Financing Higher Education in Eastern and Southern Africa: Diversifying Revenue and Expanding Accessibility

An Invitational Conference Sponsored by the University of Dar es Salaam and International Comparative Higher Education Finance and Accessibility Project of the State University of New York at Buffalo

Royal Palm Hotel, Dar es Salaam, Tanzania March 24-28, 2002

Conference Organization, Structure, and Sponsorship

The conference, Financing Higher Education in Eastern and Southern Africa: Diversifying Revenue and Expanding Accessibility, was held in Dar es Salaam, Tanzania, in March 2002, co-hosted by the University of Dar es Salaam and the State University of New York at Buffalo. The conference was supported by the Ford Foundation as part of its multi-year grant to the International Comparative Higher Education Finance and Accessibility Project, directed by D. Bruce Johnstone, University Professor of Higher and Comparative Education, director of the Center for Comparative and Global Studies in Education and former chancellor of the State University of New York System.

The University of Dar es Salaam, under the leadership of Vice Chancellor Professor Mathew Luhanga, is recognized as one of the leading universities in Eastern Africa, and has been diversifying its revenue base in accord with Tanzanian governmental policy of moving cautiously but clearly in the direction of greater university autonomy and greater cost-sharing.¹ The university's conference organizing committee was headed by Professor Burton L. M. Mw Mila, Chairman of the Coordinating Office for Engineering and Technology.

The conference was to share both research and operational experience in higher education finance and management in Eastern and Southern Africa. A focus of the program was on revenue diversification through "cost-sharing"--as in the reduction of non means-tested student stipends, the charging of more nearly "break-even" charges for institutionally- and governmentally-provided student dining and lodging, the establishment of tuition, and the encouragement of a more tuition-dependent private sector.

However, as some form of cost-sharing was already on the agendas of the participating countries and universities, the attention of the conference was more on ways of maintaining and even enhancing accessibility to higher education in the face of these rising costs to parents and students through various forms of means-tested grants and student loans. Attention was also placed on the need to meet the nearly inevitable political opposition to the notion of cost sharing, particularly in those countries in which the costs of higher education, extending to student living costs and even to the provision of “pocket money,” has recently been viewed as a financial responsibility only of the government --even though the available revenue from taxpayers and governmental borrowing has long been vastly inadequate to maintain either capacity or quality, and enrollments therefore limited by necessity to a small portion of the eligible population.

The focus on Eastern and Southern Africa was partly at attempt to contain the size of the conference, and partly in recognition of the number of programs and organizations that have fostered a regional awareness and some common approaches to the severe problems of this part of Africa. However, in recognition of the very similar agenda--and some possibly successful programs--in the countries of West Africa, participants were also invited from Nigeria and Ghana, as well as from the Association of African Universities, UNESCO's African National Science and Technology Initiative (ANSTI), the World Bank (the Dar es Salaam and Washington DC Offices), and other foundations and NGOs operating in Africa.

Participation was by invitation only, and invitations were sent out seeking participation from ministries (generally permanent secretaries or other top-ranking government officials), universities (presidents or vice chancellors), heads of student assistance or lending agencies, scholars, and student leaders. In the end, there were more than 60 invited participants, representing ten African countries, including Botswana, Ethiopia, Ghana, Kenya, Mozambique, Namibia, Nigeria, South Africa, Tanzania, and Uganda, and including student representatives from the Universities of Dar es Salaam and Makerere University in Uganda. There were representatives of ANSTI-UNESCO (Nairobi), the Inter University Council for East Africa (Kampala), the World Bank (Washington DC and Dar es Salaam), the Forum for African Women Educationalists (FAWE, Nairobi), and the Ford Foundation (Nairobi). There were representatives of the US Embassy in Tanzania and the US State Department Bureau of Educational and Cultural Affairs (the Regional Educational Advising Coordinator for Africa in Accra, Ghana), plus scholars and specialists in higher education finance from The University of Buffalo, the University of Wales (UK), and the Institute for Higher Education Policy (Washington, DC).

