

Higher Education Finance and Accessibility: Tuition Fees and Student Loans in Sub Saharan Africa*

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Higher education at the beginning of the 21st century has never been in greater demand, both from individual students and their families for the occupational and social status and greater earnings it is presumed to convey, as well as from governments for the public benefits it is presumed to bring to the social, cultural, political and economic well-being of countries. Nowhere is this demand more compelling, but with indicators of *success* more elusive, than in the countries of Sub-Saharan Africa, beset with fragile economies and democracies and struggling to maintain higher educational quality amid conditions of financial austerity and a relentlessly increasing tide of student demand.

The fundamental financial problems faced by institutions of higher education are worldwide and stem from two nearly universal forces. The first of these is the high and increasing *unit*, or *per-student*, cost of higher education. This can be attributed to an historically-entrenched, tertiary education production function that is both capital and labor intensive and that has proven throughout the world to be especially resistant to labor -saving technology.¹ The second force greatly exacerbating the financial problems of tertiary educational institutions and ministries in many countries is the pressure for increasing enrollments, particularly where high birth rates are coupled with rapidly increasing proportions of youth finishing secondary school with legitimate aspirations for some tertiary education. And again, nowhere in the world are these exacerbating, or magnifying, conditions more prevalent than in Sub-Saharan Africa.

Tertiary education in most countries, at least in the last century, has been largely dependent on governments, or taxpayers, for the revenue to meet these high and rising costs. However, the source of taxation in the countries of Sub Saharan Africa for much of the last century depended heavily on exports and imports, state-owned monopolies, and multinational enterprises, and the worsening terms of trade and the privatization of state-owned enterprises toward the end of the century forced governments to turn to much more problematic sources of taxation such as individual incomes, retail sales, and property that are more expensive to collect and easier to evade. International lending agencies have made dependence on deficit financing and the printing of money a less

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¹ Where technology is introduced into tertiary education, it tends to add costs--and arguably to add quality, and thus possibly to add efficiency—but rarely to diminish unit costs.

viable alternative to taxation. And rampant corruption and political instability has lessened foreign investment as a source of economic activity and thus of tax revenues. Finally, the pressure of competing public needs—many of which, such as public health, public infrastructure, elementary and secondary education, and internal security, may be far more socially and/or politically compelling, particularly on their respective margins, than the claims of higher education—has plunged tertiary educational institutions and ministries in most countries (even those that are industrialized and wealthy) into serious and steadily worsening financial austerity.

When these cost pressures of tertiary education are *not* met with commensurately increasing revenues—which is increasingly the case everywhere in the world and especially so in the countries of Sub Saharan Africa—the result is less apt to be increased efficiency and productivity and more apt to be some combination of: (a) diminished quality of the output (i.e. of teaching, scholarship, and service); (b) diminished working and living conditions for professors, staff, and students alike; and/or (c) constrained capacity and the consequent extreme rationing of places—and thus the denial of opportunities to students who may be qualified but who lack the secondary school academic preparation or the financial means to “buy into” an available place.

In most of Africa, the combination of flat or even declining economies (brought on in part by the worsening terms of trade for the less-industrialized world), burgeoning populations (especially those seeking tertiary educational experiences), political and social instability and conflict, and oppressive debts have all contributed to the extreme financial austerity of, as well as a consequent diminishing accessibility to, African tertiary education. The reform agenda for African tertiary education thus includes the need for expanding other-than-governmental, or tax-generated, revenue as well as measures to lessen the current financial barriers to tertiary education participation for children of the poor, of those in rural or remote areas, or of ethnic or linguistic minorities (Sawyer, 2002; Task Force on Higher Education and Society, 2002). Accordingly, this paper will address first the familiar concept of *cost-sharing*, or the shift of a portion of higher education costs of instruction from being born predominantly or entirely by governments, or taxpayers, to being shared by parents (or extended families) and students. We will then address the related policy prescription of *student loans*, or the deferral of some of these student-borne costs to a future time when the student [borrower] will presumably be more productive, enjoy a higher income, thus be able to repay the loan as a sound personal investment.²

² Time and space does not allow a discussion here of those elements of the tertiary education financial reform agenda that are essentially *cost-side*—that is, efforts to increase productivity or efficiency. Cost-side measures remain important in spite of the fact that the lowest-hanging fruits of productivity enhancements have in most instances been adopted long ago. However, placing all of the hoped-for solutions on the revenue side—and primarily on variations of *cost-sharing*—is almost certainly untenable politically. Thus, revenue-side solutions, especially those that entail a shift of higher educational expenses to parents and/or students, in most instances must be accompanied by a continuing effort to find additional solutions on the cost side—probably causing additional pain and altered behavior on the part of faculty, staff, university management, and governmental bureaucracies.

Cost Sharing in Africa

Cost-sharing is generally thought of as the introduction of, or especially sharp increase in, *tuition fees* to cover part of the costs of instruction, or of *user charges* to cover more of the costs of lodging, food and other expenses of student living that may have hitherto been born substantially by governments (taxpayers) or institutions (Johnstone, 1986, 2002, 2003a). However, there are many other possible forms, or what may usefully be thought of as *stages*, of cost sharing. Some of these, as shown in Table 1, are likely to be early and relatively easy, with less fiscal consequence but more likely political acceptability. Such measures could include the introduction of small, non-instructional fees, the freezing or diminution of student support grants (especially in an inflationary economy), the channeling (sometimes with some governmental resources) of more students into a tuition-dependent private sector, or in the few countries that have introduced significant loan programs, an improvement in recovery rates (i.e. a lessening of needed public subsidies) via an increase in the rate of interest or an improvement in collections.

