

IIEP Dissemination Programme

Educational Forum Series, No.3

# Student loans in higher education

## 3. English-speaking Africa

*Report of an IIEP educational forum*  
by Maureen Woodhall

Paris 1991

International Institute for Educational Planning  
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## Student loans in higher education

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## Preface

This booklet is the third of a series which is reporting on *Educational Forums* being organized by the IIEP on the issue of student loans in higher education. The first booklet examined the situation in Europe and the USA; the second concentrated on Asian countries. The present booklet reports on the third forum in the series, held for countries of English-speaking Africa.

The purpose of these meetings is to analyze the main issues raised by the introduction of student loans and discuss the ways these issues are being addressed both in industrialized and developing countries. Through open and candid discussion at the forums, and exchanges of experiences between countries, it is hoped to highlight the main implications for policy-making in higher education and draw some conclusions concerning the management of student loans in the future.

Each booklet in the series will normally include a report of the forum and summaries of the experiences of the countries represented. The IIEP, in embarking on this new initiative, hopes that the series will stimulate further co-operation in the form of exchanges of experiences among UNESCO Member States.

Jacques Hallak  
Director, IIEP

## **Executive summary**

The International Institute for Educational Planning (IIEP) held a three-day forum in Nairobi, Kenya, in June 1991 to examine recent experience of student loans in Africa. Senior education specialists from nine English-speaking countries (Botswana, Ghana, Kenya, Lesotho, Malawi, Nigeria, Tanzania, Uganda and Zimbabwe) met to discuss current systems of financing higher education in their countries, the feasibility of using loans as a way of providing financial support for students, and ways of improving the design and management of loan programmes.

This was the first time that participants from so many African countries had come together to share information and experiences on student loans. Previous forums organized by IIEP have covered Western Europe and the USA and Asia. Discussions at this forum covered four main issues:

### **1. Sources of finance for higher education and systems of student support**

Higher education is very heavily subsidized by governments throughout Africa, and in English-speaking countries tuition is usually free or fees and charges are low in relation to actual costs. Students receive financial assistance towards their living expenses as well as tuition costs; financial support in most countries takes the form of grants or bursaries or a combination of grants, allowances and repayable loans. Student loan programmes already exist in six countries in

English-speaking Africa (Ghana, Kenya, Lesotho, Malawi, Nigeria and Zimbabwe) and governments in Botswana, Tanzania and Uganda are considering the feasibility of student loans.

## **2. Reasons for interest in student loans**

Student numbers in higher education have increased rapidly in many African countries since independence, and the costs of free tuition, together with student support, account for an increasingly large share of education budgets. Systems of grants, bursaries and allowances that were set up to overcome grave shortages of skilled manpower now impose a heavy burden on public funds at a time of severe financial pressure and this threatens both quality in higher education and the achievement of other important goals, including the provision of basic education for all. The principle of cost sharing is now widely advocated and increasingly accepted in education, and parents in many African countries are expected to pay fees for primary and secondary education. Yet students in higher education, who can look forward to better job prospects and higher incomes than the majority of taxpayers, still enjoy generous subsidies. The introduction of fees for tuition or charges for board and lodging, together with loans in place of grants, have therefore been advocated in many countries on grounds of:

- the need to reduce public expenditure as a result of falling government revenues, economic crisis and the necessity for structural adjustment programmes;
- a wish to reallocate resources to lower levels of education, or to improve quality in higher education;
- a more equitable distribution of the costs of higher education.

