

The overall impact of international students on the Australian labour market is complex and largely unknown (Gregory 2014), and its analysis is beyond the scope of this report. Indeed, more evidence in this area is needed for the purposes of informing changes to visa policy, particularly regarding post-study work rights for both higher education and VET students.

Nonetheless, a barrier to graduate labour market entry is emerging as an issue for international students. A recent study by Deakin University (Blackmore et al. 2014) notes that many international graduates are poorly prepared for the labour market and have unrealistic expectations of graduate employment. The study points to the key role that universities can play in enhancing the employment prospects of these students. This could simply involve provision of information to employers on the working rights associated with graduate visas — the Commission heard anecdotally that many employers do not have a full understanding of the working rights and limitations of international student graduates.

Post-study work rights, higher education and VET

In addition to SVP, the recent changes to post-study work rights have altered the incentives faced by students. One issue that stakeholders have raised is the separation of Temporary Graduate Visas into separate streams for higher education and VET. While the eligibility of SVP has been extended to VET providers for diploma and advanced diploma courses, post-study work rights remain divided strictly into separate streams for VET and higher education. Some stakeholders have questioned whether this distinction should remain.

The main distinctions between post-study work rights applicable to VET and higher education graduates are that:

- VET graduates must nominate an occupation on the Skilled Occupations List
- VET graduates must have their skills assessed by a registered body
- the length of a graduate visa for higher education graduates is between two and four years, depending on the qualification, whereas for VET graduates it is 18 months.

In these ways, post-study work rights are somewhat less restrictive and more generous for the post-study (higher education) stream than for the graduate (VET) stream.

As noted earlier, the current settings for post-study work rights flowed on from recommendations from Knight (2011), which sought to facilitate an expansion in international student numbers. Knight noted that:

The absence of a clearly defined post-study work rights entitlement puts Australian universities at a very serious disadvantage compared to some of our major competitor countries. (p. viii)

Knight (2011) listed several reasons for recommending that the expansionary visa policy, both with regard to SVP and post-study work rights, should focus on higher education rather than VET (box 3.5). To the extent that the post-study visa stream is more generous than the graduate stream, it would appear that the expansionary visa policy does, in fact, focus on higher education rather than VET; it is by design rather than by accident.

However, differences between the higher education and VET streams of the 485 visa would only affect student numbers to the extent that potential students are genuinely choosing between Australian higher education and VET courses. Not all students would have the ability (either financially or academically) to choose between higher education and VET courses. However, at the margin, it is possible that some students entering higher education would have been influenced by the relative visa policy settings, and would have otherwise chosen to study a VET course.

There is no conclusive evidence regarding the extent to which potential students choose between Australian higher education and VET courses. As noted earlier in the chapter, international VET student numbers have decreased steadily since the late 2000s, while higher education student numbers have only increased recently with the advent of SVP

(figure 3.3). Moreover, these decisions (and the distortions presented by policy settings) would also be affected by comparative settings in competitor countries.

Aside from the comparison between higher education and VET, there is also a question of whether graduate visa settings could be more facilitative of growth for the VET sector. This is, perhaps, a more important question than whether settings should be equivalent between higher education and VET. One test could be related to whether current visa settings make Australia a less desirable prospect for VET study than other countries. As noted above, Australia is relatively less restrictive than countries such as the US, where VET graduates would not have any designated post-study work visa options. With other countries that provide similar VET services, Australia offers similar but still relatively accommodating post-study work rights.

- In the UK, work rights for VET graduates is largely attached to employer sponsorships, whereas it is not in Australia. In other words, in the UK, the work rights for VET graduates are more closely aligned to the temporary work (skilled) visa subclass 457 in Australia.
- In Canada, the length of the post-study visa for VET graduates may be up to three years, but would not exceed the period of study — this differs from Australia's fixed term, and so may be more or less desirable depending on the student's circumstances.
- In New Zealand, the length of the post-study visa for VET graduates is twelve months, which is shorter than for the equivalent Australian visa.

In this sense, it is unclear whether more generous post-study work rights for VET graduates would result in a marked improvement in the international competitiveness of Australian VET providers.

4 Quality regulation of international education services

Key points

- The quality and reputation of Australia's education services are critical factors affecting the demand for those services by international students.
- Australia has a regulatory framework aimed at providing both quality assurance and consumer protection for education services supplied to international students. This framework augments generally applicable regulatory arrangements designed to promote quality outcomes for education services supplied by Australian providers — whether they be to domestic or international students.
- Major concerns with the quality of some parts of the vocational education and training (VET) sector providing services to international students between 2007–2009 resulted in changes to that specific framework — particularly through the establishment of national regulators for higher education and for VET — and to student visa policy settings.
 - However, regulating for quality assurance remains heavily reliant on input-based standards. Students lack information on the relative performance of providers against their legislative obligations, on the relative quality of education services delivered by providers, and on the relative education outcomes of providers.
- VET providers' compliance with regulations aimed at managing risks to the quality of education services delivered to international students has improved substantially in recent years. However, ongoing risks to the quality of those services remain.
 - The Australian Government has significantly rebalanced the funding for the two national regulators to better target those areas where risks to quality are concentrated.
- Recent reports also highlight the risks to quality that are emerging in the higher education sector as a result of the high dependence of some institutions on revenue generated by international students.
- Current reviews (and yet to be implemented responses to recent reviews, such as the Chaney Review) provide further opportunities to ensure the regulatory framework for education services successfully manages systemic and systematic risks to Australia's reputation for high quality education services.
- Australia's transnational education services (delivered in other countries) are by their nature less amenable to quality assurance through regulation and represent an ongoing risk to Australia's reputation for high quality education services.
 - Nonetheless, Australia's regulatory framework has some levers to provide quality assurance for transnational services that deliver Australian qualifications. These levers are strengthened through cooperative relationships the national regulators have with overseas quality assurance agencies, governments and other related bodies.

The quality of education services provided by Australian organisations (within Australia and overseas) is a critical factor in the demand by international students for those services:

The 2012 International Student Survey confirmed the importance of quality and reputation in student choice. The top factors influencing the choice of where to study in Australia reported by international higher education and VET students in Australia, were quality of teaching, reputation of a qualification and institution, quality of research and reputation of the Australian education system. (Victorian Government 2013, p. 25)

In an increasingly competitive market for international education services (ACPET, comm. 7; Committee for Melbourne, comm. 3) it is, essential for Australia to ensure that its reputation as a provider of high quality education is not compromised. Reputation can be hard won but quickly lost.

This chapter focuses on higher education, vocational education and training (VET) and English Language Intensive Courses for Overseas Students (ELICOS). These areas account for the vast majority of international students, and evidence and participants' views identify these areas as those where threats to quality are most prevalent.

4.1 Regulatory framework for quality assurance

Australia's regulatory framework governing the quality of international education services has undergone significant change over the past five years. These changes were, in part, driven by the need to address serious problems with the quality of education that emerged with the rapid growth in international student numbers between 2007 and 2009.

The international education bubble of 2007–09 was fuelled by flawed migration policy that linked permanent residency too closely to occupations on [the Skilled Occupations List] and the Migration Occupations in Demand List (MODL), which is now discontinued. Combined with a failure of the then state based regulators, the migration link encouraged the rapid growth of rogue colleges in fields such as cookery and hairdressing, with the resultant closures, student displacement and negative publicity ... (COPHE, comm. 5, p. 5)

This misuse of the student visa pathway led to unsustainable growth in student visas but also more broadly in the international education sector, and contributed to a multitude of adverse consequences, including a proliferation of unreliable education providers, reputational damage ... (DIBP, comm. 6, p. 1)

Although these problems were confined to some segments of the VET sector, they had the potential to adversely affect the reputation of Australia's international education services sector as a whole.

In response to those problems, and to the Bradley Review of Australian Higher Education in 2008, Australia strengthened its regulation of education providers and established national regulators for the higher education and VET sectors. Additionally, in 2010 the Government introduced changes to its visa settings to strengthen the integrity of the student visa program (DIBP, comm. 6). (These changes are discussed in chapter 3.)

Legislation

The principal Commonwealth legislation governing the quality of education services in Australia for domestic higher education and VET students is set out in box 4.1.

Box 4.1 **Principal Commonwealth legislation governing higher education and VET for domestic students**

The principal legislation and related instruments for domestic students are:

- *Tertiary Education Quality and Standards Agency Act 2011* (Cwlth) (TEQSA Act)
 - This Act provides national consistency in the regulation of higher education using a standards-based quality framework (the Threshold Standards). Among other things, it aims to protect and enhance the quality of higher education and training services.
- Higher Education Standards Framework (Threshold Standards) 2011
 - The Threshold Standards consist of Provider registration standards, Provider category standards, Provider course accreditation standards and the Qualification Standards. These standards codify the minimum standard of provision of higher education that is acceptable in Australia.
- *National Vocational Education and Training Regulator Act 2011* (Cwlth)
 - This Act provides national consistency in the regulation of VET using a standards-based quality framework. Under the requirements of the Act, registered training organisations (RTOs) accept responsibility for ensuring compliance with the VET Quality Framework. That framework encompasses:
 - ... Standards for Registered Training Organisations 2015 (these include essential standards for initial registration and essential standards for ongoing registration)
 - ... The Australian Qualifications Framework
 - ... Fit and Proper Person Requirements
 - ... Financial Viability Risk Assessment Requirements
 - ... Data Provision Requirements
 - ... Standards for VET Accredited Courses 2012 (standards for accrediting VET courses).

Sources: ASQA (2014a); TEQSA (2014a).

In tandem with this general framework, Australia has specific legislation to ensure high quality education and consumer protection for international students enrolled in higher education, VET and ELICOS (box 4.2).

Box 4.2 **Principal Commonwealth legislation governing higher education and VET for international students**

The principal legislation and related instruments for education services for international students are:

- *Education Services for Overseas Students Act 2000* (Cwlth) (ESOS Act)
 - The ESOS Act (and related laws) sets out the requirements for providers who deliver education services in Australia to international students on a student visa. These laws protect international students as consumers of education services and help ensure they meet their student visa conditions for attending classes and making satisfactory progress in their studies while in Australia.
- National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students 2007 (National Code)
 - The National Code is a legislative instrument of the ESOS Act and applies to all providers of education to students on student visas in all sectors. It provides 15 nationally consistent standards for the professional conduct of education providers and for the registration of their courses on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS).
 - ... Education institutions that recruit, enroll or teach overseas students must be registered on CRICOS for every course offered to overseas students. Each institution and course registered has an identifying CRICOS number. This number must be shown on all promotional material for that institution offered to overseas students.
- National standards for English language intensive courses for overseas students (ELICOS) providers and courses
 - These standards operate as an adjunct to the National Code and detail sector-specific requirements to be met by those delivering ELICOS courses. They cover provider standards, course standards, standards for delivery and assessment, standards for educational resources and premises, and standards for business management.
- Provider registration
 - Only education institutions registered under the ESOS Act and listed on CRICOS can enrol overseas students to study in Australia on a student visa.
- Tuition Protection Service (TPS)
 - The TPS assists international students whose education providers are unable to fully deliver their course of study. The TPS ensures that international students are able to either complete their studies in another course or with another education provider or, if this is not possible, receive a refund of their unspent pre-paid tuition fees.

Sources: ASQA (2014a); TEQSA (2014a).

Regulators

At the national level, two regulators are responsible for administering this general and international student-specific legislation for the higher education and VET sectors: the Tertiary Education Quality and Standards Agency (TEQSA) and the Australian Skills Quality Authority (ASQA).²⁴

Tertiary Education Quality and Standards Agency

The Tertiary Education Quality and Standards Agency (TEQSA) was established in 2011 (box 4.3). It is Australia's independent national regulator of the higher education sector, which comprises both public and private universities, Australian branches of overseas universities, and other providers with and without self-accrediting authority.

Box 4.3 Establishment of TEQSA and its overarching role

The Review of Australian Higher Education (Bradley Review 2008) recommended an independent national body be responsible for regulating all types of tertiary education.

In responding to the Bradley Review in 2009, the Australian Government committed to ensuring that growth in the higher education system will be underpinned by a robust quality assurance and regulatory framework that places a renewed emphasis on student outcomes and the quality of the student experience.

In 2011, the Australian Government introduced the *Tertiary Education Quality and Standards Agency Act 2011* (Cwlth) (TEQSA Act), which established a new national regulatory and quality assurance environment for Australian higher education.

The new agency essentially took over the activities of the former Australian Universities Quality Agency and integrated the activities of similar state government regulatory bodies. It has a dual focus on ensuring that higher education providers meet minimum standards, as well as promoting best practice and improving the quality of the higher education sector as a whole.

TEQSA's role is to safeguard the interests of all current and future students studying within Australia's higher education system by regulating and assuring the quality of Australia's higher education providers. It pursues this role through its administration of two pieces of legislation: the TEQSA Act and the ESOS Act (in conjunction with ASQA) and does so within a risk- and standards-based approach to quality assurance.

Source: TEQSA (nd).