Other forms or stages of cost-sharing have potentially greater fiscal impact, but may still be more politically acceptable than the introduction of across-the-board, up-front tuition fees for all students. The introduction of so-called *dual track*, or *parallel* (as in Kenya) tuition fees, in which students who are *not* academically accepted into the small and selective pool of fully state-supported slots may still be admitted *for a fee*, maintains a kind of fiction of free higher education even though most young people, even if academically qualified, will never enjoy it. Still another form, the income-contingent loan, was developed and popularized by Australia, and adopted by New Zealand and Scotland. In 2003, it was “on the table” for the rest of the United Kingdom, according to the government’s 2003 *white paper*, (Department of Education and Skills, 2003) and evidently to be implemented in Ethiopia in 2004. This scheme is a tuition fee that is deferrable for all or most students--as an *income contingent* loan to be repaid only after the student borrower is employed and earning a salary.³

Finally, the most direct and financially remunerative forms of cost-sharing—but also more politically contested—include the introduction of tuition fees where they did not heretofore exist, the great increase in tuition fees (i.e. in excess of the rate of increase of the underlying per-student costs of instruction) where they have already been established, and the introduction of full user charges, or fees, on what may have hitherto been heavily subsidized lodging and food. Table 1 shows some of these forms or stages in approximate order both of increasing fiscal impact and of the likely increasing political resistance, and therefore in the approximate order of their likely introduction in countries attempting to move in the direction of greater cost-sharing--with most African countries at about levels 5 and 6.

³ The two principal issues in such a plan, especially in its applicability to developing and/or transitional countries, are (1) the degree to which earnings and other forms of incomes are likely to be known and verifiable and thus to be reported and “taxed” for the purpose of repaying the student loan debt, and (2) the degree to which such a *deferred tuition* has the effect of transferring what might have been a parentally-born expense (i.e. the *up-front* tuition fee) to an additional student-borne burden, which is likely to be unevenly collected at best (Johnstone 2003b).

The rationale for *cost-sharing* has been the subject of a large and well-accepted (even if politically and ideologically contested) body of economic and public finance theory (Johnstone 2002, 2003a; Woodhall, 1992, 2002). Suffice to note here that the most compelling case for cost sharing in developing countries may rely less on the familiar neo-liberal economist's presumptions of theoretically superior efficiency and equity (as valid as these presumptions may be), but on the much simpler to grasp and much less controversial *sheer need for alternative (i.e. non-governmental) revenue*. This need, in turn, emerges from the enormous scarcity of tax revenues as well as the long and compelling queue of competing public needs discussed in the preceding section. Simply put, the economic, political, and social imperatives for a great expansion in the capacity of tertiary education systems--especially in low income countries that currently have very small portions of young adults enrolling in any sort of post-compulsory studies--is so far in excess of any conceivable additional public revenue likely to be devoted to higher education that alternative, non-governmental revenue sources must be found. And by most policy calculations, a substantial portion of this non-governmental revenue is going to have to come from parents and students in the form either (or both) of tuition as well as of user fees for some of the currently free or heavily subsidized student housing and food.

Most of the countries of Sub-Saharan Africa have resisted *up-front* tuition fees, which is the most direct and fiscally significant form of higher educational cost-sharing. This resistance may stem from two, mainly historical, features of Sub-Saharan Africa. The first is the European colonial legacy and the fact that the continent of Europe--on which most of Africa's classical universities are modeled--still remains the world's last bastion of free higher education. Even though this European tradition is under tremendous pressure and has been slowly giving way to encroaching tuition fees (as in the UK and to a lesser extent in the Netherlands, Portugal, and most recently Austria) the European political and cultural resistance to tuition fees is powerful. Thus, to African politicians and powerful student unions faced with prospect of charging or paying for something that may once have been free of charge (at least for a few fortunate families and students), the fact that most European governments, with far wealthier families and far better employment prospects for students, continue to resist tuition fees gives credence to the belief (or hope) that higher education can somehow continue to be free.

Table 1
Forms and Stages of Cost-Sharing (in Approximate Order of Increasing Political Resistance to Implementation)

Type of Cost-sharing	African Country Example[s]	Other Country Example[s]	Potential Revenue Impact	Potential Political Acceptability
1. Small “earmarked” fees (e.g. registration, examination, or “caution”—but not yet “tuition.”)	Most African Countries (Nigeria a good example).	India, Egypt	Generally small	Quite acceptable
2. The “freezing” (lessening of the “real” value) of student grants.	Most African Countries	US (to Federal Pell grants), Russia, other “post-Communist”	Generally small but continuous	Relatively acceptable
3. The cutting or elimination of some student support grants.	Most African Countries	UK (elimination of Mandatory Grants)	Small to large	Unpopular (protest in Ghana (1991; also in Kenya and Tanzania.
4. The encouragement and even revenue support of tuition-dependent private sector.	Kenya, Tanzania, Uganda, Ghana, and other countries.	Pervasive (especially the Philippines, Japan, Korea, Brazil, Russia, etc)	Significant over time—but requires tuition fees.	Quite acceptable
5. The introduction of fees for lodging and food.	Most African Countries	Most OECD Countries, China, Vietnam, Mongolia	Can be large	Unpopular, but can be done gradually—and has precedent.
6. The introduction of tuition only for students not admitted to “free” slots: <i>dual</i> or <i>parallel</i> track.	Uganda, Kenya, Ethiopia, Tanzania	Russia, other NIS, Czech Republic, Poland, Hungary	Can be large	Acceptable: provides opportunities to students who had none.
7. The introduction of tuition only for <i>certain</i> public institutions or programs.	Nigeria (tuition for state, but not federal, institutions)	Mexico (State and federal universities other than UNAM)	Medium to large	Relatively acceptable
8. The introduction of tuition in the form mainly of <i>deferred contributions</i> .	Reportedly under consideration in Ethiopia	Australia, New Zealand, Scotland, Wales, proposed for UK	Uncertain revenue and therefore state savings in future	Relatively acceptable
9. The introduction of “up front” tuition fees at all public institutions	South Africa, Mozambique	Britain, Netherlands, Austria, China, Mongolia, Vietnam	Large	Unpopular
10. Enhancing recovery on student loans	South Africa (successfully); Kenya and Ghana (attempting).	US	Potentially significant, but extremely difficult to effect.	Relatively acceptable
11. Large increases (beyond the rate of unit cost increases) in tuition: increase in % of costs recovered.		US	In response to state cuts, so no <i>net</i> revenue impact.	Angers politicians and press; moderately unpopular to public.