Conference Program

The two and one-half day conference featured the following sessions:

1. Formal opening (The President of Zanzibar) and Conference Introductions (Mwamila, Luhanga, and Johnstone).


4. Tuition Policies and the Family Contribution. Papers on tuition policies (Mdemu), the parental contribution (Naigotti-Chacha), and means testing (Merisotis and Wolanin).


7. Student Perspectives on Cost Sharing and Student Loan Programs. Presentations by Samwei (University of Dar es Salaam) and Mbidde (Makerere University).

8. Breakout Sessions followed by Reports.

9. Conference summary (Luhanga, Johnstone, and Griffin (Ford Foundation).

10. Closing Session on “What is to Happen Next”?

Findings and Recommendations

The "Findings and Recommendations" below are those perceived by the University at Buffalo conference co-sponsors (from the International Comparative Higher Education Finance and Accessibility Project) and do not necessarily reflect the views of all of the participants. Nevertheless, the points summarized below reflect both the papers presented and the conference discussions, including the "break out" discussions on the second day and those from the final morning's special session on "what is to happen next?" These points are presented to capture some of the many viewpoints coming out of the conference itself, as well as to continue the important dialogue on diversifying revenues and expanding accessibility.

1. Revenue diversification and Cost-Sharing

1.1. Revenue diversification —— meaning the shift of higher educational costs from exclusive or near-exclusive reliance on governments and taxpayers to a sharing of costs among taxpayers, donors, parents, students and "institutional entrepreneurship" alike -- is a worldwide phenomenon, and is almost certainly an imperative for African higher education. Within the more general imperative of revenue diversification, the policy of cost-sharing — that is, the shift of some of the costs of higher education specifically to parents and students in the form of
tuition fees (to support general instructional expenditures) and other fees or charges (to support the expenses of lodging, food, and other costs of student living formerly subsidized by the taxpayer)—is especially important and essential.

1.2. Cost sharing can be justified as promoting: (a) equity, requiring the recipient students and their parents, who stand to benefit (and who are also disproportionately from families of means and position anyway) to bear more of the costs of their higher education than the average taxpayer or citizen; (b) efficiency, encouraging institutions to reduce costs and eliminate low priority expenditures; and (c) responsiveness, encouraging institutions to provide the programs that students most want, and at a high quality. However, an even more compelling—and considerable less ideologically contestable—rationale is (d) the sheer need for revenue, recognizing that governmental (taxpayer) revenues alone are already insufficient (and will be even more so in the future) to provide the quality and expanded capacity of higher education needed in Africa.

1.3. Cost sharing—especially the charging of tuition fees where free higher education and greatly subsidized living expenses have only recently been considered to be entitlement—will inevitably be controversial. In accord with the principal rationale espoused above (that is, the sheer need for supplemental revenue), the principal beneficiaries of cost sharing must be portrayed to be the future student (and therefore the future society)—as opposed to the universities, university leaders, or university faculty.

1.4. The failure of countries to diversify their revenue for higher education (i.e. beyond reliance on governments and taxpayers) is virtually certain to diminish both the quality and the capacity of higher education. This diminished capacity will not particularly disadvantage the children of the more affluent families, who always have other options (including private higher education or higher education abroad), but will greatly disadvantage those currently excluded mainly by the very restricted capacity of higher education.

1.5. This rationale for cost sharing also means that the imposition of tuition fees and other fees and charges must be an addition to, never a substitute for, existing government revenues being devoted to higher education. In other words, cost-sharing is not a replacement for the government's (taxpayer's) contribution to higher education, and in no way negates the principle that higher education is substantially a public good and must continue to rely substantially on public revenues.

1.6. The point above is especially true of basic research, which must not be seen as appropriately relying on tuition fees or other fees and charges.
2. **Private Higher Education**

2.1. The encouragement of a private, more tuition-dependent, higher education sector is another way of expanding accessibility through cost-sharing. Private higher education, which is frequently more efficient and responsive, has a public role in Africa, as in other countries. Furthermore, privately owned and controlled higher education, especially when non-profit, high quality, and accredited can be an appropriate recipient of public funds, providing an especially cost-effective expansion of higher educational capacity, and thus of participation.