As at June 2014, the total number of registered higher education providers in Australia for which TESQA had regulatory responsibility was 174, of which universities constituted about 25 per cent (TEQSA 2014a, p. 32). Of these 174, 150 were registered on CRICOS (133 registered higher education providers and a further 17 ELICOS and/or Foundation

²⁴ The Department of Education and Training is also a national regulator. Under the ESOS Act it is responsible for the school sector.

Program²⁵ providers that were not registered higher education providers) (TEQSA, pers. comm., 18 March 2015).

In the 2014-15 Federal Budget, the Government announced a significant reduction in TEQSA's annual funding: by \$3.4 million in 2014-15, \$7.6 million in 2015-16 and \$10 million in 2016-17. By 2016-17, these cuts will mean TEQSA will receive about half its current funding allocation. This reduction followed the Government's acceptance of the recommendations of the Braithwaite Report, which found significant differences in the budgets and workloads of TEQSA and ASQA (box 4.4)²⁶ and that 'TEQSA regulates a sector that for the most part was already compliant, self-regulating and monitored' (Braithwaite 2013, p. 40). The Knight Review also noted that the quality of education services across the university sector was generally high, and that monitoring and regulating the sector was made easier because the number of providers was small and that number was very stable (Knight 2011, p. vii).

As a result of these changes, by 2016-17, TEQSA's average funding per provider (against the number of providers TEQSA had regulatory responsibility for at the end of 2013-14) will be around half the present level.

Box 4.4 TEQSA and ASQA budgets and workloads

The Braithwaite Report noted that in 2013-14 TEQSA would have regulatory responsibility for about 170 higher education providers, an average staffing level of 99 (excluding five Commissioners), and a budget of \$20 million. In contrast, in 2013-14 ASQA would have regulatory responsibility for about 4000 registered training organisations, an average staffing level of 211 (excluding three Commissioners), and a budget of \$38 million.

A simple comparison shows TEQSA's funding would be just over \$117 000 for each provider it regulates on average, whereas ASQA's would be about \$9500 for each provider on average, and that TEQSA has a ratio of staff to regulated provider almost 10 times greater than ASQA.

Source: Braithwaite (2013).

TEQSA is responsible for the registration and re-registration of providers, and the accreditation and re-accreditation of courses. It registers and evaluates the performance of higher education providers against the Higher Education Standards Framework (Threshold Standards) 2011, which all providers must meet in order to enter and remain within Australia's higher education system.

²⁵ Foundation Programs are nationally recognised courses that equip students with the skills to seek entry into higher education programs in Australia. They provide an academic entry pathway to first year undergraduate study or its equivalent.

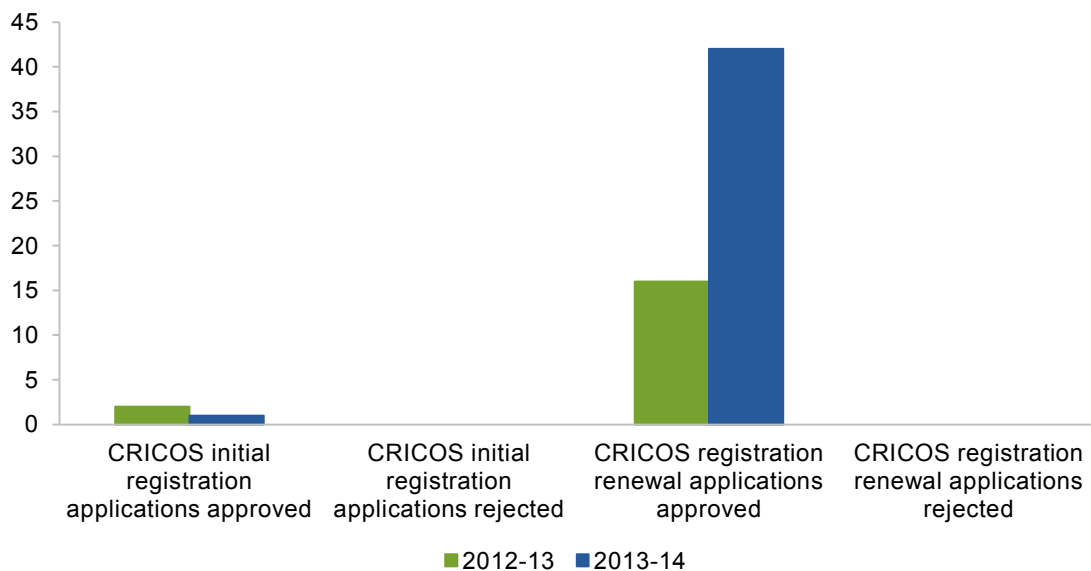
²⁶ This comparison does not account for differences in the responsibilities and scope of the two regulatory bodies. The bulk of TEQSA's workload comprises course accreditation and re-accreditation activities, for which provider numbers are a poor indicator. In comparison, ASQA does not undertake course accreditations, but does assess applications to make changes to registration (e.g. by adding/removing courses from a provider's scope of registration).

In addition, TEQSA has responsibility under the ESOS Act for:

- higher education providers registered under the TEQSA Act as CRICOS providers, offering courses to overseas students studying in Australia on student visas
- ELICOS providers if they have an entry arrangement with at least one registered higher education provider
- Foundation Program providers.

TEQSA's activity (since its creation in 2011) in prosecuting its responsibility in assessing higher education providers for CRICOS registration is shown in figure 4.1.

Figure 4.1 Applications for CRICOS registration approved or rejected by TEQSA^a



^a As TEQSA was established in 2011, there were no decisions made in 2011-12.

Source: TEQSA (pers. comm., 17 April 2015).

A notable feature of figure 4.1 is that no applications for initial CRICOS registration or renewal of registration have been rejected.

As a designated authority under the ESOS Act, TEQSA also assesses the accreditation and re-accreditation of courses on CRICOS, and monitors providers against the:

- ESOS Act 2000
- National Code
- ELICOS National Standards, if applicable.

The Australian Skills Quality Authority

The Australian Skills Quality Authority (ASQA) was established in 2011 (box 4.5). It delivers nationally consistent regulation of the VET sector through the registration of training organisations and the accreditation of VET courses.

As at 30 June 2014, ASQA had regulatory responsibility for 3938 registered training organisations (RTOs), of which 493 were CRICOS providers, and 152 were ELICOS providers (66 of whom were not an RTO) (ASQA 2014a, p. 18).²⁷

In October 2014, the Government announced an increase in ASQA's budget over the next four years, of \$68 million, as part of the VET Reform Funding Package. This increased funding for the national VET regulator (the sector where most concerns about risks to the quality of education services occur) should bolster the regulator's ability to address these risks.

Box 4.5 Establishment of ASQA and its overarching role

In December 2009, the Council of Australian Governments (COAG) agreed to a model for national regulation of the VET sector, comprising a national regulator and a separate standards setting council. In February 2011, COAG established the Intergovernmental Agreement for Regulatory Reform of Vocational Education and Training. The agreement provided the framework to establish a national regulator — the Australian Skills Quality Authority (ASQA).

ASQA was established on 1 July 2011 under the *National Vocational Education and Training Regulator Act 2011* (Cwlth) and supplementary legislation. Prior to the establishment of ASQA, regulatory arrangements for VET were dispersed among the eight states and territories.

ASQA's establishment as the national VET regulator involved the referral of powers to the Commonwealth from each state, except for Victoria and Western Australia (who declined to refer those powers). The Commonwealth's constitutional power provides for ASQA's operation in the ACT and Northern Territory.

ASQA assumed regulatory responsibility for VET from state and territory jurisdictions in phases throughout 2011-12:

- On 1 July 2011, ASQA began regulating VET providers in New South Wales, the Northern Territory, and the ACT. In addition, ASQA also became the regulatory body for VET providers in Victoria and Western Australia that provided training to international students, or that operated in a territory or state other than Victoria or Western Australia, on that date.
- Tasmania transferred to ASQA's jurisdiction on 15 February 2012, followed by South Australia on 26 March 2012 and Queensland on 29 June 2012.

ASQA seeks to ensure the quality of Australia's VET sector by ensuring providers and the courses they offer meet the required national standards. It pursues this role through its administration of two pieces of legislation: the *National Vocational Education and Training Regulator Act 2011* and the *ESOS Act* (in conjunction with *TEQSA*).

Source: ASQA (2014a).

²⁷ As at 30 June 2014, there were 4664 registered training organisations in Australia. ASQA was the regulator of 3938 of these, with Victoria and Western Australia retaining responsibility for regulating the balance of providers.

ASQA is responsible for regulating:

- RTOs that deliver VET qualifications and courses (including by offering online courses) except those who operate only in Victoria or Western Australia
- RTOs registered on CRICOS that offer courses to overseas students studying in Australia on student visas
- CRICOS providers that deliver English language intensive courses to overseas students (and which are not within the regulatory ambit of TEQSA as noted above)
- the delivery of accredited VET courses (ASQA 2014a).

As a designated authority under the ESOS Act, ASQA also assesses the registration and re-registration of courses on CRICOS, and monitors providers against the:

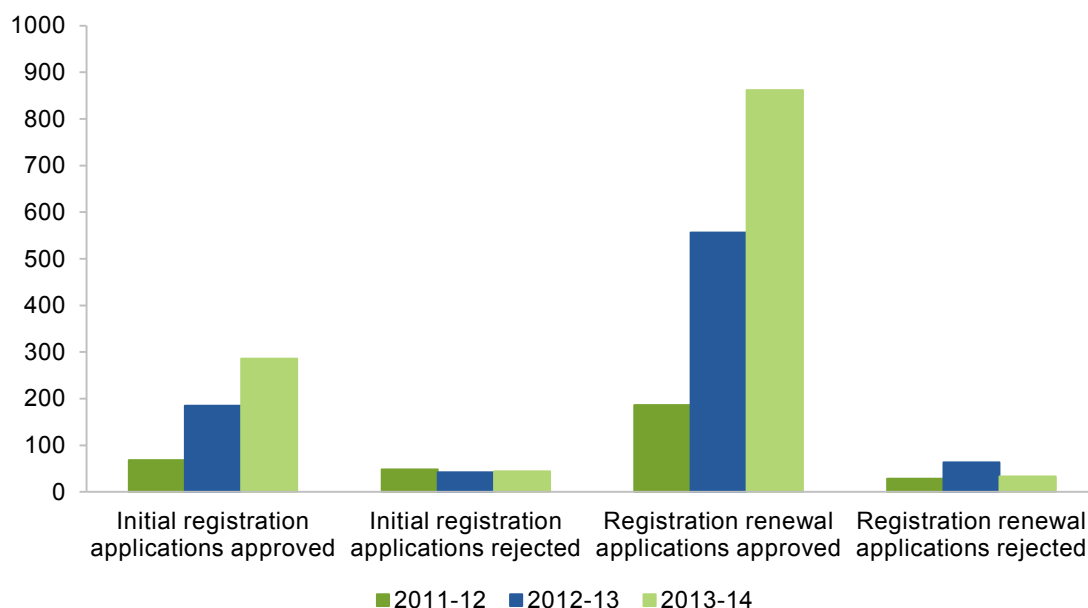
- ESOS Act
- National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students 2007
- ELICOS National Standards, if applicable.

ASQA undertakes two types of audit in the course of meeting its regulatory functions — registration audits and compliance audits:

- Registration audits assess whether an application submitted to ASQA complies with the relevant standards. All applications for initial registration as a new provider are audited. Applications to renew registration, or to add courses to a provider's scope of registration, are assessed for risk. Higher risk applications are more likely to lead to a provider being audited.
- Compliance audits assess providers' delivery of quality training and assessment services and outcomes, and may be conducted at any time (ASQA 2014a).

ASQA's activity (since its creation in 2011) in prosecuting its responsibility in assessing RTOs for registration and renewal of registration is shown in figure 4.2.

Figure 4.2 Applications for registration approved or rejected by ASQA



Source: ASQA (2014a).

A notable feature of figure 4.2 is that the ratio of rejected to approved applications has declined significantly over 2011-12 to 2013-14. In the case of applications for initial registration, this proportion has declined from 70.5 per cent, to 22.7 per cent and to 15.4 per cent over that period. For applications for renewal of registration, the corresponding decline has been from 15 per cent, to 11.3 per cent, and to 3.8 per cent. This trend, ASQA notes, reflects an improvement by existing and prospective providers in complying with the national standards (ASQA 2014a).

Of the total 330 applications for initial registration in 2013-14 shown in figure 4.2, 24 were from RTOs seeking CRICOS registration. Of these 24, 18 were approved and six were rejected (a proportion of rejected to approved applications of 33 per cent compared with 15.4 per cent for all RTOs).

Of the 895 applications for registration renewal in 2013-14 shown in figure 4.2, 195 were from RTOs who were also CRICOS providers. Of these 195, 188 were approved and seven were rejected (a proportion of rejected to approved applications of 3.7 per cent compared with 3.8 per cent for all RTOs) (ASQA, pers. comm., 9 February 2015).