The other historic root of this resistance to fees has been the legacy in much of Sub-Saharan Africa of Marxist ideologies and the corresponding view that governments have—or at least ought to have—the financial wherewithal to provide all of education (as well as all of health care, pensions, and most other social services) free of charge. Politicians and students who are wedded to notions of entitlements and who view all of education as essentially a public good (and encouraged in this observation when they view other governmental expenditures that seem blatantly wasteful or corrupt) are not easily dissuaded. What many in the industrialized West view as insurmountable resistance to taxation and serious constraints upon deficit financing continue to be viewed by those of a more Marxist persuasion as *mere political decisions to not tax*, and therefore—such as in a proposed introduction of tuition fees into higher education—as an untenable decision to deny to the poor the benefits of what should be (once was) free to all.

However, the collapse of state-owned and centrally-planned economies throughout the one-time Socialist/Communist world, almost regardless of ideology or of individual views of what is properly “public,” has so devastated the taxing ability of these governments that China, Vietnam, and Mongolia, for example, have abandoned all pretense to “free” higher education, declaring the new ideological correctness of cost-sharing and of substantial, up-front tuition fees. Russia and others of the former Soviet Republics and the countries of Eastern and Central Europe, while still politically constrained to support some higher education that is “free,” have also adopted cost-sharing measures such as freezing and otherwise diminishing student maintenance grants, imposing user fees, and implementing various forms of *dual track* tuition.

As shown in Table 2, cost-sharing is also being embraced by more and more governments throughout Sub-Saharan Africa, although slowly and cautiously, and usually limited to its easier and more politically acceptable forms, such as levels 1-5 and perhaps levels 5 and 7 from Table 1. At the institutional level, small fees are being introduced, food services are required to be self-supporting, fees are being charged for evening or summer or other “special” courses and programs, and facilities and equipment must be rented. At the governmental or ministerial level, where the problem is less institutional austerity than it is the sheer lack of capacity, private, tuition-supported alternatives are being allowed, encouraged, and even in some cases partially subsidized (such as students being eligible for loans at private institutions).

Tuition fees continue to be resisted, particularly by politically-powerful student groups, and by politicians who cater to them. However in East Africa, Uganda and Kenya and to a lesser extent Tanzania and Ethiopia, have adopted the *dual-track* tuition-fee policy, opening their doors to students whose examination scores fall below the “cut off” for the highly selective tuition fee-free slots, but who are still able to do university-level work—and whose parents can and will gladly pay.⁴ In this way, similar to Russia, the other countries emerging from the former Soviet Union, and most of the formerly Communist countries of Eastern and Central Europe, these Sub-Saharan African countries can introduce tuition fees while holding nominally to the principle of free

⁴ A slightly different kind of *dual track* fee policy has been adopted in Nigeria, where the politically visible and volatile national universities have been kept tuition-free, while the regional state universities have been allowed to charge tuitions [Odebiyi and Aina, 1999, cited in Ishengoma, 2002].

tuition—at least for the small number of secondary school graduates able to gain entry to the most competitive governmentally-sponsored, tuition fee-free spaces.

The University of Nairobi began searching for alternatives to governmental revenue in the mid 90s. Realizing that their comparative advantage in a market-oriented economy had to continue to be knowledge-driven activities, and having to contend with a precipitous decline in governmental, or taxpayer-originated, revenue, the university in 1998 began its versions of the dual track tuition fee policies, called *Module II*, or *Parallel Programmes*. These were to be academic programs in which enrollment demand was strong and in which there were considerably more academically admissible applicants than there were available governmentally-funded places—and so in which additional fee-paying students could be added to the benefit of the added students, the teaching faculty and their departments, the university as a whole, and the country. The first such program at the University of Nairobi was an MBA in the Faculty of Commerce, quickly followed by Module II programs in the Faculties of Law, Education, Medicine, Pharmacy, Dental Sciences, Engineering, Commerce, and the Institute of Computer Science. By the 2002-03 academic year, enrollments in the Module II Programs at nearly 15,000, slightly exceeded enrollments in the traditional, governmentally-supported, tuition fee-free programs (Kiamba 2003). Total revenue from Module II programs in 2002-03 was some 1.2 billion Kenyan Shillings, or nearly \$16 million, about one-third of all university income (Kiamba 2003, Oketch, 2003).

The financial beneficiaries of Module II along with the other smaller revenue generating activities have been faculty and staff salaries (about 45%), academic equipment and materials (about 28%), utilities and other university-wide expenses (about 17%), and capital projects (about 10%). University of Nairobi Vice Chancellor Crispus Kiamba's conclusion is that these programs have: "...gone a long way to make the university attract, motivate, and train competent staff and stave off the hitherto spiraling brain drain....led to the improvement of the quality of the teaching and research....[and largely checked] the physical deterioration of the University estate" (Kiamba 2003, p. 11).