### **3. Design and management of student loan programmes**

Although there are considerable differences between countries in the way student loan programmes are administered, and the terms and conditions of loans, there was general agreement that conditions for the effective management of student loan programmes include:

- a sound institutional structure for management and administration of loans; whether this involves a government agency, commercial banks or other type of organization will depend upon the particular institutional strengths of each country;
- sound financial management to ensure that the purchasing power of the capital of a student loan fund is maintained, and the costs of administration of loans are adequately covered; this requires realistic interest rates to be charged on student loans;
- a sound legal framework for student loans, to ensure that loan recovery is legally enforceable;
- effective machinery for targeting financial support and selecting recipients of subsidies on grounds of financial need or manpower priorities;
- effective machinery for loan recovery, to minimize default;
- publicity campaigns to ensure widespread understanding and acceptance of the principles of student loans and the importance of the obligation to repay loans.

#### **4. The feasibility of student loans**

Despite the administrative problems and low levels of loan recovery that have been a feature of many student loan programmes in Africa in the past, there was a general recognition at the forum of the need to find new sources of finance for higher education and to promote wider cost-sharing, a belief that student loans do have a part to play in achieving these objectives, and optimism about the scope for improving management and efficiency of existing loan programmes. Other options, for example compulsory payment of a proportion of graduates' incomes, should also be explored, but participants agreed that student loans can make a contribution to relieving the financial pressures facing higher education, provided that loan programmes are properly designed, effectively managed and a high rate of loan recovery is achieved. They are not, however, a simple solution to the financial problems facing African universities and in some instances other forms of student support, such as carefully targeted scholarship programmes may be preferred.

# Student loans in higher education

## 3. English-speaking Africa

### Report of an IIEP educational forum *by Maureen Woodhall*

#### I. Introduction

This report provides a summary of an educational forum held in Nairobi, Kenya, from 25-27 June 1991, to discuss experience of student loans in English-speaking Africa. This formed one of a series of meetings organized by the IIEP on the subject of student loans as a means of financing higher education. Previous meetings covered Western Europe and the USA<sup>1</sup> (1989) and Asia<sup>2</sup> (1990) and reports of these have already been published by the IIEP.

The purpose of the meeting was to examine experience of student loan programmes in Africa, to explore arguments for and against providing financial support for students by means of loans, rather than scholarships, bursaries or other means of student aid, to discuss the feasibility of loans in the African context and to share ideas about improving the effectiveness of student loan programmes.

Twenty participants attended the forum, including senior education specialists from nine English-speaking African countries: Botswana, Ghana, Kenya, Lesotho, Malawi, Nigeria, Tanzania, Uganda and Zimbabwe.

In addition there were participants from the African Development Bank, the UNESCO Regional Office for Science and Technology in Africa (ROSTA), the Kenya National Commission for UNESCO, and the

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1. Woodhall, M. (1990). *Student loans in higher education: 1. Western Europe and the USA*, Educational Forum Series No. 1, IIEP, Paris.

2. Woodhall, M. (1991). *Student loans in higher education: 2. Asia*, Educational Forum Series No. 2, IIEP, Paris.

International Institute for Education Planning (IIEP). All national participants provided background papers describing the system of student financial aid in the countries, and also completed a short questionnaire, giving factual information and statistics on higher education. Annex A provides a summary of the financing and student aid systems in the countries represented at the forum, based on these participants' papers. Annex B gives a full list of participants.

Student loan schemes currently exist in six English-speaking countries in Africa: Ghana, Kenya, Lesotho, Malawi, Nigeria and Zimbabwe, and the other three countries represented at the forum (Botswana, Tanzania and Uganda) are all considering whether the introduction of some kind of student loans to supplement other forms of financial aid, is either desirable or feasible.

Student loans have a relatively short history in Africa, although a few isolated examples can be found of loans being given to help students finance study abroad as early as the 1950s. In Lesotho, for example, the Basotho Higher Education Fund was established in 1952 to give bursaries and loans to citizens of Lesotho who went to study in British Universities, and in many countries some individual students financed university education abroad by borrowing from private banks or from prosperous local businessmen. One of the first African countries to propose a national scheme was Ghana, which introduced a Student Loan Scheme in 1971, but abolished it after only a year, following a change of government.<sup>3</sup>

A University Student Loan Scheme was established in Kenya in 1974, as part of a strategy to promote cost-sharing in education, and loans were re-introduced in Ghana in 1975 to help students finance the purchase of books and living expenses, although for political reasons they were described as 'education credits' or 'repayable financial assistance', rather than 'loans', a word which still had negative overtones among students in Ghana. In Nigeria, the Nigerian Student Loans Board was established in 1972, to provide loans for needy students, and its scope was extended in 1976.