The results of ASQA's audits of RTOs (including CRICOS providers) indicates that, from 2011-12 to 2013-14, prospective and existing VET providers have exhibited a substantial improvement in their compliance with national standards designed to improve the quality of education services.

4.2 Risks to quality and how they are being addressed

Various risks to Australia's reputation for high quality education were brought to the Commission's attention by stakeholders. These risks can be characterised as supply- and demand-side risks.

Participants concerns about these risks were mainly confined to the VET sector, and stem from the very nature of that sector compared with higher education. The main factors contributing to this are:

- the number of providers: around 5000 in VET and 170 in higher education
- the scale of operations: median provider size — by equivalent full time student load — in the publicly funded VET system is about 30, compared with around 500 in higher education, while the average (mean) size is around 360 and 5000, respectively
- the prevalence of relatively short duration courses in VET compared with higher education
- barriers to entry/exit: these are much lower in VET than higher education (and, thus, the scope for 'dodgy operators' to move in and out is commensurately greater).

However, a recent report by the Independent Commission Against Corruption (ICAC 2015) and media attention highlight the risks to quality that are emerging in the higher education sector as a result of some institutions' dependence on revenue generated by international students.

More generally, some stakeholders expressed concerns about aspects of the regulatory system that could limit its potential to manage risk. These concerns related to the degree of coordination among government agencies, the responsiveness of the system to changing circumstances and the excessive compliance burden imposed by the current arrangements.

Supply-side risks to quality

Stakeholders identified ongoing supply-side risks to the quality of Australia's international education services arising from the quality of providers, the courses they offer and the qualifications those courses confer.

Of fundamental concern was the risk to quality arising from 'dodgy providers' targeting non-genuine international students seeking primarily an employment or migration outcome; or who were unlikely to run a commercially viable and sustainable education business.

For those in the first group, stakeholders stressed that such providers have little or no incentive to deliver high quality education services. Those in the second group were at risk of exiting the industry, leaving their students with unfinished studies and likely to lose any

prepaid fees (but note TPS below). The outcome in both cases would damage Australia's reputation for the high quality provision of education services.

In principle, the regulatory framework recognises these risks and has provisions to address them. For the higher education and VET sectors generally, these risks are managed through provider registration requirements and standards under the *Tertiary Education Quality and Standards Agency Act 2011* (Cwlth) and the *National Vocational Education and Training Regulator Act 2011* (Cwlth), respectively. These standards underpin the quality of providers who deliver education services to both domestic and international students.

These provisions are reinforced by standards within the National Code (under the ESOS Act) for providers of international education services and, where relevant, national standards for ELICOS providers.

In addition to these measures, the TPS provides a layer of consumer protection for international students if a provider does close or is otherwise unable to complete the delivery of the student's course of study (box 4.6). This scheme is under review as part of the current Reform of the ESOS Framework.

Box 4.6 The Tuition Protection Service (TPS) in action: an example

The TPS was activated on the unexpected closure of a Sydney-based college providing English language intensive courses for overseas students, which affected 89 students. The students arrived one morning to find the college closed. The TPS was informed of the closure by the liquidator at the same time.

The TPS liaised with a number of nearby providers to find suitable courses for the students to quickly transition into, enabling them to complete their English language training in time for starting high school.

To this end the TPS, working with a range of stakeholders including the New South Wales Board of Studies, English Australia, ASQA, relevant Embassy officials and the Department of Immigration and Border Protection, successfully assisted the students to find a suitable alternative placement within two to three working days of the closure or paid them a refund of their unspent tuition.

The successful management of this incident demonstrates the breadth of support that can be marshalled at short notice to assist international students in Australia when a provider unexpectedly closes or courses are cancelled.

Source: DET (2014a).

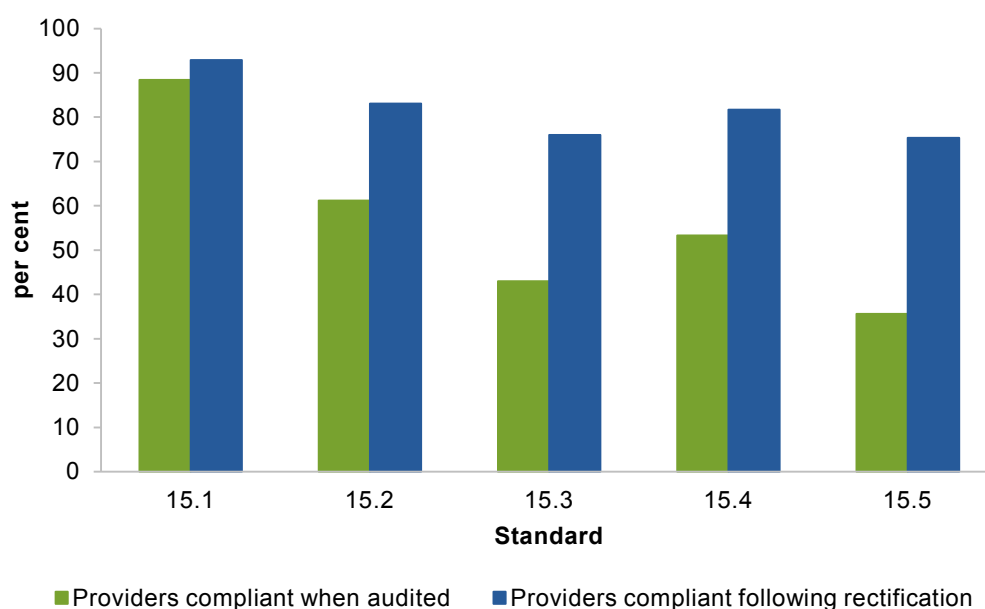
Some stakeholders noted that the quality of VET services is threatened where providers offer courses but do not have all the resources necessary to support that training. Anecdotal examples of this included references to cooking schools without kitchens (Ross 2014).

This risk to the quality of education services is specifically addressed by national standards for providers and courses under general legislation governing VET (for example, Standard 15.3—Required staff, facilities, equipment and material, under the Standards for

NVR Registered Training Organisations 2012). These standards are duplicated by requirements in the National Code under the ESOS Act (Standard 14: Staff capability, educational resources and premises) and national standards for ELICOS, which must be met if the course and its provider are to be registered on CRICOS.

Data from ASQA show that concerns about this source of risk are well founded, with only 43 per cent of those CRICOS RTOs audited in 2013-14 initially compliant with Standard 15.3 (figure 4.3).²⁸

Figure 4.3 Levels of compliance with each part of Standard 15,^a found at audits of CRICOS RTOs: 2013-14



^a S. 15.1—Continuous improvement of training and assessment, S. 15.2—Training meets the requirements of the training package, S. 15.3—Required staff, facilities, equipment and material, S. 15.4—Qualified and competent trainers and assessors, S. 15.5—Assessment is undertaken properly.

Source: Based on ASQAnet data as at 13 June 2014.

However, while the level of initial compliance with Standard 15.3 is cause for concern, the level of compliance following rectification work by providers (76 per cent for CRICOS RTOs) indicates that the regulatory system is achieving positive results.

Stakeholders also expressed concerns about the quality of the qualifications or statements of attainment offered by VET providers to both domestic and international students. In particular they noted that deficiencies in the assessment process have the potential to erode confidence in the value (quality) of those qualifications or attainments.

²⁸ The basis for non-compliance can range from minor concerns to very serious concerns.

Fuelling this concern is evidence of widespread failure among VET providers to comply with the (then) relevant standard for assessment (Standard 15.5—Assessment is undertaken properly). In 2013-14, for example, only 36 per cent of CRICOS RTOs audited by ASQA were found to be compliant with Standard 15.5, although, following rectification, 75 per cent were found to be compliant (figure 4.3). For all RTOs the corresponding levels were 31 per cent at initial audit and 79 per cent following rectification (ASQA 2014a).

Draft new standards on assessment released in July 2014 by the Minister for Industry have not removed these concerns. Those standards only require external and independent validation of assessment in the case of qualifications such as Certificate IV in Training and Assessment or a diploma or higher qualification in adult education. For all other VET qualifications, the standards continue to rely on the provider to do its own validation.

Audit results for all parts of Standard 15 have led ASQA to increase its provision of information and guidance sessions about the standards in order to assist existing (and potential) providers to comply with them. This approach is consistent with ASQA's experience over three years of operation, which indicates that the majority of providers seek to comply with the standards but many struggle to understand and interpret what is expected of them (ASQA 2014a).

Finally, a number of stakeholders expressed concern that unscrupulous VET providers could manipulate the length of time required to complete some courses. Stakeholders referred to the 'four-day diploma' rorts once evident in Victoria (Ross 2014) and argued that the re-emergence of such behaviour could precipitate a race to the bottom (in quality of education terms). This phenomenon was particularly associated with courses eligible for VET FEE-HELP — the Government's VET student loans scheme that allows students to enrol in courses without the need for an initial cash outlay. This scheme is not available to international students.

Similarly, stakeholders noted, unscrupulous providers also have an incentive to artificially extend the duration of their courses so overseas students have more time to work in Australia. While such an outcome might appeal to some students, doing so effectively degrades the quality (and productivity) of the education service being delivered (the same education value but a longer time to attain it).

Anecdotal evidence suggests these threats to the quality of domestic and international education services were rife in the bubble years of 2007 to 2009.

The current regulatory framework has legislative provisions to address such concerns for domestic and international students. For VET generally, the National Vocational Education and Training Regulator Act refers to standards for course accreditation that, if enforced, should ameliorate this risk. In addition, Service Skills Australia has noted that 'the strengthened *Standards for Registered Training Organisations 2015*,²⁹ with its increased

²⁹ These standards came into effect on 1 January 2015.

focus on teaching and assessment and firmer safeguards against “rogue training brokers” will be an important measure in addressing this risk (Service Skills Australia 2015).

Similar standards replicated under the National Code and for ELICOS that underpin course accreditation and registration on CRICOS are also designed to obviate this risk.³⁰

Moreover, it appears that ASQA is committed to enforcing those provisions. Its risk-based approach to regulation has identified short courses as a risk factor to quality and it is targeting providers offering those courses for auditing (ASQA, pers. comm., 27 February 2015).

In addition to the current regulatory tools available to curb these threats, in March 2015 the Government announced it will introduce reforms to the VET FEE-HELP scheme to crack down on abuses of the scheme. Among other things, these reforms will:

- ban providers from offering inducements to students to get them to sign up for courses
- require a minimum number of study units
- require providers to properly assess students for minimum prerequisite educational capabilities before enrolment
- stop marketing agents and brokers ‘freelancing’ to sign up as many students as possible, without the training provider being held responsible for their actions (Birmingham 2015).

These reforms are in addition to Government action against unethical marketing practices via tough new national standards and the introduction of new laws to strengthen the regulator’s powers to deal with rogue training providers (Birmingham 2015) .

While stakeholders identified various supply-side risks to the quality of international education services, it is worth emphasising that TEQSA and ASQA have, since their inception, moved to a more risk-based approach to regulation. This approach assists the regulators to prioritise their regulatory focus on areas that represent the greatest risk to the quality of education services. Such risk-based models are well established elsewhere, for example, the approach taken by the Australian Prudential Regulation Authority in regulating the financial sector.

This approach — which has seen ASQA increase its targeted compliance audits of providers from 235 in 2012-13 to 411 in 2013-14 and instigate a number of strategic industry reviews in response to identified risks — has strengthened the regulatory framework’s capacity to deal with existing and emerging risks to Australia’s reputation for quality in education services.

³⁰ For example, the National Code stipulates that ‘The registration of a course on CRICOS must include the expected duration of the course. The registered duration cannot exceed the time required for completing the course on the basis of the normal amount of full-time study’.

Demand-side risks to quality

The quality of Australia's international education services is also at risk where students enrolling in courses are primarily motivated by permanent migration or employment outcomes, or are a poor fit for those courses (ICAC 2015).

The presence of such students in a course can compromise the quality of education services in a number of ways. For example, the recent report by the Independent Commission Against Corruption points to gaps between student capabilities and academic demands, leading to the likely erosion of academic standards (ICAC 2015). At the very least, it can diminish the richness of student interaction that is an important part of many courses, and so lessen the overall quality of that educational experience for other international students and indeed domestic students. It can also, in some cases, result in students 'course hopping' (see chapter 3), which, in sufficient numbers, could precipitate the financial collapse of a provider (where viability based on forecast enrolments becomes unsustainable when numbers shrink) but at the very least can adversely affect course quality.

A number of factors contribute to this risk that the quality of education services will be compromised:

- the ability of the student visa system to screen out 'non-genuine' students and the Department of Immigration and Border Protection's ability to enforce student visa conditions (chapter 3)
- the conduct of education agents, including the expectations (false or true) they give to students (chapter 6)
- the extent and quality of information available to potential students and upon which they make their enrolment decisions.

Information on courses for international students is available through web portals of individual institutions and of industry bodies such as ACPET or education agents such as the Australian College Information Centre or IDP Education.