An even more aggressive *dual track* tuition policy—and arguably the most striking single example of institutional cost-sharing in Sub-Saharan Africa—is the dual track policy adopted at Uganda's Makerere University. As reported by Ssebuwufu (2002), Sawyer (2004), and Court (1999), more than 70 percent of Makerere's students are fee-paying. Thus, the government and university can still claim that Uganda and Makerere provide free higher education (to the very fortunate 20-30 percent), while the revenue from fees has significantly improved Makerere's budget, capacity, and educational quality. According to the World Bank/UNESCO (Task Force, 2002), Makerere "moved from the brink of collapse to the point where it aspires to become one of East Africa's preeminent intellectual and capacity-building resources, as it was in the 1960s" (p. 54).

Table 2
Cost-Sharing in Sub-Saharan Africa, Selected Countries

	Cost-Sharing Policies	Student Loan policies/Programs
East Africa		
Ethiopia	Cost sharing open policy goal, but only “pocket money” eliminated to date. Dual Track tuition: tuition, lodging and food covered for <i>regular</i> --not for evening or summer--students.	Government considering (as of 2003) a loan program modeled after the Australian HESC (in spite of likely problems with multiple and unreported sources of income and minimization of parental contributions).
Kenya	Tuition and user fees for lodging and food introduced in 1992, but tuition fee rolled back due to student opposition. Dual track or <i>Parallel</i> Module II tuition begun 1998 at Univ. of Nairobi.	Comprehensive loan program introduced in 1970s, but failed with virtually no cost recovery. Program reinitiated in 1995 as Higher Ed. Loans Board, with mandate for “near self sufficiency.”
Tanzania	Cost-sharing officially begun 1992 but at slow pace. Maintenance grants & lodging/food subsidies reduced in mid 90s. Only dual track tuition, but comprehensive tuition intended in future.	A so-called “loan” scheme implemented in 1993-94 as part of phase II of cost-sharing to cover a part of lodging and food costs. As of 2003, no interest rate stipulated, no collection machinery, & no recovery.
Uganda	Makerere Univ. famous for aggressive & financially successful dual track tuition, with more than 75% of students paying fees to the considerable financial benefit of the university.	Under discussion: no operational student loan program as of 2003.
Southern Africa		
Botswana	Limited cost-sharing measures said to have been introduced in 2002-03 along with efforts to improve collection of loans	Under discussion: no operational student loan program as of 2003.
Mozambique	Tuition ranges from \$70-80 to \$500+. Cost sharing seems to have been reluctantly accepted.	Under discussion: no operational student loan program as of 2003.
South Africa	Tradition of tuition fees and cost-sharing generally, although still resisted and complicated by issues of redress & planned institutional closures. Tuition in range of \$1000-\$3500.	Successful means-tested income contingent loan program collected by employers. Reaching about 20% of student population. Interest is 2% real; repayment is 3-8% of income over threshold.
West Africa		
Ghana	Cost-sharing limited to small fees and user fees for lodging and food; no tuition fees.	After collapse of 1970s plans, a new scheme in 1988 linked to Soc. Sec. Nat. Ins. Trust, the contributions to which guaranteed repayments. High subsidies and collection difficulties persist.
Nigeria	Gov. expects 10% of costs to be from other-than gov.-revenues, but Cost-sharing is controversial, with nominal fees for lodging and food, and tuition at state—but not at federal—universities.	As in Ghana, the 1972 Nigerian Student Loan Board failed to collect and was suspended in 1992. A new Education Bank is constructing measures to increase collections and interest rates.
Francophone		
Burkina Faso	In spite of Francophone tradition of no fees, B-F began to cut grants and begin modest tuition fee in 1990s: Increase from ca \$12 to \$24 in fall 2003 brought fierce student opposition.	Comprehensive program of small. means-tested loans, “Prets FONER,” begun 1994: for 2 nd and 3 rd cycle students: subsidized and income contingent @ 1/6 salary; little or no recovery to date.

Source: The University at Buffalo Center for Comparative and Global Studies in Education International Higher Education Finance and Accessibility Project. See: < <http://www.gse.buffalo.edu/org/IntHigherEdFinance>>

Thus, by most measures of success, including increased wages, better retention of faculty, and much needed infrastructure and technology, these *dual track* policies have been successful. More importantly, they are almost certainly the most politically expedient way to introduce tuition fees into a country in which the prevailing political ideology remains fiercely anti-tuition fees. Clearly, a policy that denies the appropriateness of tuition fees faces challenges when free places are extremely limited and when, not surprisingly, most of these places go to the children of the more privileged classes who are the best prepared academically and the most ambitious. The distinction is a fine one between, on the one hand, a policy that seems to deny the appropriateness of tuition fees, but still provides additional capacity for those who are “admissible” and can pay a tuition fee, and, on the other, a policy that fully acknowledges the appropriateness of tuition fees, but which goes on to provide full tuition scholarships to the most academically prepared.