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3. For an analysis of this short-lived scheme, see Williams, P. (1974). "Lending for learning: an experiment in Ghana", *Minerva*, Vol. 12, No. 3, pp. 326-45.

Several economists had recommended student loans in Africa in the 1970s on the grounds that higher education represented a profitable private investment, and that it was therefore reasonable to expect students and graduates to contribute towards the cost of their education by repaying loans after they had completed their university education.<sup>4</sup>

On the other hand, critics argued that student loans were not feasible in African countries and pointed to strong political opposition to student loans in Ghana, which led to the abolition of the scheme in 1972, and to administrative problems and poor rates of recovery of outstanding loans in Kenya and Nigeria.

More recently student loans have been advocated in a number of World Bank publications as a way of reducing the growing financial burden of higher education in countries facing severe constraints on public expenditure. For example, the 1988 World Bank report on Education in Sub-Saharan Africa recommended increased cost-sharing in secondary and higher education and suggested student loans or other forms of education credit as a potential way of assisting students to pay tuition fees or charges for board and lodging.<sup>5</sup>

The introduction of student loans in Malawi in 1985 was part of a structural adjustment programme introduced by the Government of Malawi as a result of conditionalities associated with a World Bank credit, which included the introduction of tuition fees and a loan scheme for needy students. Other African countries have begun to re-examine the case for student loans as a way of increasing private contributions to the costs of higher education, while at the same time several countries

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4. See, for example, Fields, G. S. (1974). "Private returns and social equity in the financing of higher education", in Court, D., and Ghai, D. P., *Education, society and development: new perspectives from Kenya*, Nairobi: Oxford University Press, pp. 187-97; Rogers, D., (1972) "Student loan programs and the returns to investment in higher levels of education in Kenya", *Economic development and cultural change*, January 1972, pp. 243-59; Mbanefoh, G. F. (1981) "Sharing the costs and benefits of university education in Nigeria", *Education and development*, Vol. 1, No. 2, July 1981, pp. 231-43.

5. World Bank (1988). *Education in Sub-Saharan Africa: Policies for adjustment, revitalization and expansion*. Washington, DC: World Bank, p. 95. See also World Bank (1986) *Financing education in developing countries: an exploration of policy options*, Washington DC: World Bank, pp. 24-32.

including Ghana, Kenya, Nigeria and Zimbabwe, are seeking to improve their loan programmes by making them more cost-effective and by improving loan recovery.

The forum therefore took place at a time when many African governments have expressed renewed interest in the idea of student loans and all the participants at the meeting were eager to share ideas and experiences, particularly on how to improve the design and management of loan programmes. The meeting represented the first occasion when administrators and policy-makers from so many different African countries could come together to exchange information about the operation of existing loan schemes and proposed future reforms.

Like the two previous forums, this meeting covered four main topics:

(i) Existing sources and methods of finance for higher education and systems of financial support for students, including scholarships, bursaries and loans.

(ii) Reasons why countries have introduced or are considering the introduction of student loans, and arguments for and against loans as a means of financing higher education.

(iii) The design and administration of student loan programmes, including particularly:

- how to determine eligibility;
- choice of administrative agency;
- terms of loans and their repayment;
- collection of loan repayments, and ways of reducing default.

(iv) The feasibility of student loans and ways of overcoming problems or obstacles.