Nonetheless, some stakeholders noted that inadequacies in the extent and quality of information available to potential students means that some choose courses that are not the best fit for their education and career goals, or impose unexpected extra course fees. Where this occurs, those students could have grounds for criticism of the quality of the educational service they received, and that their expectations were poorly managed. In today's world of ubiquitous social media, such criticism is highly visible and can easily damage Australia's education reputation.

To address this information deficiency, the ESOS Act imposes a requirement on providers that they must supply students with information that will enable them to make informed decisions about their studies in Australia (Standard 2 of the National Code). In this regard, the ESOS Act provisions essentially replicate the legislative requirements governing the information that domestic providers of higher education and VET are required to meet

(such as Standard 24—Accurate and ethical marketing under the Standards for NVR Registered Training Organisations 2012).

Government agencies also play a role in assisting potential international students to make informed decisions about which course is best for them. At the federal level, information portals by the Department of Education and Training and by Austrade are the main examples of these. In addition, each state and territory government provides dedicated portals to assist students in making fully informed decisions (such as the *Study Melbourne* portal provided by the Victorian Government).

These sources of information are complemented by a host of others managed by the Department of Education and Training that, albeit aimed at assisting domestic students, can also assist international students make better informed decisions about which course and provider they might choose (box 4.7).

Box 4.7 Sources of information on VET courses and providers

At the Australian Government level, the Department of Education manages a number of initiatives to provide information to prospective VET students, including:

- *training.com.au* provides information on VET providers and courses
- *MySkills* is a career planning service for careers in the manufacturing, engineering and automotive industries
- *Australian Apprenticeships* is a website that provides information to employers and students about apprenticeships and traineeships. The website contains a link to the *National Skills Needs List*, which identifies trades in demand.

In addition, many privately operated employment websites, such as Seek and MyCareer, contain information on VET courses and employment prospects by occupation.

Source: PC (2012).

In 2012, serious and persistent concerns raised by the training sector about RTOs and other bodies providing misleading marketing and advertising led to ASQA initiating a review into those practices. The report was released in September 2013 (box 4.8). ASQA is progressively implementing those recommendations that relate directly to its regulatory functions, and is working with VET stakeholders to implement the other recommendations.

Box 4.8 Addressing information deficiencies facing VET students

In 2012, ASQA initiated a review of the marketing and advertising practices of RTOs in the VET sector. The report of that review was published in September 2013. Its key findings included:

- Up to 45 per cent of RTOs were marketing and advertising misleading information.
- Some marketing and advertising practices breach the standards. Organisations that are not RTOs are acting as brokers for those that are, which is misleading consumers.
- Consumers (including students and employers) are often provided with ambiguous information, or insufficient information to make informed training choices.

The review's recommendations included that:

- ASQA prioritise RTOs' marketing and advertising in its regulation
- ASQA undertake periodic random sampling of websites to identify potential non-compliance with the standards, and conduct national workshops to reinforce and explain the requirements of the standards
- the standards relating to marketing and advertising be enhanced
- the standards-setting body and VET regulators work together to address volume of learning concerns identified in the strategic review
- measures to ensure the protection of consumers using VET brokers and agents are considered.

Source: ASQA (2013).

Adequacy of the regulatory system to manage risks

The Commission also heard concerns about particular aspects of the regulatory system that could limit its potential to manage risks to quality in the international educational services market. These covered:

- coordination amongst government agencies
- responsiveness of the regulatory framework to changing circumstances
- the compliance burden imposed by the current arrangements
- a reliance on input standards and the absence of publicly available measures of providers' relative quality ranking.

A consistent whole-of-government approach

Participants noted the importance of Australian governments bringing a consistent and coordinated approach to international education:

In the highly competitive international student market, coordination and collaboration across the Commonwealth and states/territories is more important than ever. ... this submission, highlights the connectedness of the individual elements of policy and regulation that govern the international education sector. (DEDJTR, comm. 11)

However, participants also expressed concerns about the degree of coordination among government agencies and the capacity of governments to deliver consistent, whole-of-government policies affecting the international education services market. As the Council of Private Higher Education noted:

International education is currently supported by several Commonwealth Ministers and Departments, principally Education, Immigration and Trade (Austrade). These multiple responsibilities have led in the past to departmental silos, inconsistent policy and fragmentation of effort. ... Responsibility for marketing has also moved around, and now resides with Austrade. Most States also have international education activities and strategies intended to promote international education ... but policies vary when greater alignment would send a more consistent message of welcome. (comm. 5, p. 2)

These concerns echo the Chaney Report (2013), which found an urgent requirement for a coordinated national approach to international education. That report recommended a high level Ministerial Coordinating Council on International Education to ensure improved coordination of government policy and programs for international education and better consultative mechanisms for stakeholders.

The Government has stated that it agrees with the recommendations of the Chaney Report about the need for better coordination of government policy and programs in international education and for improved consultation with stakeholders. In April 2015, it released a *Draft National Strategy for International Education* for consultation (which incorporates its response to that report) (Pyne 2015).

Responsiveness to changing circumstances

Another measure of the adequacy of any regulatory framework is whether it is responsive to changing circumstances. By this measure, the regulatory framework governing the quality of international education services rates highly. Recent years have shown the Government's willingness to subject the regulatory framework to comprehensive review and change. Examples of recent and contemporary major reviews of the regulatory framework, designed, in part, to ensure Australia's regulatory framework remains relevant to changing circumstances include:

- The Chaney Report of international education services (2013)
- The Braithwaite Review of Higher Education Regulation (2013)
- Reform of the ESOS framework (DET 2014f)
- Review of VET training packages and accredited courses
- Revised Standards for VET providers (introduced in January 2015).

In addition, the national regulators have demonstrated a preparedness to undertake reviews of the sector they are responsible for, in order to better identify risks to the quality of education services and inform themselves about how they might better regulate to ensure

Australia's continued reputation for high quality education services. Examples of these are ASQA's reviews of:

- Marketing and advertising; Aged and community care training; and Work safety in the construction sector (in 2013)
- Early childhood development workforce training; Security training; and Equine training (in 2014)
- Transnational education services (foreshadowed for 2015).

Compliance burden

Some stakeholders considered that the current regulatory framework imposed an excessive compliance burden, arguing that this tended to compromise the quality outcomes for international education services that those regulations sought to achieve. ACPET and the University of Sydney, for example, noted:

A constant complaint from ACPET members is the manual and time consuming requirements of reporting on each student. ... The systems used by Government in education (both for domestic and international students) are outdated and have no communication with each other and ask the provider for the same data on numerous occasions. (comm. 7)

In general, the University of Sydney is concerned over the significant administrative burden imposed by regulation in this area [of international education services]. (comm. 10)

Such concerns are, however, being addressed by governments and regulators, and the sector is awash with examples of efforts to reduce this regulatory burden where the costs of regulation exceed the benefits or where more efficient regulation is possible. These include:

- reforms to the VET system, including new draft standards and arrangements for the streamlining of training packages, which seek to highlight the importance of quality while reducing burdens on providers
- implementation of the recommendations from the 2013 *Review of Reporting Requirements for Universities*, which will reduce the burden of providing duplicative data and information to government agencies
- the current *Reform of the ESOS framework*, which has a core objective of easing the burden of regulation on education providers (DET 2014f).

These efforts complement other initiatives aimed at tackling the excess burden of regulation, such as the *Review of RTO VET Data Reporting Requirements* in 2014 (ACPET, comm. 7, p. 37) and the PwC report to state and territory governments on ASQA's regulatory approach:

This review was ... to consider the efficiency and effectiveness of its current regulatory approach and how this can be optimised over time. (PwC 2013)

The national regulators claim that they are acutely aware of the regulatory burden their activities impose on the sector and are committed to reducing that burden where appropriate. TEQSA's 2013-14 annual report for example, noted:

In 2013-14, TEQSA intensified its efforts to learn from its early regulatory experiences and to identify areas to reduce regulatory work for providers. Following the *Review of Higher Education Regulation*, implementation of commitments outlined to the (then) Secretary of DIICCSRTE began formally in 2014. These reforms focused on addressing the main areas of concern to the sector, including application processes, reporting requirements, duplication of requirements across regulatory bodies, the time taken to make regulatory decisions, and ensuring that regulatory assessments take a risk-based and proportionate approach. (TEQSA 2014a, p. 28)

Similarly, ASQA noted in its most recent annual report:

After three years of operation, ASQA has been able to collect substantial data on the performance of providers against the required standards. During 2013-14, ASQA has used this intelligence to inform its maturing regulatory approach and develop its package of VET Regulatory Reform.

The VET Regulatory Reform program — which ASQA announced and began implementing from mid-2014 — seeks to reduce the regulatory burden on high-quality, fully compliant providers, while increasing regulatory scrutiny on poor-quality providers. This regulatory approach also offers increased information and support to those providers who are genuinely attempting to meet the required standards. (ASQA 2014a, p. 16).

Some stakeholders noted the potential for excessive compliance costs for providers who deliver both higher education and VET courses and who are, thus, subject to the regulatory oversight of TEQSA and ASQA.³¹

TEQSA and ASQA have acknowledged the potential burden this regulatory overlap can inflict, and in December 2011 they entered into a memorandum of understanding (MoU) aimed at streamlining regulatory processes and reducing the duplication of the regulatory burden for 'multi-sector providers'. In June 2014, they signed a revised MoU to cover the period 2014 to 2016. This approach:

... allows providers to submit a single application to one agency and to have a single point of contact. The process also facilitates coordination of evidence by both agencies and a consistent approach to assessing common evidence and standards.

TEQSA and ASQA are also working together to develop joint management processes for renewal of registration applications for providers registered with both agencies. (TEQSA 2014a, p. 38)

³¹ The issue of whether the two regulators should be merged (to reduce the regulatory burden facing dual sector providers) was considered in the Braithwaite Report in 2013. That review concluded '... it seems far too early to be contemplating restructures such as creating a single tertiary regulator ...' (Braithwaite 2013).

While various stakeholders expressed concerns about the excessive compliance burden of Australia's regulatory framework for domestic and international education services, it appears these concerns are being addressed by Government and the national regulators via major reviews and ongoing commitment to regulatory reform. That said, at this stage it is difficult to assess the adequacy and speed of progress in such reforms.

Despite positive action in this area, however, the regulatory overlap of TEQSA and ASQA and their common goal of efficient and effective regulation of tertiary education providers suggests that the merit (costs and benefits) of a merger should be revisited.

Reliance on input standards and lack of any relative ranking of providers' quality

The current regulatory framework aimed at providing quality assurance for Australia's international education services market (and education services for domestic students) is heavily reliant on input-based standards.

However, the principles of best practice regulation suggest that the current focus could be rebalanced to provide for outcome-based measures to have a greater role in that quality assurance framework:

Regulatory instruments should be performance-based, that is, they should focus on outcomes rather than inputs. (COAG 2007, p. 5)

Regulation should not be unduly prescriptive and, preferably, be specified in terms of performance or outcomes. (PC 2007, p. 626)

The national regulators already make use of various outcome measures to help them identify those providers likely to not comply with mandated input standards (see below). As this information is already being collected and used, this suggests it could be a short step to incorporate outcome measures in the mandated standards against which providers' registration and course accreditation are assessed.

In addition, while the regulatory regime requires providers to make certain information *about* their organisation and courses publicly available, it does not require the national regulators to make public other information that would assist students to make comparisons *between* providers.

ASQA and TEQSA already collect such information. Their auditing of providers against registration and/or course accreditation standards generates information about relative performance. At present, though, these audit results are not publicly available.

Were this information to be made public, it would offer greater transparency about the relative compliance performance of providers for consumers (international and domestic students) and for the providers themselves.

ASQA and TEQSA collect other information that could serve a similar purpose. Both regulators assess individual providers against the likelihood of their not complying with the

relevant legislative obligations, in order to develop a ‘risk rating’ for those providers. These ratings are used internally to feed into their risk-based approach to regulation and help inform where the regulators might best focus their effort.

A provider’s risk rating is determined using its audited performance against the standards it is required to meet for registration or course accreditation, augmented with other pertinent information. That pertinent information also includes various outcome measures, such as student completion rates and levels of student satisfaction with the education services they receive.

At 30 June 2014, ASQA had rated the RTOs for which it had regulatory responsibility as follows:

- high risk — 9.4 per cent
- medium risk — 23.3 per cent
- low risk — 56.5 per cent
- not yet assigned — 10.8 per cent (ASQA 2014a, p. 38).

Comparable data on the proportion of higher education providers in each risk category are not published by TEQSA.

Further, the current regulatory regime provides no publicly available information on the relative quality of education services offered by providers or measures of comparative education outcomes, such as completion rates, the distribution of levels of attainment for students completing their studies and demonstrated competencies against generic and discipline-specific learning objectives.