At the same time, at least in theory, there are the following limitations to such policies:

1. They tend to reinforce (or at least fail to provide any forthright alternative to) the underlying ideology of entitlement that continues to reject the very notion of cost-sharing—even though significant policy makers in most of these countries know that many parents are, in fact, already paying significant tuition fees through the fee-paying tracks as well as even greater fees to the growing numbers of private institutions.
2. They are, at least arguably, inequitable in that the students most likely to attend “free”—that is, at the expense of the taxpayer—are the children of the most advantaged, many of whom could and would pay a modest tuition fee. Muisi and Muwanga (2003) write “An oft-cited danger of the introduction of fees at Makerere is an increase in the gap between the ‘haves’ and the ‘have-nots’ in access to higher education. Large numbers have been admitted, but access has not broadened” (p. 51)⁵.
3. The differences in actual academic abilities, and even more so the differences in academic *potentials*, between the lowest scoring of the winners—i.e. those who just make it into the limited *fee-free* places—and the highest scoring of the “losers”—i.e. those who score just below the cut-off point on the examinations and can attend only by paying fees—is probably slight and possibly immaterial. Expressed another way, it is nearly certain that there will be considerable overlap around this *admission margin*, with the best of the fee-payers inevitably outperforming academically the worst of those attending free from fees.
4. Finally, depending on the validity and integrity of the system of selection for the limited *fee-free* places, the very considerable stakes involved in getting one of the fee-free places introduces the possibility (indeed, almost the inevitability) of corruption somewhere in the process.

⁵ Such fees, in accord with what is called “high tuition-high aid” in the US, could in theory have the opposite effect and actually broaden access by increasing the availability of grants or bursaries for the less fortunate. It is probably the case that Makerere and other African universities have been in such dire financial straits that the expansion of accessibility has been a lesser priority; but governments could steer them in this direction with appropriate rules and incentives.

In short, higher educational policies in more and more Sub-Saharan African countries are on a clear, even if slow, trajectory toward a greater sharing of the costs of higher education with parents and students. Despite continuing political and ideological barriers to such policies, especially where governments are apprehensive about student strikes, the more formidable constraints to a more aggressive adoption of cost-sharing policies may be increasingly *technical*. These constraints are specifically related to two difficulties arising from efforts to combine a greater reliance on contributions from parents and students with the maintenance and even the enhancement of higher educational accessibility. The first of these is the difficulty of fairly and cost-effectively assessing parental (or family) *means*, or its converse, the *financial need* remaining after all family and other resources (including savings and available current income) have been gathered in order to send a child (or young adult) to the university. In the United States and most of the OECD countries, where both *earned* (from wages and salaries) and so-called *unearned* (from interest, dividends, and rents) incomes are generally known, and voluntarily reported, financial means are relatively easy to verify, generally from income tax returns. In developing countries, however, income or earnings may be from multiple sources, often erratic, frequently not reported or even recorded, commonly non-cash, and sometimes involving large extended families. In such cases, *proxies* for income or earnings must be found that are not disguisable, transferable, or contestable: for example, such easily observable characteristics as occupation of principal wage earner, educational level of mother and/or father, number of cattle owned, or the possession of a home with indoor plumbing, and the like (McMahon, 1988; Wolanin, 2002; Tekleselassie and Johnstone, 2004). This serious problem deserves much more attention from academics and policy analysts that it has thus far received.

The second of the essentially technical problems is the challenge of establishing a student loan program that both promotes accessibility and expanded participation and at the same time results in real cost recovery. Most loan programs in Africa (as in much of Latin America and elsewhere in the developing world) simply do not recover payments (Johnstone, 2000; Ziderman 1995, 2002). It is to this problem that we now turn.

Cost-Sharing and Student Loans in Africa

Student loans, or any other sort of *deferred payment plans* (including all forms of *income contingent* and *graduate tax* schemes, regardless of what they may be called,⁶ as well as more conventional, scheduled repayment forms), have been on the agenda of higher educational policy reforms for decades, including those directed at the countries of Sub-Saharan Africa (Woodhall 1988, 1990, 1992; The World Bank 1994, 2002; Ziderman and Albrecht 1995). In theory, a student loan program combines the financial imperative of taxpayer revenue supplementation with the social and political imperative of expanding higher educational accessibility. At the core of the student loan concept is the belief that students who will benefit so much from the privilege of higher education can reasonably be expected to make a modest contribution toward its considerable costs. And student loans make a contribution toward equity by insulating this contribution from

⁶ Policy makers throughout much of the world, politically apprehensive about a requirement for students to bear a portion of the costs of their higher education, are increasingly turning to euphemisms for both tuition fees and loans, referring instead to post-graduate *contribution schemes* (e.g. Australia's Higher Education Contribution Scheme (HECS) or Scotland's mandatory *contributions* to the Scottish University Endowment Fund).

both the affluence and the attitudes of their parents. Adrian Ziderman (2002) claims that government-sponsored student loan schemes are or have been in place in some 50 countries around the world, serving a combination of objectives including: (a) revenue diversification or income generation; (b) university system expansion; (c) equity, or the targeted enhancement of participation by the poor; (d) specialized manpower needs; and (e) the financial benefit of students generally, expressing their greater time preference for present money.

At the same time, student loans programs around the world have compiled an impressive record of failures (Ziderman and Albrecht 1995), including notable African examples in Ghana, Kenya, and Nigeria as well as several newer and lesser known programs such as those in Tanzania and Burkina Faso also looking like failures, at least on the criterion of cost recovery. At the present time, only the South African loan program appears to be successful—with *success* defined as the twofold ability to (1) expand accessibility by putting critical funds into the hands of students, and (2) generate a cost recovery that shifts some of the costs of this financial assistance to the students themselves. (The revitalized and supposedly reformed loans programs in Ghana and Kenya are promising, although still somewhat less than successful as of 2003.)