2.2. Governmentally-sponsored student loans (and possibly even some publicly-funded need-based grants), extending to students in private higher education, are essential for a country attempting to augment higher educational participation through the private sector.

2.3. Care must be taken that such private sector encouragement not jeopardize the underlying public commitment to high quality higher education, particularly in the higher costs fields and activities such as basic research and advanced training that may be less attractive to most private higher educational providers.

3. **Tuition Fees**

3.1. Tuition fees--that is, charges for the institutional costs of instruction--are an important component of revenue diversification and cost-sharing.

3.2. Tuition fees (as opposed to other forms of cost-sharing that shift more of the costs of student living onto parents and students) are especially important and equitable when: (1) higher education is partaken of by very few, and disproportionately by the children of more affluent parents; and (2) when the costs of higher education are overwhelmingly borne by all citizens (whether through direct or indirect taxation or through the confiscation of purchasing power by inflation brought about by governmental printing of money). In countries like Sweden, with near universal participation in higher education and with both abundant and progressive taxation, tuition fees are less important. In African countries, where the conditions named above are clearly present, tuition fees are both important and, with financial assistance for the children of the poor, almost certainly more equitable.

3.3. If some of the costs of instruction are to be recovered from students only after completion of the university, and then through an automatic deduction from the graduate's paycheck, there is still an "effective tuition fee," even if the government does not wish to call it that in the interest of increasing the political acceptability of cost sharing. Thus, schemes like Australia's Higher Education Contribution Scheme (HECS), Scotland's mandatory contribution to the Graduate Endowment Fund, or other proposals for so-called "graduate taxes," clearly contain a provision for tuition fees, even if they are not labeled as such, and even
though the *de facto* tuition fees are obscured by the particular scheme for their payment via an income contingent loan scheme.

3.4. The disadvantages of such schemes in the African context (quite apart from the obfuscation of what are or are not *tuition fees*) are two. First, they depend on the ability of the government to collect the entire loan repayment, with interest, as part of an existing and ubiquitous system of tax withholding and/or pension contribution imposed on employers—which most developing countries lack. Second, by forgoing all or most "up front" tuition fees, such arrangements effectively forgo the potential parental contributions to the costs of instruction—a forgoing that African countries may not be able to afford.

3.5. Countries that heavily subsidize the expenses of student living, (e.g. lodging and food), as has been the tradition in many countries in Africa, should eliminate or lessen these subsidies before turning to the more politically sensitive matter of tuition fees.

3.6. A number of countries in Africa have implemented (or, as in the case of Uganda, have allowed the lead university, Makerere, legally to implement) a so-called *dual track* tuition fee policy. Under this provision, a limited number of governmentally-supported students—presumably those with the highest entrance examination scores—attend "free," while some number of others, generally scoring below the "cut-off point on the entrance examination, may attend, but only with payment of tuition fees. In this way, the government can claim to be adhering to a tradition (or a legal requirement) of "free higher education," but at the same time to be allowing substantial cost sharing by severely restricting the number of students who are so entitled to the "free" higher education. In Russia, for example, which still adheres nominally to "free higher education," tuition fees are already accounting for an estimated 25 to 30 percent of university revenues via the "dual track." At Makerere University in Uganda, conference participants were told that as many as 80 percent of the students pay tuition fees, even though the university is nominally "free: to the top students.

3.7. The "dual track" tuition fee policy has the advantage of allowing tuition fees through a kind of "loophole," thus probably lessening political resistance and avoiding having to change existing higher education "framework" laws that frequently guarantee "free" higher education. At the same time, a "dual track" tuition fee policy requires a higher tuition fee from those who do pay than a "single track" tuition fee policy would require from all students in order to raise the same net tuition fee revenue for the institution. A "dual track" tuition fee policy also creates a possible disincentive for the government to increase the number of so-called "supported places" because the institutions have already filled themselves to capacity with the addition of the "self-pay," or non governmentally-supported, students. It may elicit favoritism, (or at least contribute to a perception of favoritism) on the part of the faculty toward the tuition fee-paying students. Finally, there is the awkwardness of charging
3.8. If it is determined that there are to be tuition fees in the public universities, it may simply be set as an absolute amount or it may be set as a percent of the underlying costs of instruction--or in some other way that recognizes the differing underlying costs and/or attractiveness of different programs, or the differing likely starting incomes (and thus the differing abilities of graduates to repay loans) of different programs. Countries that have adopted tuition fees in their public universities (like the US, UK, Australia, Canada [Ontario], China, or South Africa) have generally placed tuition fees for undergraduates within a broad range of 15 to 35 or 40 percent of the per-student operating costs of instruction. What tuition fees "ought to be," however, depends on many factors, such as whether there is a history of tuition fees, whether there is a significant private, tuition fee-charging, sector, and whether there are established and effective need-based grant and student loan programs.