The absence of this information makes it difficult for international (and domestic) students to choose the provider and course that best meets their education goals, and precludes an incentive for providers to improve the quality of their education services. Accordingly, the Commission considers that where such information is already collected, it would be desirable for the national regulators to make that information publicly available. In addition, and notwithstanding the difficulty in measuring relative quality outcomes, the national regulators should also consider the merit of collecting and publishing other information that would assist students to choose *between* providers when making the choice of which course best suits their purpose.

4.3 Transnational education services

Transnational education services account for around one third of all Australia’s international student enrolments.

However, the nature of this market is such that the risks to quality — and the scope for government intervention to deal with those risks — differ from those facing education services delivered onshore in Australia.

On the one hand, any systemic risks associated with gaming the student visa system are not relevant, as transnational students are domiciled outside Australia. On the other, by dint of being delivered in another country, transnational services are generally beyond the jurisdiction of Australian laws, and their delivery in another country presents practical difficulties to the physical inspection/monitoring of these activities. As Ramia, Marginson and Erlenawati observed:

... whereas cross-border providers are subject to the laws and regulations of their home country, many of these regulations can either be bypassed or diluted in the process of internationalising. As McBurnie and Ziguras (2001, 2007) make clear, higher education providers from developed countries can bypass their own local regulations when developing, pricing and marketing programmes to students residing in countries with less restrictive stipulations about quality. (2013, p. 36)

Notwithstanding these challenges, Australia's regulatory framework has some powerful levers to influence the quality of Australia's transnational education.

These levers include TEQSA's and ASQA's powers over the registration of Australian providers of transnational education services that deliver Australian qualifications, the accreditation of courses leading to those qualifications and, albeit indirectly, their controls on the quality and behaviour of education agents that potentially funnel students to those transnational services.³²

In the higher education area, TEQSA has also developed relationships with various overseas agencies to assist with its regulatory oversight of offshore providers:

TEQSA has memoranda of cooperation, understanding and agreement with five overseas regulatory and quality assurance agencies. This is a continuation of the work TEQSA began in 2012-13 to develop cooperative agreements with overseas regulatory and quality assurance agencies in the countries where Australian providers are most active.

To protect the reputation of Australian higher education and the interests of students, TEQSA applies a rigorous, risk-reflective approach to regulating offshore provision of higher education. It also develops cooperative relationships with overseas regulatory and quality assurance agencies, governments and other related bodies, to share information on the rigour of the Australian regulatory system. (TEQSA 2014a, p. 29)

ASQA, too, has the authority under its enabling legislation 'to cooperate with a regulatory authority of another country that has responsibility relating to the quality or regulation of vocational education and training for all, or part, of the country' and 'to develop

³² ASQA has consulted with the VET sector and informed State and Territory governments (through the now disbanded Joint Council on International Education) of its intention to move to risk-based, clustered audits for RTOs delivering offshore in 2015 (DISDBI 2014).

relationships with its counterparts in other countries'. However, it has not yet formally entered into similar arrangements to those noted for TEQSA.

While offshore providers of courses leading to Australian qualifications are audited for compliance against the standards required of them for delivering those courses in Australia, offshore providers of other education services *not* leading to Australian qualifications have no such discipline. The behaviour of Australian providers in this latter area, therefore, poses a potentially significant risk to Australia's reputation as a quality provider of international education services: a risk that Australia at present does not have the regulatory capacity to manage.

This issue is being considered as part of a current review of transnational education by the Victorian Government (a review proposed in its *International Education Strategy for Victoria 2013–2018*). In conducting this review, the Victorian Government is consulting widely with all State and Territory Governments and the Australian Government, with a report expected to be finalised in the latter half of 2015.

The Victorian Government has no power to regulate transnational VET providers (this resides with ASQA). However, the results of the review will be used to inform its advocacy for any changes the review findings suggest might be appropriate to extend the market for those services and to protect Australian providers' reputation as quality providers of transnational education services.

In addition, ASQA has foreshadowed a strategic review of transnational VET services in 2015. This review is expected to inform the development of ASQA's strategy for improving the regulation and management of risks to the quality of education services delivered by offshore providers.

4.4 Measuring the quality of international education services

Despite the risks to quality noted above, anecdotal evidence suggests that Australia has maintained or improved its high standard for international education services in the years since 2009 — a period that experienced significant changes to the regulatory framework governing those services and to visa policy. As the University of Sydney noted:

... legislative and policy changes to the Education Services for Overseas Students (ESOS) Framework and the Streamlined Visa Processing (SVP) system. ... have had the effect of enhancing the quality of higher education in Australia ... (comm. 10)

However, as objective measures for the quality of education services for international students are not available, it is difficult to verify this is the case.

A number of stakeholders drew attention to the lack of objective data measuring education outcomes (including quality) and, thus, the relative lack of an evidence base to inform

policy in the domestic and international education services sector, including policy related to improving quality outcomes (ACPET, comm. 7).

The Government's expansion of the Unique Student Identifier (USI) partly addresses this concern (although it does not include higher education). The information collected by the USI will give governments a much clearer picture of how many students are in the VET system, show the length of time students undertake VET and the pathways they are taking through the system (box 4.9). Among other things, this information should assist regulators in prioritising where their efforts are best directed.

Box 4.9 About the Unique Student Identifier (USI)

From 1 January 2015, all students doing nationally recognised training will need to have a USI. The USI is linked to the National Vocational Education and Training (VET) Data Collection, which means an individual's nationally recognised training and qualifications gained anywhere in Australia, from any training organisations, will be kept together.

The USI initiative will provide accurate, accessible training records to build data that will allow governments to target the skills that industry needs to ensure the future prosperity of Australian businesses.

Because the USI means capturing longitudinal data on course completions, it will help to inform the development of future VET sector policy initiatives.

Source: DET (nd).

5 Student visa processing alternatives

Key points

- As part of its review of future directions for Streamlined Visa Processing (SVP), the Department of Immigration and Border Protection (DIBP) has proposed a revised model for assessing immigration risk that would take into account not only the immigration risk outcomes of a particular education provider (as is the case currently under SVP) but also the immigration risk applicable to the student's country of citizenship.
 - Such a model would have some advantages compared to the current model — it could be applied universally to all international education service (IES) providers; it would simplify the framework by having a single student visa processing system; and by adopting a more granular approach to immigration risk management, it would strengthen incentives for education providers to recruit *genuine* students.
 - ... How the proposed model is implemented will have implications for its effectiveness.
- Prospective students (and education agents) perceive access to SVP arrangements as a marker of 'educational quality', despite the fact that no assessment of quality is made as part of granting access to SVP. This perception has contributed to the distortions in the IES market.
 - DIBP's proposal as outlined in its discussion paper does not address this misperception.
 - Further, the proposal would do little to address the reputational risks to the IES sector posed by low quality educational offerings by some providers. By extending a streamlined visa process to a larger number of IES providers — in the Vocational Education and Training (VET) sector in particular — it has the potential to reward providers who are low-risk in terms of immigration outcomes, but may be high-risk in terms of the quality of their training.
- One way of mitigating the risks to perceptions of educational quality inherent in a potential broadening of access to streamlined visa processes is to adopt a modified framework that builds on the DIBP's proposed model by incorporating an additional dimension to capture educational quality.
 - This integrated risk framework could combine both aspects of immigration risk (country of citizenship risk and provider risk) with educational quality risk — drawing on the quality risk ratings as assessed by the national regulators — the Tertiary Education Quality Standards Agency (TEQSA), and the Australian Skills Quality Authority (ASQA).
- Another way of mitigating the quality perception risk would be for TEQSA and ASQA to increase transparency around the quality risk ratings of all education providers by publishing these ratings.
 - Such an approach would explicitly remove any perception about access to streamlined visa processing being a marker of quality and would leave one regulator (DIBP) to target the immigration risk and TEQSA and ASQA to target educational quality.
- Given the links between immigration risks and education quality risks, both approaches would require enhanced coordination between the DIBP and the Department of Education and Training to ensure a consistent approach to IES policy from a whole-of-government perspective.

5.1 Summary of the current problems

As discussed in chapter 3, Australia's current student visa system provides two distinct pathways for applicants to be granted student visas: the Assessment Level (AL) framework, and Streamlined Visa Processing (SVP). The AL framework considers a range of factors and assigns immigration risk (box 5.1) to student visa applicants on a per country basis, ranging from AL 1 (low risk) to AL 3 (high risk). Each AL corresponds to different levels of evidentiary requirements relating to financial capacity, English language proficiency, and academic qualifications. AL 1 applicants need to satisfy the lowest evidentiary requirements, and AL 3 applicants need to satisfy more stringent requirements.

Under current SVP arrangements, all student visa applicants are deemed to have low immigration risk (AL 1) irrespective of their country of citizenship, provided they are applying to eligible courses — those offering advanced diplomas or higher — by eligible education institutions. Eligibility relates to both the course offered and the institution, and as such, may not relate to the whole institution (to the extent that the institution also provides courses at lower levels).

Irrespective of whether student applicants are assessed under the AL framework or SVP, both the course and the provider must be registered on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) — see chapter 4.

The relatively fast track visa processing framework under SVP has generated benefits for education institutions offering advanced diplomas and above, and for their prospective international students. However, as highlighted in chapter 3, primarily because SVP is available to some education institutions and not others, it has also led to perverse incentives for:

- agents — to channel international students into higher education pathways, regardless of their aptitude or career aspiration. This has disadvantaged high quality vocational education and training (VET) providers
- some SVP-eligible providers — to adopt a relatively relaxed approach to immigration risk management so that they can expand their student intake up to the point that does not trigger a penalty by the Department of Immigration and Border Protection (DIBP)
- providers — to add advanced diplomas to their offering, since the recent extension of SVP to these courses, with potential downside risks to the quality of these courses
- some prospective students and education agents — to target institutions with access to SVP initially, and once granted a student visa, to 'course hop' to another institution offering an easier or cheaper course, potentially breaching their visa conditions.

Box 5.1 **Defining immigration risk in the student visa program**

Immigration risk is the risk that a visa applicant would seek to use a visa for a purpose for which it was not intended, would make false claims in support of the visa application, or would not comply with the conditions of the visa.

In setting immigration risk (i.e. the Assessment Level for each country), the following statistics must be considered under the Migration Regulations:

- the number of former holders of student visas who have become unlawful non-citizens
- the number of student visas that have been cancelled
- the number of applications for student visas that have been refused
- the number of fraudulent documents detected by the Department of Immigration and Border Protection in relation to applications for student visas
- the number of holders of student visas who have applied for protection visas, or for certain permanent visas.

Immigration risk comprises two aspects: country of citizenship immigration risk, and provider immigration risk.

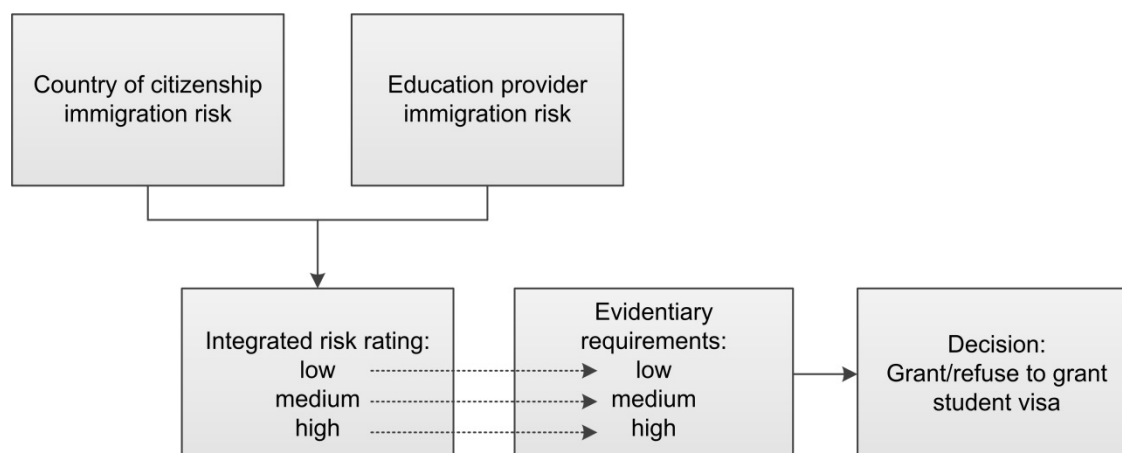
- Country of citizenship risk is concerned with the risk that an applicant may not be a genuine student, or that they may engage in conduct which is unexpected given their visa.
- Provider immigration risk relates to the risk that an education provider may enrol non-genuine students.

Source: Migration Regulations 1994 (Cwlth).

5.2 **DIBP's proposed model**

As part of its strategic review of SVP, the DIBP released a discussion paper on the future directions of SVP to industry participants in November 2014 (DIBP 2014a). The paper includes a revised framework for SVP and sought stakeholder feedback on its merit. The proposed approach looks to amalgamate the AL framework and the SVP framework into one by combining provider immigration risk and country immigration risk under a single framework that would apply to all international student visa applicants (figure 5.1).