This report includes:

**Summary of the forum discussions**

**Background paper**

**Annexes:**

**Annex A:** Summaries of student support schemes in Botswana, Ghana, Kenya, Lesotho, Malawi, Nigeria, Uganda and Zimbabwe. These summaries are based on the background papers prepared by the participants of the forum. For comparative purposes, figures are shown both in local currencies and in US\$ (converted on the basis of exchange rates in November 1991).

**Annex B:** List of participants.

## **II. Summary of the forum discussions**

Discussions took place over two and a half days and were lively and informal. It was agreed at the outset that participants would not be quoted, in order to encourage a frank exchange of ideas and experiences. There was no attempt to confine the discussion to 'official' viewpoints, and problems and difficulties were freely acknowledged, while various options and solutions were explored. It was clear that no country was fully satisfied with existing systems of student support, and loans were one among several options being considered as a way of extending cost-sharing in higher education. There was some discussion of the role of scholarships and bursaries as alternative forms of student support, and work schemes and national service as alternative ways of organizing 'repayment' to society in return for subsidized higher education. The main focus of the discussion, however, was on the feasibility of student loans, the design and management of loan programmes and ways of improving their efficiency.

### **1. Existing systems of financial support for students in English-speaking Africa**

Throughout Africa, higher education is heavily subsidized from public funds. There are few private universities, such as those found in Asia and Latin America, and in many countries tuition is free, or in cases where tuition fees are charged, they represent a small proportion of total costs. Nevertheless, without some form of financial support few students would be able to afford the costs of food, accommodation, books and other necessities. Therefore all the countries represented at the forum provide financial support for students in the form of scholarships, bursaries, stipends or allowances and, in many cases, loans that must be repaid after graduation.

These systems of student support were developed before or immediately after countries achieved independence, when higher education enrolment was at a low level in English-speaking Africa, but in the last 20 years student enrolments have increased sharply, with the result that governments have become increasingly concerned about the escalating costs of tuition and scholarships, bursaries and allowances. In

some cases maintenance of free tuition and a system of universal scholarships and bursaries for living expenses has been at the expense of quality, as university budgets have come under mounting financial pressure, and expenditure on books, equipment and academic staff and services has declined while expenditure on student accommodation, food and allowances has absorbed an increasing share of scarce resources. Several countries have, therefore, introduced changes in the last few years, or are currently considering changes in the system of student support.

In *Botswana*, all students in the University of Botswana receive a bursary award, regardless of level of family income. For a brief period, in the late 1960s and early 1970s, bursaries were means tested on the basis of parents' income and assets, but this proved very difficult to administer and now all students receive bursaries, and in return undertake to work in Botswana for a specific period after graduation, and to pay 5 per cent of their initial gross salary as a form of 'repayment' of the bursary. This system is known as 'bonding' and graduates are required to work and pay this contribution for a period equal to their period of study, plus one year.

The bursaries cover tuition fees, room and board, books and personal expenses and account for nearly half of total university expenditure. This high proportion causes concern and the Government of Botswana is reviewing the present system of bursaries and investigating the feasibility of a combination of grants and loans, "aimed at developing a cost recovery mechanism in the interest of greater equity".<sup>6</sup>

Although the present system of support in Botswana does not use the term 'loan', the bursaries resemble a combination of grant and loan, with repayment taking the form of a required payment of 5 per cent of gross salary for approximately five years (assuming a period of study of four years). There was considerable discussion at the forum of the relative merits of different types of loan and repayment mechanism. The Botswana example is interesting because of the unusual method of repayment of bursaries, which is very similar to the system of student loans with income contingent repayment, introduced in Sweden in 1989,

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6. Government of Botswana, *National Development Plan*, 1985-91.

or the Higher Education Contribution Scheme (HECS) in Australia, where deferred payments of HECS are collected through the tax system, by means of a payment of 2-4 per cent of a graduate's income.<sup>7</sup>