3.9. Wherever or at whatever amount tuition fees are first set (or "settles" after the initial political skirmishes are over), it is important that they be kept relatively stable over time--at least in "real terms," or as a percentage of the underlying costs of instruction. In other words, over time, tuition fees should be expected to rise as other costs in the economy rise (depending mainly on the prevailing rate of inflation in the particular country) and should neither be frozen for a long period (which erodes its real value), nor on the other hand be raised significantly faster than the per-student higher educational costs are rising (which signals a further shift in cost burden from government to the family and/or student).

4. Political Acceptability and Transparency

4.1. The underlying university budgets must be transparent and generally perceived to be "appropriate" for the inauguration of cost-sharing to be politically acceptable. Stakeholders--especially students and their families--must be shown that the university has taken steps to reduce expenditures, to become as efficient as possible, and to "distribute the pain" of what will inevitably continue to be revenues inadequate to do all that the faculty or university leaders wish. Opposition to cost sharing is most vocal in a climate of underlying mistrust of government and university leadership.

4.2. All effort must be made to demonstrate how students--present and future--will benefit from the imposition of some cost-sharing, both in the expanded quality of their education (e.g. more equipment or more qualified faculty) and from the expanded capacity--and thus expanded participation.
4.3. Cost-sharing, both in the form of tuition fees and in the form of other fees and charges covering expenses of student living, are more politically acceptable when phased in over a period of years--perhaps starting with a single class of new students.

5. **Student Assistance and Accessibility**

5.1. Cost sharing is also more acceptable when there are existing programs both of means-tested grants and of student loans.

5.2. Means testing is difficult in the absence of ubiquitous and verifiable measures of both family income and family assets--which condition characterizes nearly all of Sub-Saharan Africa. In the absence of precise and verifiable measures of family financial condition, approximations of "family financial means" and "family financial need" must be used--with sufficient penalties for misreporting, and sufficient auditing, to yield acceptable levels of compliance. Such approximations might include, for example: father's and mother's occupation; father's and mother's own level[s] of education; whether the family either owns an automobile or is entitled to a car and driver through his or her occupation; whether the family has running water or not; whether the child has had private secondary school and/or private tutoring; educational background of child’s siblings; whether the family owns substantial property (admittedly more difficult to measure); or whether the family is from a remote region or a linguistic, ethnic, or otherwise historically-disadvantaged, population. Countries are presently experimenting with such measures, and it is important to exchange experiences so that fair and cost-effective methods of judging "family financial need" can be arrived at and shared.

5.3. Special attention must be shown to family willingness to support the higher educational expenses of daughters as well as sons. While more study needs to be done on the extent and nature of the problem, and while care should be taken not to encourage or sanctify a tradition of lesser support for daughters, it may be necessary for there to be some compensating discrimination in the form of a higher means-tested grant (thus recognizing the fact of a lower likely family financial contribution) for daughters than for sons.

6. **Student Loan Programs**

6.1. While acknowledging the poor record of student loans programs around the world, including many failed or poorly performing programs in Africa, student loans programs (or graduate taxes, or some other form of deferring the expected student financial contribution) are essential for a program of cost sharing that includes students.
6.2. Student loan programs can advance the general aim of cost-sharing (as opposed to the aim merely of getting money to students with little concern for its recovery). To do so—that is, to shift a portion of higher education costs to students—the loans must provide a likely cost recovery, measured in the discounted present value of the stream of repayments, that is nearly equal to (or at least is not a great deal less than) the amount lent or advanced to the student in the first place. Expressed another way, an effective student loan program that is part of a program of cost-sharing must return to the lender (which is almost certain to be the government) enough in real (that is, inflation-adjusted) terms to be significantly less expensive than would have been the case with a simple student grant program that dispensed the same amounts of money to the students.  