Figure 5.1 DIBP's proposed framework for student visas



Potential impacts of DIBP's proposed model

The main benefits from implementing the approach proposed by DIBP are:

- *combining provider and country of citizenship risks to enable a more comprehensive and granular assessment of the overall immigration risk that prospective students pose* — currently provider risk, and not country of citizenship risk, is assessed under SVP, and vice versa under the AL framework.
- *it could be universally applied to all IES providers and all prospective students* — a substantial portion of the education sector — VET, intensive English Language courses, and courses offered at lower than advanced diploma level — could conceivably gain access to streamlined processes and the associated lower evidentiary requirements for their prospective students.
- *it would simplify the system* — currently, and as noted above, two different frameworks assess two different aspects of immigration risk. In both cases, the different risks are assessed, but on the basis of the same indicia (box 5.1).
- *if credibly enforced, it would improve the incentives for IES providers to recruit genuine students* — by feeding providers' immigration risk outcomes back into their risk assessment.

DIBP's proposed model for granting student visas represents an improvement on the current system. It integrates country of citizenship immigration risk and education provider immigration risk to provide a more representative overall immigration risk rating. It would also remove the somewhat arbitrary line between institutions that have access to streamlined visa processes and those that do not, and in doing so, removes the existing distortions relating to streamlined visa processing.

The effectiveness of the DIBP proposed model is contingent on how it is implemented. Some key considerations in designing an optimal student visa program include:

- *clarity and simplicity* — the revised model must be able to be clearly articulated by the DIBP and be easily understood by all relevant parties including providers, agents, and students.
- *risk management* — the regulatory regime needs to ensure that the party best able to deal with a risk is responsible for its management.
- *transparency* — the regulatory regime needs to be sufficiently transparent so that information asymmetries are reduced as much as practicable. A transparent system helps to promote behaviour consistent with the policy intent. It also facilitates better decision-making by students and agents, as well as by government agencies (eg in determining whether to grant visas to applicants). Transparency is also important in assisting the development of future policy directions in the student visa system.
- *accountability* — all parties involved in the regulatory system need to be held accountable for the performance of their respective roles. Parties need to be confident that non-genuine students will not receive student visas, and a credible course of regulatory enforcement will follow any breach. Such enforcement should be proportionate to the breach and be aimed at correcting student and institutional behaviour. For example, this may involve cancelling students' visas and publicly stating that relevant institutions have been cautioned for poor recruitment practices.
- *policy coordination* — there are strong connections between IES and domestic education services. Further, international education is an established pathway to permanent migration. An optimal student visa program cannot be designed in isolation from broader education and immigration policy objectives.

As noted previously, a key issue with the current system is that many international students (and education agents) view those providers that are eligible for SVP as an implicit marker of 'quality', despite the fact that SVP only assesses immigration risk, and not the quality of teaching or learning. The approach advanced by DIBP is still likely to be subject to this perception.

Some aspects of provider quality are currently assessed under the quality regulation framework associated with the delivery of international education services. IES providers need to be registered on CRICOS in order to offer courses to international students, and in doing so, are required to meet a number of (predominantly) input-based standards (chapter 4). However, it is clear that quality concerns remain, particularly in the VET sector. To the extent that quality standards are broadened, and transparency about compliance with these standards are improved along the lines suggested in chapter 4, the risk of extending a type of streamlined visa processing (as proposed in the DIBP model) to other education sectors would be reduced.

Nevertheless, in the form discussed here and under existing circumstances, the proposed model (and associated streamlined processing) could be extended to potentially include providers that

have low immigration risk outcomes but also have low educational quality outcomes. As highlighted in the review of the student visa Assessment Level framework (2013):

From a public policy perspective it would be neither sensible, nor defensible, for one arm of government (an education regulator) to be addressing concerns with a provider, while another arm of government (the [immigration] department) was recognising and rewarding the same provider under a low immigration risk framework. (DIBP 2013, p. 16)

DIBP's proposal could apply to a large number of varying quality VET providers, potentially inadvertently advantaging those with little or no experience in offshore student recruitment (given the focus of SVP on the history of immigration risk). The nature of the VET sector, particularly because of its much higher churn rate of providers than in the higher education sector, lends itself to relatively higher risks in terms of educational quality compared to the higher education sector (which was one of the reasons originally advanced for limiting SVP to the university sector (Knight 2011)). Further, poor quality offerings by some providers create a reputational risk for all Australian providers. The draft national strategy for international education recognises that system-wide improvements to quality are fundamental to Australia's global competitiveness in the IES sector (Pyne 2015).

5.3 Alternative approaches

One way of mitigating the identified risks would be to build on the proposal outlined in the DIBP discussion paper (which covers both country of citizenship immigration risk and provider immigration risk). This alternative approach would entail an integrated risk framework that incorporates education provider quality risk — the risk that a provider would not offer an international student a quality learning experience.

The measurement of provider quality risk could draw on information of providers' performance against registration and/or course accreditation standards, as already assessed by the national regulators — the Tertiary Education Quality Standards Agency (TEQSA) and the Australian Skills Quality Authority (ASQA) — which are responsible for promoting quality assurance in the higher education and VET sectors respectively.

As discussed in chapter 4, the metrics currently used by the two regulators in their process of registering providers are largely input-based and primarily relate to the ability to deliver education services. These measures do not take into account educational outputs and outcomes, which are integral to the quality of any educational experience.

Nevertheless, the existing national standards frameworks would offer a reasonable initial basis for rating education provider quality risk, and could be further extended when validated educational outputs and outcomes are incorporated in the registration of providers.

Under this approach, each risk — country of citizenship immigration risk, education provider immigration risk, and educational quality risk — would need to be assessed and weighted to give an overall risk rating for each student visa applicant. Evidentiary requirements for each risk rating should then be proportionate to the risks involved. Whether a particular provider has access to a streamlined visa process would depend on their overall weighted risk rating.

This approach would maintain the benefits of the DIBP model as proposed in its discussion paper. In addition, by formally introducing educational quality risk into the overall risk framework, it would help to manage the risks of inadvertently giving low quality providers access to a streamlined visa system. That said, it would still allow lower quality CRICOS registered providers the opportunity to compete for international students.

For this approach to be effective, it would need to involve stronger coordination between the DIBP, the Department of Education (DET), and TEQSA and ASQA, and potentially an alignment of their data systems.

Alternatively, the systemic risks to quality that could emerge from an extension of streamlined visa processing could be managed through a more deliberate approach to make the quality of education providers more explicit and transparent — as a way of breaking the nexus between access to streamline visa processing and perceptions of quality. This would require TEQSA and ASQA to publish the quality risk ratings of individual providers.

The benefit of this approach is that it would quarantine immigration risks to one regulator and one policy lever — the DIBP through visa settings — while leaving and education quality risks to separate regulators and policy levers — TEQSA and ASQA through their standards compliance regime. Delineating responsibilities in this way would remove any misperceptions of educational quality surrounding current arrangements. In relation to education quality it would leverage off work already being done by TEQSA and ASQA, meaning that SVP requirements would not add to the compliance and administrative costs for educational quality assurance purposes.

Under this approach, it would still be important for the DIBP and the DET to engage with each other in order to minimise the risk of policy coordination failure in the international education sector.

The Commission understands that the DIBP is developing its option further. The preferred option should provide the highest net benefit to Australia as a whole.

The Commission's ongoing inquiry into migration and its current study on barriers to services exports will provide further opportunities to explore issues associated with student visas.

6 Education agents

Key points

- Education agents can play a useful role in the international education system, advising and assisting students to select a country, institution and course. In doing so, agents can be quite influential in shaping expectations about potential international study destinations.
- Education institutions in Australia use education agents extensively for the recruitment of international students, more so than in comparable countries. Further, on average, Australian institutions pay agents higher commissions relative to other countries. Commission-based payments provide a strong incentive for agents to maximise the *quantity* of enrolled international students.
- Anecdotal evidence strongly suggests that the unscrupulous behaviour of agents is an issue in some segments of the market, particularly in relation to providing false or misleading advice and information, and the onshore poaching of international students. More generally, there is concern that an over-reliance on agents for student recruitment is detrimental to the quality of Australian international education services.
- In some cases, concerns stem from the incentives of agents not being aligned with those of the principal (in this case, the education provider). In other cases, incentives of agents and providers may be aligned, but they are not aligned in the interests of the broader Australian community.
- Adjusting incentives could serve to mitigate some of the risks associated with using agents. Systematic tracking of student outcomes against agents, with actions taken where standards are not met would provide an incentive for agents to act with greater integrity. Other options could include changing payment structures.
- Further, there is merit in education providers taking greater ownership of their international student recruitment to reduce the risks associated with agents (as is done by providers in competitor countries) and reduce their reliance on agents.

6.1 Education agents in international student recruitment

The role of education agents

Education agents are mainly located offshore and work on behalf of a wide range of institutions across different countries, although agents also operate domestically. They identify prospective students for Australian institutions (and institutions in other countries), provide students with information about courses, education providers and the features of

living and studying in Australia (and other countries), assist students with enrolment applications (and visa applications where qualified), and sometimes collect course fees on a provider's behalf (DET 2009). As noted by the Victorian Department of Economic Development, Jobs, Transport and Resources, agents advise and assist the majority of students with their applications (comm. 11).

Education agents are considered to be a significant factor influencing students' decisions about their choice of course and provider. The discussion paper on the *Reform of the ESOS Framework* noted:

All stakeholders mentioned the role of education agents as a factor in students' choice of education institution and course, as well as in students transferring to another provider. (DET 2014f, p. 12)

Use of agents in Australia and abroad

Providers in Australia rely heavily on agents to recruit students. In 2012, an estimated 63 per cent of university commencements of international students were through agents (although lower estimates also exist, see table 6.1) (Olsen 2013). However, the degree to which agents are involved in enrolment varies across education providers — depending on provider characteristics such as size, resourcing and reputation. For example, the Commission received information from one university where around 80 per cent of applications were through agents, and another where only 20–25 per cent of students were recruited through agents. Relative to other English language speaking countries with comparable international education services (IES) sectors, however, Australia's use of agents is high (table 6.1).

Where countries do not use agents extensively, they rely on a range of other methods for recruiting students. These include developing an institutional presence in other countries (such as through dedicated centres staffed by institution employees), greater reliance on centrally driven recruitment through government agencies (such as the British Council and EducationUSA) and through institutions fostering relationships with alumni and family networks (NACAC 2013).

Table 6.1 Use of agents in other key destination countries, 2012^a

<i>Country of recruiting institution</i>	<i>Proportion of international students recruited through agents</i>	<i>Minimum average commission paid</i>	<i>Maximum average commission paid</i>
	<i>per cent^b</i>	<i>per cent of first year tuition fees</i>	<i>per cent of first year tuition fees</i>
Australia	53	11.5	17.4
New Zealand	47	10.0	15.0
Canada	41	11.5	15.0
United Kingdom	38	10.4	15.8
United States	11	10.0	12.3

^a Data have been collected from a survey of 181 higher education institutions (mainly degree granting universities and colleges). Language courses, for which a larger proportion of students generally uses agents, are excluded. The total proportion of international students using agents in Australia may therefore be underestimated. ^b The average per cent across surveyed institutions.

Source: Observatory on Borderless Higher Education, cited in ICEF Monitor (2014b).

Agents are typically paid through commissions on a per enrolled student basis. While the Commission understands that commissions paid to agents vary by institution and by course, there is a lack of transparency about commissions paid at an institutional level. Anecdotally, the Commission heard that these can range from around 2 to 20 per cent of first year student fees (but are generally around 15 per cent of first year fees in higher education and 20 per cent for intensive English language courses. On average, commissions paid by Australian institutions tend to be higher in percentage terms than those paid in other English-speaking countries (table 6.1).

The benefits and costs of education agents

Education agents can have benefits for both providers and students. In particular, agents may be a more cost-effective method of recruitment compared to directly employing staff in source countries. Many institutions consider agents to be a fast and responsive means by which to recruit students (Raimo, Humfrey and Huang 2014).

Other benefits for institutions are derived from agents being on the ground in source countries. They are able to access student markets which might ordinarily be beyond the reach of many providers, particularly if those providers are not well-known or not yet fully-established. Further, agents can take advantage of local connections and networks and of their local knowledge of cultures and customs.

Agents also bring benefits to students. They provide information about a study destination and shape expectations about the international student experience in Australia or other prospective countries. Additionally, agents can assist with the provider application process (and the visa application process if they are also a registered migration agent) (Australian Government 2015b; Raimo, Humfrey and Huang 2014).

However, there are also costs associated with using agents. The main monetary costs include the commission providers pay to agents (often a proportion of a student's fees) and the costs involved with monitoring the integrity of agents. Further, in using agents, providers forego some control over their recruitment activities and they are dependent upon the information being relayed by agents to prospective students (with the risk that this is inaccurate). Institutions also must trust the accuracy of the information an agent provides to them regarding the competency and genuineness of a prospective student. Agents may also find it easier to eschew top end students who have more opportunities and may be more costly and time consuming to recruit to Australian institutions.

