

# **Making Student Loans Work in East Africa: Summary Notes from a Student Loan Workshop Arusha, Tanzania, February 11-13, 2008**

## **The Student Loan Workshop in Arusha, Tanzania**

These are summary notes taken from a workshop on student loan schemes with particular reference to East Africa that was held in Arusha Tanzania in February 2008. The Workshop was sponsored by the Association of Higher Education Finance Agencies in Africa, based in Dar es Salaam, and the International Comparative Higher education Finance and Accessibility Project, based at the Center for Comparative and Global Studies in Education at the State University of New York at Buffalo. The Workshop was supported by the Ford Foundation Office in Nairobi, Kenya, through a grant to the University at Buffalo. This grant, in turn, grew from an earlier grant that the Foundation had made to the Buffalo's International Comparative Higher Education Finance and Accessibility Project to study the financial and equity implications of the so-called *dual track* tuition fee programs that have emerged in East Africa and elsewhere as a seemingly more politically acceptable way (that is, more politically acceptable than tuition fees for all students) even if problematic on equity grounds to supplement the increasing scarce governmental revenues supporting universities and other institutions of higher education.

The consensus of the participants at the closing session of the July 2006 conference, which was entitled *The Implications of Dual Track Tuition Policies on Higher Education Financing and Access in East Africa*, was that the next step should be to address the imperative to forge student loan schemes that work.<sup>1</sup> By the qualifier, *that work*, the 2006 conference participants were recognizing that student loan programs had to be developed and implemented that not only put money into the hands of students, but also recovered some meaningful portion of these funds so that the scarce governmental funds were indeed supplemented by some genuine cost-sharing in order to achieve three vital needs in East African higher education—namely, enhancements to:

- *Capacity*—since existing capacity is clearly grossly inadequate to meet the surging demand for places;
- *Quality*—as the current austerity is taking a clear and worsening toll on instructional quality through overcrowding and inadequate numbers of faculty, space, books and journals in the libraries, and computer stations; and
- *participation and equity*—as students from the poorest families are unable to pay for the costs of either private higher education or even the privately sponsored places in the public universities and might be helped by the diversion of some of the supplemental revenue into means-tested grants and/or loans.

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<sup>1</sup> This conference, at which research findings were shared on the financial and equity implications of these so-called dual track tuition policies, was sponsored by the University at Buffalo Center for Comparative and Global Studies in Education and held in the Fairview Hotel, Nairobi, Kenya, July 10-11, 2006.

The Student Loan Workshop in Arusha, held February 11-13, 2008, brought together the heads and several of the top administrators of the operational student loan programs in Kenya and Tanzania, the head of the new student loan schemes in Rwanda, the representative of Addis Ababa University for the Ethiopian Graduate Tax Scheme, a team from Uganda representing the Ministry of Higher Education and the National Council on Higher Education comprising an early planning group for a student loan scheme, and a spokesperson for the Ministry in Burundi charged with initial planning for a student loan scheme in that country. The planning and leadership for the Arusha Student Loan Training Workshop was undertaken by:

- Benjamin Cheboi, Chief Executive and Secretary of the Kenyan Higher Education Loans Board (HELB) and founder of the Association of Higher Education Financial Agencies in Africa.
- Roy Jackson, founding CEO of the South African National Student Financial Aid Scheme (NSFA--now the Tertiary Education Financial Aid Scheme) and principal of the Africa Institute for Student Financial Aid (AISFA).
- Bruce Johnstone, Professor of Higher and Comparative Education at the State University of New York at Buffalo and Director of the International Comparative Higher Education Finance and Accessibility Project.
- Pamela Marcucci, Project Manager of the International Comparative Higher Education Finance and Accessibility Project at the State University of New York at Buffalo.

Delegations were present from: Burundi, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda. This summary narrative of the workshop was signed off by the leaders of each of the county delegations, listed at the end of this document.

### **Background: the Need for Successful Student Loans Schemes in East Africa**

Both the private demand and the public need for higher education are virtually exploding throughout East Africa (indeed, throughout all of Sub Saharan Africa and most of the rest of the world). The increasing private demand is driven by the combination of rapidly increasing numbers of secondary school graduates (in turn driven by sharply increasing birth rates accelerated by the increasing secondary school participation rates) plus the realization that a higher education is a major key to social and economic mobility as well as to political and social status. The increasing public demand is driven both by the political realization of this increasing private (i.e. voter) demand and also by the belief held by most governmental leaders that higher education is one of the keys to economic prosperity as well as to an enlightened democracy.