Excessive subsidization. The essential failure of these student loan programs (and there many more failures in Asia and Latin America) can generally be attributed to one or both of two factors: (1) excessive built-in subsidization, and (2) insufficient and/or overly costly collection. Student loan programs (again, by whatever euphemism they may be called) are frequently doomed to fiscal failure by a built-in taxpayer subsidy that would fail to generate a sufficient cost recovery (measured by the present discounted value of the reasonably anticipated stream of future repayments) regardless of the successful *execution* (e.g. as signaled by low defaults) of the loan plan. These interest subsidies may be in the form of a zero rate of interest during the *in-school* years or the so-called *grace period* before the first payments are even expected, or simply of an interest rate that is far below the cost of money to the lender (generally the government). Such a built-in interest subsidy is especially stark in cases where the contractual rate of interest is both low and fixed, and where the country's economy is experiencing considerable inflation--which taken together considerably erode the present value of all future payments. However, there is even a not-inconsiderable built-in subsidy in the increasingly popular student loan programs (Australia, New Zealand, Sweden, the UK) that set the rate of interest to vary each year according to the prevailing rate of inflation, effectively recovering (assuming no defaults or other losses) exactly what was lent or borrowed in *real*, or inflation-adjusted, terms (i.e. a zero *real* rate of interest).

Indeed, insofar as cost recovery was a major goal of early student loans programs (and there is reason to believe that it was not), Kenya's former University Students Loan Scheme (1974/75 to 1994/95) at 2 percent interest or the current "reformed" Higher Education Loans program (1995/96 to the present) at 4 percent (Oketch 2003) or Ghana's current (summer 2003) SSNIT Student Loan Scheme limiting the borrower's rate to 3 percent (Ghana Website, Norty 2002) had no chance of complete or near-complete cost recovery *even with no defaults*. Depending on the prevailing rates of inflation—quite high in both countries in many of these years—these interest rates represent considerable public subsidies, especially when the disbursements of loans are extensive.

The cost-effectiveness of this sort of built-in loan subsidy depends not just on the spread between the cost of money and the ultimate recovery rate, but on the degree to which a particular level of subsidy is necessary to get the desired level of student participation. Arguably, some subsidy is always necessary, or at least politically expedient; there are virtually no examples of generally available student loan programs in any country where there is no governmental subsidy whatsoever. However, there is clearly a fiscal trade off among (a) outright grants or bursaries, (b) the effective grants represented by the loan subsidies, and (c) the tuition fee itself, and there should, at least in theory, be some combination of levels that is most cost-effective for the aims of the government.⁷

The most interesting African case in point concerning *purposefully built in* subsidies is the South African *loan bursary* feature that forgives up to forty percent of the final accumulated loan indebtedness for the successful passage of 100 percent of the courses. Clearly, this repayment forgiveness seriously erodes the stream of repayments and requires higher levels of new government loan capital into the program than would be otherwise necessary. At the same time, this is less a built-in feature of the loan program itself than it is a planned form of academic performance bursary, with its own goals, that just happens to be attached to the loan program for convenience. Whether this is a cost-effective expenditure of the South African Rand may be debated; its proponents in South Africa believe that it is (Jackson, 2002). In any rate, this is a clearly deliberate expenditure *via a student loan repayment forgiveness feature*, and as such should not be taken to detract from the fiscal success of the South African student loan program itself.

A particular disadvantage to highly subsidized loans in developing countries is the consequent need to ration the loans (that is, to ration the *subsidies*) via a means test—which returns us to the first of the so-called technical problems that need to be addressed in the implementation of cost-sharing in higher education. Because of the above-mentioned difficulties in means testing in situations in which family incomes are not likely to be known or easily verified, a minimally subsidized student loan is not only less costly to the government or taxpayer (allowing other higher-priority public expenditures to be made), but it also requires less costly verification of the entitlement to the loan.⁸

The failure to collect. The second reason for the many student loan program failures is poor execution, especially the failure to collect repayments. Student loans are difficult to recover in the best of circumstances even from guarantors or co-signatories. Students frequently—and especially in the countries of Sub Saharan Africa—face prolonged periods of unemployment following their departure from the university (in spite of all the talk and all the theory about high private returns to higher education). They move around, return to studies, and often go out of the country for long periods. They may not understand the need to maintain a good credit rating; indeed the very

⁷ Similarly, there are trade-offs among the various kinds of built-in student loan subsidies, including (1) total subsidization of interest during in-school years and grace period versus either substantial or minimal subsidization of interest during the repayment years; and/or (2) subsidization for all students, versus subsidization only for students whose parents were poor at the time of the initial borrowing, versus subsidization of borrowers who themselves experience low incomes during their repayments years (which is the essence of the so-called income contingent loan plans).

⁸ Expressed another way, a minimally subsidized loan reduces both the *needless lending* and also the *effective opportunity cost* of whatever unnecessary lending might remain.

notion of credit may be foreign to them, and they may well not have truly understood the money they received was to be repaid--with some adverse consequences if they did not.

Another and perhaps more serious problem, but also one which is more easily remedied, is that African governments have frequently colluded in this failure to take repayment obligations seriously. Records of borrowers have been lost or possibly not kept at all. There is little evidence of conscientious counseling of students either before the borrowing, during the university years, or just before departure (and the theoretical beginning of the repayment obligation) about the implications and responsibilities of student indebtedness. Indeed, there seems to have been virtually the opposite behavior on the part of some governments: a deliberate downplaying of any repayment obligation, presumably out of a fear of student violence and political destabilization. Thus, the new (1988) Ghana student loans that were to have been repaid but were to have been secured in event of non-repayment by the future pensions of the borrowers, was instead billed as a loan in which “...*The student pays nothing out of pocket while studying nor does the graduate suffer any reduction during his/her working life*” (Norty 2002, p. 214). Such a construction doomed the plan’s financial viability, which was financed by the Social Security National Insurance Trust (SSNCT), by severely diminishing the repayment revenue stream that was the basis of the value of the student loan notes, now held as assets to cover the future pension liabilities of the Trust. Moreover, even if the pension scheme had remained financially viable, such a construction would have meant that many student borrowers would have found themselves with no pensions at retirement.