6.2 Institutional arrangements around agents

Monitoring of agents is required under national legislation

Like several other countries, Australia does not regulate education agents directly (unlike for migration agents).^{33,34} However, the current regulatory framework in Australia requires IES providers to vet and oversee their agents. The National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students 2007 (the National Code), established as a legislative instrument under the *Education Services for Overseas Students Act 2000* (Cwlth) (ESOS Act), sets out a range of specifications on the relationship between providers and agents (box 6.1). The key aim is to ensure that:

Registered providers take all reasonable measures to use education agents that have an appropriate knowledge and understanding of the Australian international education industry and do not use education agents who are dishonest or lack integrity. (DET 2007, p. 13)

It requires that all education providers supplying services to international students must list their education agents on their website. All education providers must also have written agreements with their agents (DET 2014e).

The Department of Education and Training (DET) is currently reviewing the ESOS framework. This process is also assessing changes to requirements in the ESOS Act relating to agents (box 6.2).

³³ Until 2014, the US National Association for College Admission Counseling had a prohibition in place on the use of agents in international recruitment. Despite this, there had been an increase in the use of education agents by some universities and colleges over the past decade (ICEF Monitor 2014a).

³⁴ In Australia, migration agents must be registered with the Office of the Migration Agents Registration Authority (MARA). Migration agents operating outside Australia do not have to be registered with MARA.

Box 6.1 Summary of Standard 4 of the National Code

1. The registered provider must enter into a written agreement with each education agent it engages. The agreement must specify the responsibilities of both parties, the need to comply with the National Code and processes for monitoring and termination.
2. The registered provider must ensure that its education agents have access to up-to-date and accurate marketing information as set out in Standard 1 (Marketing information and practices).
3. The registered provider must not enter into an agreement with, or accept students from, an education agent if it knows or reasonably suspects the education agent to have engaged in dishonest practices; facilitated the enrolment of a student the agent believes will not comply with the conditions of his/her visa; used the Provider Registration and International Students Managements System (PRISMS) to create Confirmations of Enrolment for other than bona fide students; or provided immigration advice where not authorised.
4. Where the registered provider becomes aware of or suspects it has entered into an agreement with an education agent and subsequently becomes aware of, or reasonably suspects, conduct as set out in the previous Standard, the registered provider must terminate the agreement with the education agent.
5. The registered provider must take immediate corrective and preventative action if it becomes aware of an education agent being negligent, careless or incompetent or of being engaged in false, misleading or unethical advertising and recruitment practices.

Source: DET (2007).

Box 6.2 Agents are currently being considered as part of the review of the ESOS Framework

The discussion paper released to inform the assessment of the ESOS framework has proposed a number of changes (proposals 22 to 25) in regards to agents. These are:

22. Amend standard 4 of the National Code to require an education institution to enter into a written agreement with each education agent whose services it uses (as opposed to 'each education agent it engages to formally represent it').
23. Consider whether further information on the use of agents should be provided in addition to the current requirement for the publication of agent names and details on an education institution's website and the voluntary requirement in PRISMS for education institutions to give details of an education agent for each enrolment.
24. Support an industry driven shared set of principles or code of ethics for education agents. This may include an industry-led system for recognising formally trained, high-quality, ethical and suitably qualified or knowledgeable education agents (rather than a formal registration system).
25. Support more options for training and informing education agents of their obligations to students.

Source: DET (2014f, pp. 12–13).

Broader standards also require agent oversight

Additionally, education institutions must comply with broader sets of standards associated with registration as an education provider.

For example, registered training organisations must comply with the 2015 Standards for Registered Training Organisations (RTOs). The Australian Skills Quality Authority (ASQA) has the authority to regulate the nature of the relationship between RTOs and their agents. Recent changes to these standards require all RTOs to enter into formal written agreements with their education agents, and they must be able to show evidence of these arrangements and evidence of the processes they have in place for monitoring where required (ASQA 2014b).

Higher education providers must comply with the *Higher Education Standards Framework*, which sets out requirements for higher education providers' behaviour with third parties. This framework has recently undergone a review, though any changes are yet to be made public (Higher Education Standards 2014).

Other initiatives seek to encourage high standards of behaviour

In 2012, Australian officials, along with those from the UK, Ireland and New Zealand, issued a joint statement of principles for ethical international student recruitment. 'The London Statement' set out seven principles that agents are urged to adhere to, in an effort to ensure they practise responsible business ethics, and provide current, accurate and honest information to prospective students (DET 2012a).

Industry level action is also occurring, with industry groups developing standards for dealings with agents. According to the Australian Council for Private Education and Training (ACPET):

In response to concerns about the operation of education agents, both in Australia and overseas ACPET has developed a Code of Practice for using the services of agents/brokers. ... Amongst other things, ACPET members will use the services of reputable agents/brokers who have a proven track record in meeting the obligations enshrined in the Code. (comm. 7, pp. 7–8)

6.3 Concerns with agent behaviour

Participants have raised concerns

Notwithstanding an attempt by regulators to create incentives under the ESOS Act for institutions to manage the behaviour of their agents, reports from participants suggest that

unscrupulous behaviour of agents remains an issue (box 6.3). For example, complaints made to the Overseas Students Ombudsman³⁵ have included:

- agents giving false or misleading advice about a course provider
- agents enrolling a student with one provider while telling the student they had been enrolled with a different provider
- agents arranging sub-standard accommodation in Australia and failing to assist the affected students even when they complained
- providers failing to have a written agreement in place with their agents
- providers failing to consider or investigate complaints about their agents (Overseas Students Ombudsman 2013).

The Commission also heard anecdotal evidence that agents have provided misleading information to prospective students. For example, students have arrived in Australia with a misleading impression of the course in which they had enrolled and other students have been enrolled in courses for which their English language skills were manifestly insufficient, requiring them to change courses and/or providers.

Box 6.3 Participants' concerns about agents

Committee for Melbourne:

... some Committee members report issues with agents openly and actively working on or near campuses to recruit their students. (comm. 3, p. 3)

The Australian Council for Private Education and Training (ACPET):

Education agents and brokers are integral to the operation of the international education sector, particularly with the current complex student visa regime. They are recognised as a risk and measures to regulate their operation is difficult because many of them operate overseas. (ACPET, comm. 7, p. 7)

... ACPET does not deny that there are some unscrupulous individuals who are working as agents onshore in Australia to subvert the intention of the ESOS framework in this manner but they cannot exist without providers accepting their students. Any attempt to regulate agent behaviour independently of the providers that work with them has the potential to be expensive and of limited effectiveness. ... (comm. 7, p. 42)

Monash University commented in its submission to the ESOS Review (also provided to the Commission):

Much of the student transfer and agent poaching problems, particularly after the Streamlined Visa Processing was introduced, are found in certain parts of the industry. It is more a quality and risk related issue that could be and should be addressed by the providers who lose large number of students and TEQSA/ASQA. (comm. 4, p. 7)

³⁵ The Overseas Student Ombudsman investigates complaints about problems that overseas students or intending overseas students may have with private education and training in Australia. Therefore it does not represent all international students in Australia, nor is the relative scale of complaints about agents compared to other complaints known.

Further, concerns have been raised about the actions of agents onshore in Australia, particularly with regard to the practice of ‘poaching’ students. Poaching occurs where agents actively seek to recruit students to transfer from one institution (typically with higher fees) to a cheaper and/or lower quality course in another institution (so called ‘course-hopping’) (DET 2014f).

Many of these concerns are similar to those presented to the Independent Commission Against Corruption (ICAC) in New South Wales (box 6.4), which reported that:

Without exception, all universities contacted by the [ICAC] Commission had experienced instances of agents submitting false documentation, assisting students to corruptly pass admission processing or attempting to bribe staff to approve certain student applications. (ICAC 2015, p. 22)

Box 6.4 Some instances of fraudulent behaviour reported to the Independent Commission Against Corruption

- One university reported that 5–10 per cent of Indian students dropped out of their course before or soon after they commenced, despite agents having vetting processes in place.
- Marketing staff at one major university were found to have personal and financial interests in the agents they were overseeing.
- One university failed to terminate its contract with an agent when it discovered fraudulent documents had been submitted as part of an application. It instead forced the agent to terminate the employment contract off the staff member responsible for that application.
- A university manager reported that it was not uncommon for third-party document checking companies to receive bribes from students or for agents to approve an application or verify a document.

Source: ICAC (2015).

How widespread is the problem?

Some participants to the inquiry considered the unscrupulous behaviour of agents offshore to be confined to a small segment of the industry. According to the Council of International Students Australia, there were a few ‘rotten apples’ among agents that were sending non-genuine students to Australia although the practice was becoming more widespread (Loussikian 2015). This supports information provided to the Knight Review, which noted:

The quality of agents varies enormously. At one end of the spectrum are groups like IDP. ... At the other end of the spectrum are certain sole traders with not much more than a catchy title, a string of promises and a mobile phone. (Knight 2011, p. 107)

More generally, the Commission heard that established and well-resourced institutions were better placed to monitor and manage their agents compared to smaller education providers. Further, it was noted to the Commission that high quality agents tend to push students towards well-recognised and highly reputable providers, while more questionable

agents tend to deal with other types of providers. However, evidence reported by ICAC suggests that large institutions are not immune from problems relating to the use of agents (box 6.4).

Some participants considered that the poaching of international students onshore is a widespread practice, while others considered it confined to certain parts of the industry (Monash University, comm. 4). While the magnitude of the problem is unclear, there is some evidence to indicate that ‘course-hopping’ has increased with the introduction of Streamlined Visa Processing (SVP) (chapter 3).

Further, participants to the study have suggested that Australia’s education system is attracting lower quality students compared to some of its major competitor countries such as the US and the UK. It is likely that Australia’s greater reliance on education agents may be one contributing factor to this.

6.4 Risks arise from the incentives faced by agents and providers

At the root of concerns about agent behaviour is a set of incentives that lead agents to act in a manner that may not be optimal for providers, students or from a broader Australian public policy perspective. Agents are faced with inherent conflicts of interest because of the nature of their position — they work on behalf of both education providers and students, and they also work for a range of institutions in Australia and around the world.

When the incentives of agents, providers and students are not aligned

In some cases there may be a divergence of motivations and interests between education agents and education providers. This is compounded by the limited ability of education providers to observe the actions of their agents on the ground. In other words, there is an information asymmetry between the parties which, when combined with a misalignment of incentives, can lead to sub-optimal outcomes.

Agents can have limited incentives to recruit genuine high quality students

Agents are generally driven by their pursuit of profits (which are largely a function of the quantity of students they recruit and the level of the course fees paid by students, although agents also have a concern over their likely future contracts). However, high quality education providers seek to balance the revenue from international students with the provision of a high quality education and the maintenance of their reputation.

The potential for moral hazard (box 6.5) occurs when agents do not bear the risks associated with the recruitment of international students. Without some risk sharing

arrangement with education providers, an agent has limited incentives to recruit genuine, high quality students, as that agent does not bear any of the costs should the student fail or withdraw from the course. Under this scenario, the selection risk is entirely borne by the provider and the Department of Immigration and Border Protection (DIBP) on behalf of the Australian community more generally.

Further, an agent being paid on a per enrolled student basis is more likely to target students that are less costly and time consuming to recruit — an agent is unlikely to spend significant resources and time pursuing higher quality students who have more opportunities and options available to them. The heavy reliance on agents in Australia thus results in a lower quality of student compared to some competitors.

Box 6.5 Moral hazard and the principal–agent problem

Moral hazard is a consequence of information asymmetry (and/or incomplete contracting). It applies when one party to a transaction takes more risks because some of the costs of those risks will be borne by another party. Typically, parties that do not face the full cost of risks are unlikely to undertake effective risk management, or disclose their known level of risk.

The principal–agent problem arises when an agent has more information about the consequences of their actions than the principal, who is unable to completely monitor the activities of the agent. If the incentives of the agent and the principal are not aligned, the agent may have an incentive to act inappropriately (or against the principal's interests) from the perspective of the principal, increasing the risk borne by the principal.

Providers can end up recruiting lower quality students into lower quality courses

A heavy reliance on education agents can also affect Australian education providers in terms of their competitiveness and the quality of education they provide. There is a possibility that by transferring recruitment responsibilities to an agent, education providers compete for international students on the basis of the relationship they have with that agent. For example, providers may pay higher commissions as well as other benefits in order to encourage the recruitment of students. On the other hand, were the provider to recruit students directly (that is, without an agent), they would be more likely to recruit on the basis of the quality of the education (providing an incentive to increase education quality) and the education experience they could offer to prospective students.³⁶

The implication is that if providers compete for students on the basis of the remuneration they provide to agents, there are unlikely to be the gains that would come from competition between providers, including advancements in quality of education and improved conditions for international students. Instead, a reliance on agents creates the potential for the selection of (on average) lower quality students into (on average) lower quality courses.

³⁶ This introduces a new moral hazard problem, in which the student has an understanding of how well they might expect to perform in their studies, while the provider does not.