6.3. Most "failed" student loan programs (throughout the world, as well as in Africa) have failed for one or more of the following reasons:

6.3.1. **Insufficient capital** (i.e. no available savings) to lend at any reasonable rate of interest. This means that the government had to provide all of the lending as though it were a current expenditure, either from its available tax revenues, from its own ability to incur additional debt on the world market, or from its ability to print money and further "deficit spend." As most countries in Africa are heavily indebted and constrained in their ability to further print money, there may simply be insufficient money to lend to students in the amounts that are "needed." (There may well be insufficient

---

2 This assertion is complex and may warrant some elaboration. A "true loan"—that is, one bearing no effective subsidization—is a loan in which the borrowers pay whatever rate of interest is required in the capital market to get savers to part with their money—that is, to rent, or lease, their current claims on goods and services. If the likely inflation rate is high, so will be the rate of interest required to clear the capital market—that is, to get savers to part with their current claims in return for future repayments in much depreciated money. For a real rate of interest to be positive—that is, to return to the saver anything more in inflation-adjusted terms than what he or she parted with at the time of lending, the effective rate of interest must be greater than the rate of inflation. And this assumes that the rate also compensates for the costs of administering and collecting the loan, and also for the likely defaults among borrowers. Because student loans serve a broader purpose than merely bringing together savers and borrowers, the costs of defaults may be considered a legitimate public expenditure, and need not be captured in the rate of return to the lender. So might be considered the generally higher administrative costs associated with student, as opposed to general commercial, or even consumer, lending. However, aside from costs associated with the higher defaults and higher administrative costs of student lending, a student loan program, to break even, should recover (that is, should carry an effective rate of interest) approximately equal to the government's cost of borrowing in the international capital market. Anything less than this represents an effective grant to the student at the time of borrowing, represented by the difference between the amount borrowed (and actually received) and the discounted present value of the stream of future repayments. In fact, virtually all successful governmentally-sponsored student loan programs are subsidized—that is, return at best a rate of interest equal only to the likely rate of inflation, and less than the governments actual cost of borrowing. The unsuccessful student loan programs, however, frequently return far less in discounted present value than the amount of the loan, sometimes yielding a negative effective rate of return—meaning that it would have been less costly to the government simply to have given out the money as grants in the first place (and saved on the high administrative costs of servicing and collecting the debts).
money, for that matter to lend for any other worthy cause). There is probably no short-term remedy for this problem.

6.3.2. *Insufficient servicing and collection infrastructure.* There may be too little not simply of a banking system, but of communications capabilities generally, borrower tracking capabilities, or public records generally to originate and service a large number of fairly small, long-term loans for an unusually mobile population.

6.3.3. *Too great a built in subsidy.* That is, a loan program can fail because of a built in subsidy that allows too little possible cost recovery even with no defaults and with acceptable administrative expenses. This is typical of loan programs that are established with no, or too-low, interest rates in the face of an economy experiencing high inflation--meaning that there is no way from the start that the program can recover anywhere near its costs. This problem is quite solvable simply by reducing the built-in, inevitable, structural deficit of excessive subsidization.

6.3.4. *Very high default rates.* This, like the aforementioned structural deficit, is a solvable, or at least substantially remediable, problem. Most extreme default problems, according to the conference participants, originate from loans that were never believed by the student borrowers (and sometimes as well by the government lending agencies) to be "real" loans in the first place. This is most frequently the fault of the government and/or the lending institution as much as or more than the fault of the borrower. At the conference, the director of the South African National Student Financial Aid Scheme provided vivid demonstration of the success of a loan program that emphasized--and not just at the time of borrowing, but continuously throughout the "in-school" period--that the money was indeed a loan to be repaid, and the failure to repay will cause major hardships. (The South African, like the Australian and certain other student loan programs, also utilizes employers to collect on student loans at the point of wage and salary payments, just like the withholding of incomes taxes and pension contributions. See point 6.5, below, for the reasons why these provisions may be difficult at present for many developing countries.)