At the same time, uneven economic growth and the great difficulty of taxation in all of Sub-Saharan Africa in combination with socially and politically compelling competing claims on what little public revenues can be garnered (e.g. free elementary and secondary education, public health, and public infrastructure), have led to the need to supplement these scarce public revenues with other-than-governmental revenue to meet at least some of the rapidly increasing costs of this surging demand for higher education. This is the case even (or perhaps especially) in countries such as those in East Africa in which higher education was once free for all students (sometimes including free food, lodging

and even pocket money). The most potentially significant and sustainable alternatives to these increasingly inadequate public revenues—however difficult and contested—is through *cost-sharing*, or tapping parents and students through some combination of tuition fees and more nearly break-even charges for food and lodging.

Some parents are clearly capable of paying a part of the costs of instruction through modest tuition fees—as proven by the numbers who have already paid substantial fees for secondary schools, or are paying tuition fees for private higher educational opportunities, or for the rapidly growing privately-sponsored, or tuition fee paying, tracks in the public universities of Uganda, Kenya, and Tanzania. As well, some (probably many or even most) students would clearly pay portions of the costs of instruction and/or costs of lodging or food if this were necessary and if there were available student loans at reasonable interest rates and repayment terms.

This widely recognized imperative for *cost-sharing* is met by two challenging realities. The first is the political opposition to cost-sharing, with free higher education frequently enshrined in traditions, higher education framework laws and even in constitutions—in addition to self interest, pervasive poverty, and the tendency of opposition parties to use the volatility of the issue to foment campus unrest. The second reality is that any meaningful student contribution to the costs of their higher education (including both tuition fees and the costs of student living) requires some way to defer these costs until after completion of higher education and entry into the adult workforce—presumably at a salary that reflects the expected greater productivity of college or university graduates: in other words, a student loan scheme. But the reality is that student loan schemes are complex, risky, and difficult to capitalize except via governmental operating budgets (which obviates one of the purposes of student loans, which is to supplement governmental expenditures with anticipated student expenditures). In fact, student loan schemes have had a history of failure in Sub Saharan Africa, including the earlier failed programs in Kenya, Ghana, and Rwanda.

At the same time, the Workshop organizers are convinced that student loans can *work*—in the sense that they can recover a substantial portion of the amount originally lent—and can thus serve to shift a portion of the costs of higher education to the student at some time in the future when the student is reaping some of the personal returns to his or her higher education. Benjamin Cheboi, Chief Executive Secretary of the Kenyan Higher Education Loans Board, knows that a student loan scheme can work because the Kenyan student loan scheme, after largely failing in the 1970s and 80s, is now collecting on past student loans (and in so far as it is still not recovering what could be recovered, is failing to do so almost entirely because of political decisions overriding the intentions of the Board and introducing excessive subsidies into the interest rates).

Roy Jackson also knows that student loan schemes can work in Africa because his South African scheme did so, and because he is now in the business of collecting on student debts throughout South Africa and knows that good initial design, plus good collection practices and modern electronic systems can collect student debts without undue hardship on the borrowers.

Bruce Johnstone and Pamela Marcucci, who have studied cost-sharing and student loan schemes throughout the world, believe that student loan schemes can work in Africa

because they have studied the design and execution of those that have failed (or at least failed to *recover*) and have concluded that failure in all cases was virtually built into the very design of the loan schemes: mainly because of excessive interest subsidization as well as in the inadequate collection systems and legal underpinnings. They bring a breadth of understanding of student loans schemes in such countries as the United States, Canada, Japan, Korea, Australia, New Zealand, The Netherlands, Sweden and the United Kingdom. Johnstone and Marcucci have written about the three bases of a successful student loan scheme being (1) *proper design* (mainly the degree of interest subsidization), (2) *cost-effective collection* (to minimize defaults), and (3) *capitalization*, or the ability to control risk and tap the private capital market rather than remain dependent on the treatment of student loans as expenditures rather than as assets.

### **Principals of Effective Student Loan Schemes in the East African Context**

The following consensus principals emerged from 2 days of intense presentations and discussions among the participants in the Student Loan Workshop held in Arusha Tanzania February 11-13, 2008.

1. *Effective student schemes are essential both to the financing of higher education in East Africa and to the more equitable access to such higher education.*

An effective student loan scheme—that is, a student loans scheme that is targeted mainly at those for whom the loan program makes higher education possible and that brings an effective recovery—is the only way that students themselves can bear a part of the burden of an increasingly expensive higher education, as well as the only way that very many well-qualified students who are ineligible for the increasingly more stringently rationed free or highly subsidized places (if indeed there be any of these left) and whose parents cannot afford the high tuition fees and living costs of the private sector or the privately-sponsored places in the public institutions, can access higher education.