Students may not be well-matched with courses or providers

Equally, agents may not necessarily act in the best interests of students. In the short term, many agents may have weak incentives to match students with a ‘best fit’ provider and course. For example, they may provide incorrect information about courses, institutions and even visa conditions to students in order to maximise the number of students they recruit. The result may be students enrolling in courses that do not fit their needs, or courses for which they are not sufficiently prepared (such as with adequate English language skills). Difficulties in monitoring the information that agents provide to students offshore compounds this problem.

That said, this effect may be tempered where agents are also motivated by maintaining their reputation in the markets within which they work, and also where students have access to information (whether it be from other students, the institutions themselves or social media) about the quality of agents.

When the incentives of agents and providers are aligned, but they are not aligned in the interests of the broader community

In other cases, problems may arise with agents even when the incentives of agents and providers are aligned. This situation can occur among providers with little concern for whether a student is genuine or not. In this case, both the agent and provider may share an objective of maximising the volume of students enrolled, and thereby maximising commissions and revenue from student fees.

In such a situation, the quality of education provided to students becomes a secondary objective of the provider, and as a result, genuine students will not receive the education services they expected. However, under circumstances in which the student is seeking a migration rather than an education outcome, objectives between provider, agent and student may be aligned.

While this scenario does entail an alignment of incentives between provider, agent and (potential) student, these incentives are not consistent with the broader IES public policy objectives. As such, there is a role for government as the conduct of these providers and agents creates reputational problems through contagion which, in turn, has implications for the perceived (and actual) quality of Australian IES generally.

6.5 Mitigating agent risk

Mitigating the risks associated with the use of agents in international student recruitment is not necessarily a one size fits all approach. The diversity of providers and quality of agents within the sector means that institutions must consider the costs and benefits of different approaches. However, all providers should consider whether there are ways in which

incentives can be adjusted and whether there could be a reduction in their reliance on agents. In recent years, a number of reviews (box 1.2 in chapter 1) have examined agents and made suggestions for change (box 6.6).

Box 6.6 Reviewing education agents

Both during this study and previously — such as during the Knight Review — participants in the sector have suggested that formal licensing and regulation of agents would reduce the scope for problems to arise. However, the Knight Review noted the difficulties that could arise with a formal licensing scheme:

Most agents operate in countries other than Australia. In those circumstances DIAC lacks the resources and the legal power to enforce licensing provisions and to sanction agents directly in cases where they behave in an unscrupulous manner. There is a risk that any licence system would create a marketing tool for individual agents over their competitors rather than an improved visa processing system. (Knight 2011, p. 140)

The current *Review of the ESOS Framework* is considering several reform options (box 6.2), including the expansion of written agreements to all agents used by a provider. The Commission notes that there has been varied support for this proposal. The Commonwealth and Overseas Students Ombudsman considers that this proposal would provide it with a greater ability to investigate complaints (comm. 8). However, Monash University has commented that the proposal would significantly increase the administrative burden given the large number of contracts that would be required with agents who recruit students for Monash's pathway program providers (comm. 4).

Internalising the risks

Changing the incentives faced by agents and providers in order to internalise agent risks would reduce the possible adverse outcomes associated with agents. This would involve setting incentives in such a way that an agent (or provider) bears some of the risks associated with their poor behaviour, for example, should the agent attract non-genuine students. While not specifically targeted at the behaviour of agents, the introduction of SVP illustrates how providers and agents can respond to changed incentives (box 6.7).

One option is the systematic tracking of student outcomes against agents by making agents' details a mandatory field in the Provider Registration and International Students Managements System (PRISMS) database. (The Commission understands that this is being considered as part of the current ESOS Review.) These data could be used by the education institutions for internal checks. They could also be reviewed by ASQA and the Tertiary Education Quality Standards Agency (TEQSA) as part of their assessment of institutions' handling of their agents. ASQA and TEQSA must also be fully equipped to be able to assess whether an institution is meeting its obligations under the National Code (chapter 4).

Box 6.7 Streamlined Visa Processing and provider incentives

SVP has changed provider incentives

The introduction of Streamlined Visa Processing (SVP) has affected the incentives of education providers and agents. One factor that has contributed to this is the perception that SVP is seen as a marker of an institution's quality. According to the Australian Council for Private Education and Training:

Whether intended or not, SVP has created a system that signals quality. Potential international students and their families, key stakeholders, governments and agents see providers with SVP status as a sign of quality, which unintentionally skews the sector. (comm. 7, p. 21)

Where SVP is considered a proxy for quality (even if a misleading proxy), institutions have a stronger incentive to maintain their risk rating (as determined by the DIBP), and with this, their SVP status (chapter 3). To do this, an institution must be able to provide evidence to DIBP that it has in place strategies aimed at ensuring agents recruit quality students, rather than just volumes of students. It must also be able to show that strategies are in place with agents to deter students from purposefully transferring out of or downgrading their SVP eligible course (chapter 3).

And providers' monitoring of agents has increased

The Commission heard that institutions have become more conscious of the need to monitor the quality of agents, and have sought to reduce information asymmetries to the extent that this is feasible. Further, the divergence in incentives of agents and providers has been reduced: institutions seek to maintain their DIBP risk rating; and agents seek to maintain their contracts with SVP institutions through the provision of genuine students. For example, the Commission heard of:

- several examples where students are tracked against agents in order to monitor success rates and the quality of students enrolled by individual agents. Where student success rates drop below an acceptable standard a review may be triggered
- an apparent willingness on the part of institutions to sever contracts with agents where they are not providing a standard of student considered to be acceptable
- education institutions with SVP becoming more risk averse when it comes to dealing with agents they are not familiar with or that do not have a proven track record
- education institutions placing greater emphasis on track record. For example, the Commission heard from one institution that requests four referee reports from its agents.

Increased intelligence about education agents is essential. The industry currently operates under a shroud of mystery, with very little disclosure about commissions and recruitment methods. There is little information available through which agent performance can be assessed. Enhanced disclosure about agent performance and pay would provide signposts to both students and providers. It would provide a greater incentive for agents to recruit quality students in order to maintain their reputation and their contracts with education providers. It would also assist education providers by enabling them to compare agents across the industry. And students would be able to make a more informed choice about their agent and have a better understanding of agent motivations.

Another option is to adjust payment systems to emphasise the recruitment of high quality students, rather than volume. The Commission understands that some institutions are already taking steps in this direction, including exploring the option of providing agents with a base level of pay combined with payments based on performance in relation to the quality of students they enrol (for example, based on student completion rates).

Further, education institutions could exclusively employ agents to act on their behalf (and not any other institution or country). Performance agreements for the agent could place an emphasis on quality of student outcomes. While it would change the role of the agent as a broker, exclusive employment would go some way towards reducing the ambiguity around agents' objectives, and would provide greater transparency for both students and providers.

Reducing reliance on agents

More broadly, the present reliance on agents is sub-optimal and is a long term threat to Australia's international education exports. The most effective way to eliminate the risks associated with the principal-agent problem is for institutions to fully internalise international student recruitment. This enables institutions to ensure they are receiving high quality and genuine students, and provides them with control over student diversity, thus contributing to the sustainable growth of their student cohort.

In some cases it may not be possible, nor desirable, to eliminate the use of agents entirely. However, there may be scope for their use to be reduced (in combination with effective management of agent risks — see below). Indeed, some universities have started to reduce the number of agents with which they work (ICAC 2015). Institutions could seek to increase their direct recruitment, such as through:

- establishing a presence in source countries and directly employing staff to exclusively recruit and liaise with students for that provider.
- developing bilateral partnerships with high quality education providers overseas
- drawing upon networks of past students
- using academic events, such as conferences and workshops, to identify prospective students, particularly for advanced research degrees.

However, these options will not suit all providers. For example, it is likely that only the well-established and resourced institutions would be able to establish an in-country presence.

Some education providers may consider these options to be more costly when compared to using an agent. However, the Commission is not convinced that all institutions give appropriate consideration to the long-term costs associated with the use of agents. For example, institutions may not give due weight to longer-term risks such as reputational damage and lower quality students on average, which while being detrimental to that individual provider, can also have implications for Australia's education system more broadly. For example, there may be implications for the quality of education provided to domestic students.

Further, providers may underestimate the extent of agent monitoring required, which, if done properly, could entail significant costs. For example, a report from the US noted:

Institutions that believe agent-based recruiting is a means to cost savings are almost certainly underestimating the amount of investment that is required to manage such recruitment responsibly. The amount of oversight needed to ensure that third party agents adhere to institutional standards, to ethical and legal principles, and to contracts or arrangements appeared, to the [National Association for College Admission Counseling] Commission, to at least match the commitment of resources needed to recruit using institutional staff. (NACAC 2013, p. 14)

Marketing of Australia's international education services

There may also be merit in taking a coordinated approach to international student outreach and marketing — particularly for institutions where scale is an issue — such as through peak organisations and informal partnerships. Currently the marketing of Australian education overseas is conducted across a number of organisations and institutions, including at different levels of government (box 6.8). This approach may be leading to some duplication, inefficiencies and sub-optimal outcomes for Australia's IES sector compared with alternatives.

Box 6.8 Marketing of Australian education services to international students

Currently, marketing of Australian international education services operates on a number of levels.

- Institutions undertake some of their own marketing.
- State and territory bodies market their state as an education destination, for example StudyNSW and Study Melbourne.
- National marketing is undertaken through the Australian Government's Austrade and the Future Unlimited brand.

The Commission heard from participants that this multi-layered approach has not created a coherent message about Australia's education services. Some participants advocated for a model akin to the British Council, which presents a united British brand and operates on the basis of government funding combined with cost recovery from the services it provides.

Even with a more coherent national approach to marketing, some institutions with a strong brand recognition would still consider it worthwhile to directly market.

It is beyond the scope of this study to assess the relative merits of any one particular marketing approach over another. However, there may be merit in an assessment of the costs and benefits of the range of methods currently used for marketing Australian institutions, and whether the current structure is achieving an optimal outcome, as well as an assessment of a range of potential alternative marketing models used overseas such as the British Council.

Some other options

Finally, there may be a range of other options which could complement those outlined above, and which may also suit different providers to different degrees. Some of these options are already being pursued by institutions and include:

- institutions establishing a greater presence in-country to enable closer oversight of their agent networks
- several providers coordinating efforts to monitor agent activity in cases where agents work for a number of institutions (this appears to be relatively common). This may be particularly beneficial for smaller providers which lack the resources of larger institutions
- providers ensuring that any education agent under contract has completed a training course (such as the Australian Education Agent Training Course) and training with Austrade (where applicable)
- providers approving all promotional material prior to their distribution.

A Conduct of the project

In preparing this research paper, the Commission consulted with a range of organisations, individuals, industry bodies, government departments and agencies. The Commission also published information about the project on its website. This appendix lists parties the Commission consulted with through:

- Consultations (table A.1)
- An industry roundtable held in Melbourne on Thursday 2 December 2014 (table A.2)
- Public comments (table A.3).

Table A.1 Consultations

Organisation

Austrade
Australian College Information Centre (ACIC)
Australian National University
Australian Skills Quality Authority (ASQA)
CIT Solutions
Curtin College
Department of Education and Training
Department of Employment
Department of Foreign Affairs and Trade
Department of Immigration and Border Protection
Department of Industry and Science
Department of Premier and Cabinet (NSW)
Department of Premier and Cabinet (Vic)
Department of the Prime Minister and Cabinet
Department of State Development and Business Innovation (Vic)
Department of Trade and Investment (NSW)
Embassy of the People's Republic of China in Australia
High Commission of India in Australia
Honeywood, P
IDP Education
Knight, M
Macquarie University
Melbourne University
Monash University
National Centre for Vocational Education Research (NCVER)

(continued next page)

Table A.1 (continued)

Organisation

StudyPerth
Sydney TAFE
TAFE NSW
Tertiary Education Quality and Standards Agency (TESQA)
The Northern Sydney Institute
Universities Australia
University of Western Sydney
Victoria University

Table A.2 Roundtable participants – Melbourne, 4 December 2014

<i>Organisation</i>	<i>Participants</i>
Australian Council for Private Education and Training (ACPET)	Martin Powell
Australian National College	Gurdeep Dhillon
Australian Technology Network of Universities	Anthony Bak
Council of International Students Australia (CISA)	Thomson Ch'ng
Council of Private Higher Education (COPHE)	Paul O'Halloran
English Australia	Sue Blundell
Group of Eight Australia	Mike Teece
International Education Association (ISANA)	Paula Dunstan
International Education Association of Australia (IEAA)	Chris Ziguras
TAFE Directors Australia	Peter Holden
Universities Australia	Ainslie Moore
Victorian TAFE International	Kate Dempsey

Table A.3 Public comments

<i>Organisation</i>	<i>Number</i>
Australian College Information Centre	9
Australian Council for Private Education and Training	7
Committee for Melbourne	3
Commonwealth Ombudsman	8
Council of Private Higher Education (COPHE)	5
Department of Immigration and Border Protection	6
English Australia	1
Government of Victoria	11
Monash University	4
University of Sydney	10
University of Wollongong	2

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