6.3.5. Income contingent, or contingent repayment, loans are loans the repayment obligation for which is expressed as a percentage of future earnings rather than as a schedule of fixed repayments. They are the present form of student lending in Sweden, Australia, New Zealand, and the UK. Income contingent loans can be more manageable to the borrower as they remain, by definition, in a fixed relationship to income (and thus, generally, to the borrower's ability to repay). However, it is important to stress that income contingency in and of itself does not make the student loans any less costly to the borrower. It may make the loans somewhat easier to repay; but
it does so mainly by extending automatically the repayment period to compensate for years in which earnings are low.³

6.3.6. Income contingent loans (or their variant, so-called "graduate taxes⁴") require a means of verifying all (or at least most of) borrowers' incomes for their working lifetimes. Such loan schemes can work in an economy where most of the borrowers will work predominantly at one job, in the formal economy, and will have their earnings known to monitored by the government along with their income tax and pension contribution obligations. In cases where many of the borrowers will derive much of their income from the informal economy, or "on the side" from second and third jobs--which is the case in most sub-Saharan African countries--full incomes will not be known, or easily verifiable, and income contingent loans may not work.

6.4. According to the students who spoke at the conference, the most important feature of a student loan program is sufficiency--that is, that is provides enough money to support the costs of living and any tuition fees. The next most important features, in order, were, (2) a sufficiently long repayment term to keep monthly (or annual) repayments “manageably low,” (3) a low rate of interest, and (4) the absence of a need for a co-signatory.

7. Conference Follow-Up: What Happens Next?

7.1. According to most of the participants at the “what happens next? session, there needs to be much more accurate, complete, and current descriptive information, widely shared, on the cost sharing policies and practices in as many African countries as possible—e.g.:

- tuition fees and other fees and charges and other forms of cost-sharing policies from the ministries (that is, the actual legislation and other legal bases);
- actual practices at the principal universities and other higher educational institutions, including those in the private sector, on tuition fees, other fees and charges, and room and board charges, “dual track” tuition fee policies, and variation in tuition fee rates by program or institution;
- where the money actually comes from (whether for tuition fees and other fees and charges or simply for living costs), and what patterns there are e.g. by family background, rural or metropolitan origin, gender, and so forth;
- the student loan programs, relevant information to include e.g.:
• interest rates, repayment periods, provisions for deferment, and provisions for collateral and guarantee;
• actual lending practices—who or what agency originates, services, and collects on bad loans, etc.;
• the legal basis for collecting, including provisions for court ordered “attachment” of wages for payment of debts, and success rates in collection of loans in default or arrears;
• costs of administering, servicing and collecting student loans;
• numbers of new loans, amounts lent, percent of student borrowing, average size and range of loans, average and range of aggregate indebtedness at end of borrowing, and default experience.
• actual costs to students and their families of higher education in the various countries, similar to the study carried out at Makerere.

7.2. Participants at the "follow-up" session agreed to encourage their respective ministries and universities to share such information.

7.3. There are a number of existing organizations that might serve as the convening mechanism for continued discussion and information-sharing on higher educational revenue diversification, cost-sharing, and accessibility programs. These include the Southern African Development Community (SADC) Technical Committee on Student Financing, the Association for the Development of Education in Africa (ADEA), and the Association of African Universities (AAU).

7.4. Many of the participants at the "follow-up" session also agreed to encourage their respective ministries and universities to move forward less tentatively in pursuit of responsible and comprehensive policies for "cost sharing" combined with programs of financial assistance and student loans to enhance higher educational accessibility.

7.5. The originating conference sponsor, the State University of New York at Buffalo’s Center for Comparative and Global Studies in Education, will produce a summary of the conference papers and discussions and will maintain communication both through the web site at of the International Comparative Higher Education Finance and Accessibility Project at <http://www.gse.buffalo.edu/org/IntHigherEdFinance> and through e-mail contact with the conference participants.