Finally, student loans with the best of lending practices are expensive to collect, partly because of the need to maintain current records and frequently to “chase after” the borrowers, but also because the amounts are generally small to begin with, making the administrative and servicing costs, even if done professionally and with good technology, expensive on a per-dollar-of-loan basis. When these conditions are considered in a Sub Saharan Africa context—with little culture of credit, uneven postal and telephone services, generally inefficient governmental bureaucracies, and unevenly enforced official machinery for keeping track of people (such as taxpayer or pension contribution numbers required of all employees)--it is little wonder that regular repayments are the exception and that borrowers are frequently lost altogether to the systems.

A possible solution to this problem is to have the loan repayments collected by the employer at the point of wage or salary payment—just as employers are expected to collect pension contributions or withhold income taxes. Such mandatory employer collection does not have to be associated with the so-called *income contingent* loans, where the repayment due is defined as a percentage of earnings and is usually expected to be withheld (collected) by the employer along with mandatory income tax withholding and pension contributions. In fact, fully income contingent loans may be problematic in much of Sub Saharan Africa, where earning streams may be multiple, frequently informal, and often unreported and essentially untraceable (Johnstone 2003b). But if the repayment due is on a fixed schedule, or if the income contingent repayment is independently calculated (i.e. based other than on a single wage or salary stream), an employer (it need not be the sole employer) can still remove the loan repayment automatically, inexpensively, and in a way that is difficult to evade.

Thus, for example, the South African National Student Financial Aid Scheme, which in 2001 lent ZAR657 million [US\$158.5 million] to some 93,400 students (99

percent of whom were “Black”), has been given the authority to compel employers to withhold student loan repayments owed from employees whose payments are in serious arrears, regardless of whether the repayment has been calculated on an income contingent or on some other basis (Jackson 2002). Similarly, the restarted and reformed Kenyan Higher Education Loans Board can instruct any employer to deduct from wages an amount due on a student loan—including the student loans dating as far back as the 1950s that were essentially forgotten, both by the borrowers and by the government (Kenya Loan Website).

Tuition Fees, Student Loans, and Parent/Student Shares

A form of higher educational finance that combines the concept of a *tuition fee*, or a payment for a portion of the costs of instruction, with a *student loan*, or the deferral of the student’s share of higher educational expenses to the future, is Australia’s Higher Education Contribution Scheme, or HECS (Chapman 2002; Chapman and Ryan 2002). This model imposes a tuition fee, but allows this fee to be paid in the future as a percentage of the student’s future earnings. The Australian HECS, which has been urged as a model even for some developing countries (Chapman 1999), is more than a way for the student borrower to manage his or her indebtedness. Rather, it is being promoted as an alternative to, or a replacement for, what has commonly been thought to be the *parent’s* share of higher educational costs. Thus, the applicability or inapplicability of an Australian HECS-type income contingent loan as an alternative to up-front fees does not rest merely on the ability of a government to know and verify all borrower incomes for most of their earning lifetimes in order to assure the financial viability of the scheme. Rather the applicability of the model depends in a very fundamental way on the respective roles assigned to parents and students in the underlying concept of cost-sharing.

Cost-sharing is frequently advanced as though the student’s and the parent’s (or family’s) shares were theoretically and practically indistinguishable. However, the theoretical rationales underlying the expectation of a parental (or perhaps an extended family) share and a student share are quite different. A parental contribution is based on the principle that the student is still, at least through his or her first degree (assuming no significant time lapse between the completion of secondary and the beginning of tertiary education), a financially dependent child and that parents have an obligation to contribute financially to the expenses associated with their children’s higher educations, *at least to the limit of their financial ability*. Additionally, it is assumed that the parents derive considerable satisfaction from their children’s higher education and derive more satisfaction (and even some status) from being able to place their children in the “best” university they can afford and for which their children qualify.

The theory behind the appropriateness of a *student* contribution, on the other hand, is based almost entirely on the assumption of substantial personal and private benefits from the higher education. These presumed benefits may be manifested in higher lifetime earnings, greater status and influence, more “life options,” or simply the personal satisfaction that comes (to most people) from being better educated. This theoretical appropriateness of a *student* contribution is buttressed by the fact that higher education in almost all countries (including developing and transitional countries) tends to be partaken of disproportionately by an intellectual and social elite—further supporting the principle that students should contribute something toward the costs of their higher education. It is

this principle--quite apart from the principles that supported the parental contribution--that calls for student loan programs so that student can defer this contribution until they are financially able to do so.

The appropriateness of the income contingent loan concept as a way for students to more easily handle their repayment obligations depends in substantial part on the degree to which incomes and earnings can be accurately and verifiably tapped to generate the payments to recover the loans. In this respect, the multiple, informal, unreported, and essentially untraceable forms of income that are characteristic of developing countries is going to make the cost recovery problematic at best, as reported above. But equally or more problematic to the large goal of revenue diversification is the implication within the Australian HECS model that the parental contribution is no longer central to cost-sharing. For Sub-Saharan Africa, the extreme need for other-than-governmental revenue for higher education, the problematic cost recovery of any student loan program, and the demonstrable willingness and ability of a significant number of parents in all African countries to contribute to the higher education of their children together suggest that a parental contribution is not a potential source of revenue that can be foregone.