2. *Effective Student Loan Schemes are possible in East Africa.*

The principles initially presented by Cheboi, Jackson, Johnstone, and Marcucci for *proper design*, *effective collection*, and *eventual private capitalization* of student loan schemes were echoed by virtually all of the participants in the Arusha workshop. The consensus, in short, was that loans are not only essential, but are possible—in spite of the history of failed student loan programs in Africa.

3. *Student loan schemes should neither be planned nor implemented except as part of a comprehensive package of financial assistance and other access measures.*

Such a comprehensive program should include, *inter alia*:

- √ A rational, stable, and politically sustainable system of tuition fees that recovers some portion of the costs of instruction preferably from all students.
- √ A system of means testing that targets student financial assistance—including both grants and loans—as much as possible to students and families for whom the assistance makes the university attendance possible (as opposed to assistance that “merely” rewards the student for a good academic record or lessens the financial sacrifice that the parents would otherwise have made).

- √ A set of prices for governmentally- or institutionally-owned and/or operated food and lodging that reduces or minimizes public subsidies.
  - √ A student loan program, appropriately rationed to maximize accessibility, with minimally (if at all) subsidized interest rates, professional collection policies, proper legal underpinnings, and the like.
4. *Initial steps toward greater cost-sharing—that is, a shift of some of the costs borne by governments and taxpayers to parents and/or students—may be more politically possible as well as more economically justifiable first in the form of reducing excessive non-instructional subsidies.*

At least in the past, much of the governmental revenue for higher education in many countries in Sub Saharan Africa has gone to the subsidization of food and lodging. These subsidies should be reduced, particularly if they have been extended only to some students and especially if they are currently rationed on bases other than financial need. The point is not simply to reduce, but rather to *shift* these scarce government subsidies to greater direct support of increased institutional capacity and/or quality, as well as to the far larger volume of student loans that the same level of governmental expenditure could allow.

5. *At the same time, at least a modest or even a nominal tuition fee should be established for all students.*

Such a tuition fee would serve to reinforce the point that instructional costs are high and rising and that student and parental beneficiaries are not only major beneficiaries of higher education, but are almost always better off financially than the average taxpayer (who is likely to be paying high consumption taxes and other regressive forms of taxation and not directly benefiting from the expenditures on higher education).

6. *If a tuition fee is established, it is theoretically, technically, and politically best to link this tuition fee to a certain percentage of the average per-student cost of instruction.*

A tuition fee not so linked places cost-sharing on the politically precarious block of having to justify tuition fee increases every time the costs of instruction rise—which will rise in most years due to legitimately increasing costs and which, in the event that fee increases are denied, means that the taxpayer contribution either has to rise in excess of the percentage rise in per-student costs to make up for the missing increase from fees, or means that the universities have to take additional cuts.

7. *Student loans should be in the hands of a public corporation that is accountable to, but insulated from, government as much as possible.*

This public corporation should be legally able to set the terms and conditions of the student loans, hire and fire its own staff, including the chief operating officer, without political interference, execute contracts, and raise capital in the private capital market. In too many cases throughout Africa and elsewhere in the world, boards of student loan agencies as well as top agency personnel are constrained by politicians who either (or both) do not understand the underlying economics of loans and repayments or are afraid of alienating voters (especially volatile student bodies) by supporting the

interest rates, rationing, and collection methods that are essential to real cost-sharing. Therefore, in addition to insulating the student loan agency as much as possible from politics, there need to be on-going efforts to educate (as well as to listen to) key stakeholders such as governmental and opposition politicians, top civil servants, students, and the general public on the difficult decisions and complex trade-offs involving higher educational quality, accessibility, and the needs of the society and the economy.

8. *At the same time, generally available student loans schemes will never be free from the need for government funds.*

Student loan schemes will continue to be dependent on tax revenues for whatever minimal subsidization is deemed to be necessary, for initial capitalization, for bearing a major portion of the inevitably high risk of student lending, and for the on-going costs of promoting higher educational participation and equitable access. Government must not enter into student loan schemes on the assumption that generally available student loans schemes can ever be entirely self supporting or that such schemes can allow the government to reduce its financial commitment to high quality and accessible higher education.

9. *Student loans have legitimate aims beyond the aim of cost-sharing, or cost recovery, one of which include influencing the borrowers “post-completion” behavior via repayment forgiveness (similar to a contingent grant) for practicing a certain socially desirable profession and or in a socially beneficial venue.*

Features such as repayment forgiveness for social or other public purposes as well as for the minimization of the risk of unmanageable debt burdens are legitimate expenditures. However, they should be treated like any other governmental program—as expenses with opportunity costs—and not be expected to be somehow paid for by the loan program.