Conclusions on Tuition Fees and Student

Although there is great variation within the higher educational financing schemes in Sub-Saharan Africa, and although even descriptive (not to mention genuinely analytical and evaluative) information is uneven at best,⁹ the following conjectures are offered in the search for workable solutions to the many problems in the financing of higher education in Sub-Saharan Africa.

1. Sub-Saharan African universities and other tertiary level institutions need to supplement their limited governmental, or taxpayer, revenues with revenues from parents and students.
2. These revenues should take the form both of user charges for governmentally- or institutionally-provided lodging and food and of tuition fees to cover a portion (say, one-quarter) of institutional costs of instruction.
3. Given the inevitable political resistance to cost-sharing, a multi-year progression of stages should be presented, with further shifts of costs on to parents and students clearly supplemental to governmental funding, and tied as much as possible to: (a) improvements in the quality of higher education, (b) expansion of opportunities and enrollments, and (3) extension of participation and accessibility to hitherto under-served populations.
4. Universities must actively and transparently continue to seek efficiencies (even at some disaccommodation and pain) that minimize the per-student costs of instruction without jeopardizing quality.

⁹ The Association of African Universities has publicly (but carefully) endorsed cost-sharing, among other elements of reform, much of this reported in Sawyer (2002). A ten nation conference (predominantly Eastern and Southern Africa) in 2001, sponsored by the University of Dar es Salaam and the University of Buffalo's International Comparative Higher Education Finance and Accessibility Project, endorsed cost-sharing, and provided information from most of the countries, reported in Mwamila et al (2003). A larger conference, sponsored by the Association of African Universities and the World Bank in September 2003, for which this paper and others were first written, also suggested that the concept of cost sharing is widely accepted, although the execution is still uneven and unevenly described.

5. The imposition of a tuition fee should be accompanied by a program of means-tested grants, drawing on clearly identifiable and verifiable characteristics (i.e. proxies for income) such as parental occupation and educational levels, type of housing, ownership of car or access to a driver, children's schooling (specifically, whether tuition fees are being paid for secondary education), and the like.
6. A single-track, up-front tuition fee (albeit one that can vary by institution and/or by program) is preferable to a dual track system that rations a small number of tuition free places according to measured academic preparedness—and thus inevitably rations according to the social class of the aspiring students. However, a dual track tuition fee is preferable to no fee at all and should be implemented if it is politically and/or constitutionally impossible to collect tuition fees from all.
7. Politically acceptable language and euphemisms for tuition fees such as “deferred contributions” may be necessary, but should not have the effect of substituting a larger (albeit deferred) contribution from students for an up-front contribution (a tuition fee) expected from parents (to the limit of their financial abilities to pay). Similarly, an expected student contribution via a student loan program (income contingent or otherwise) is probably a good step, and it may be a way to accommodate an up-front tuition for some students. But it should not be adopted as a wholesale substitute for an up-front tuition to be collected wherever possible from parents or extended families.
8. The setting of tuition fees should be as depoliticized as possible. Countries should consider an independent (albeit politically accountable) board, buffered from both the government and the universities and other tertiary institutions, to establish the base year tuition fee[s] and also to establish annual increases thereof.
9. A student loan program should be designed to collect something reasonably close to the amounts lent, according to the present value of the reasonably-expected repayments discounted at the government's borrowing rate and not counting losses from defaults and other purposefully designed *subsidies* or *repayment forgiveness* features.
10. Student loan program must be equipped with legal authority to collect, technology to maintain accurate records, collectors who can track borrowers and verify financial conditions, advisors and repayment counselors in the universities, and the ability to enlist both the government's tax-collecting authority and employers in the collection of repayments.
11. An income contingent repayment mode should not be employed unless incomes can be reasonably verified. If income contingency is politically necessary, it should not be the “default” repayment obligation, but rather an optional means of payment that requires the borrower to demonstrate that he/she can discharge the repayments by paying a percentage of earnings from a single employer that represents the a dominant earnings stream.
12. Mechanisms need to be added to the repayment process, especially if the repayment mode is a conventional, fixed schedule mode, to accommodate borrowers whose earnings are low, either temporarily or permanently. In short, a conventional loan

needs the same kind of genuine *low earnings protection* that is presumed to follow by definition from an income contingent form of repayment obligation.

13. A loan program needs to have a collection agency that is viewed as professional, incorruptible and technically expert. Universities and other eligible tertiary level institutions must be enlisted as partners in the program, especially in impressing upon the student recipients that loans are legally enforceable obligations that must not be taken lightly or used in excess, and in keeping track of the borrower's whereabouts, at least during the in-school years.

African universities continue to be in a state of severe financial austerity, to the detriment of both institutions (and their faculty, staff, physical plants, and most of all their students) and the countries as a whole (due to the constraints on participation or accessibility). However, throughout the Sub-Saharan continent, there are university leaders, faculty, and ministers who are imaginative, courageous, and visionary, and there are indeed *things that work*, which give hope to a continent that needs and deserves both strong higher educational institutions and accessibility to them.

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Web Sites

International Comparative Higher Education Finance and Accessibility Project (July 1, 2003) <<http://www.gse.buffalo.edu/org/IntHigherEdFinance/>>

Ghana (Social Security National Investment Trust) <<http://www.ssnit.com/>>

Kenya (Higher Education Loans Board: July 1, 2003)
<http://www.helb.co.ke/Helb/index.jsp>

South Africa (National Student Financial Aid Scheme July 1, 2003)
<https://www.nsfas.org.za/nsfas_main.htm>