Another unusual method of loan recovery has been introduced in *Ghana* where students receive loans for living expenses and must repay these through their contributions to the Social Security and National Insurance Trust (SSNIT). No additional payments are required, but graduates who have received a loan must first repay their loan before they begin to qualify for a pension. Thus if a graduate requires five years to repay his/her student loan, then he/she must work for 25 years before being eligible for a retirement pension, instead of the normal period of 20 years. This system of student loans is a recent innovation in *Ghana*, although loans for students' living expenses were first introduced briefly in 1971, but abandoned a year later due to a change in government, and then reintroduced in 1975. In addition to loans, students may qualify for scholarships awarded on grounds of academic merit, or full or partial bursaries, awarded on grounds of manpower needs, to students taking courses judged to be critical or essential for national development (for example, agriculture, engineering and medicine). Tuition in *Ghana* is free, but all graduates must undertake a period of national service and since 1986 loan repayments have been deducted from national service allowances.

In *Kenya* all students receive loans, which were introduced in 1974. At first these covered only living expenses and personal allowances, but the very rapid increase in student numbers, which rose from 7,000 in 1981 to 40,000 in 1990/91, led the government of *Kenya* to introduce tuition fees in 1989, as a means of cost sharing, and student loans have been increased to cover fees which now represent about 25 per cent of tuition costs. Further changes in the structure and level of fees and loans were announced in June 1991 and from 1991/92, students must pay tuition fees and food and accommodation charges, but all students, regardless of income, will be eligible for a loan and in addition a system of scholarships for needy students will be introduced.

Other countries which provide student loans include *Nigeria*, where the Nigerian Student Loans Board administers a system of loans for needy students, and Federal and State governments offer scholarships

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7. For more details of these schemes, see Woodhall, M. *op. cit.*

and bursaries, although the financial crisis caused by declining oil revenues and economic recession meant a drastic reduction in the number and value of scholarships. Lesotho has a system of loan bursaries, which cover tuition costs, living expenses and books. Graduates are required to work in Lesotho for a minimum of five years and to repay 50 per cent of the loan if they work in the public sector and 65 per cent if they work in the private sector. The remaining 50 per cent or 35 per cent is treated as a bursary, but graduates who choose to leave Lesotho and work abroad are expected to repay the loan in full, although this has proved very difficult, if not impossible, to administer because of high levels of mobility, with many graduates leaving Lesotho to work in South Africa or other countries.

In *Zimbabwe* both public and private institutions charge fees and students in universities, polytechnics and teacher training colleges receive support for both tuition fees and living expenses, in the form of a combination of grants and loans, awarded on the basis of a parental means test. A Vocational Training Loan Fund has been established to provide loans for students in universities and teacher training colleges and the Zimbabwe Manpower Development Fund finances vocational and technical training including apprenticeship training and technical and vocational colleges, and it offers sponsorship and loans to trainee lecturers intending to teach in these colleges.

In *Malawi* higher education was free until 1985, and students received a personal allowance, in addition to free board and lodging. Financial austerity, and conditionality for a World Bank education credit designed to assist a structural adjustment programme, eventually forced the government to introduce tuition fees, even though they represent only 2 per cent of total university expenditure (including both tuition and board and lodging). In addition, the World Bank recommended abolition of the personal allowance that had previously been paid to all students, regardless of family income. The university authorities feared that students from poor families would be unable to pay these fees. The World Bank education credit therefore provided capital to finance a new student loan fund, to provide loans for needy students to cover both tuition fees and essential expenses. The scheme is administered by the University of Malawi, and caters for approximately half the total student body, who qualify for a loan on grounds of low parental income.

Similarly, in *Uganda* until 1989, all students received a personal allowance to cover the costs of books and other essentials, in addition to free tuition, board and lodging. By 1989 the costs of food, lodging and student allowances accounted for over 80 per cent of the total recurrent budget of the University of Makerere, leaving less than 20 per cent for the costs of tuition, including teachers' salaries, which resulted in a serious decline in standards. In 1989, therefore, the government abolished the personal allowance and introduced a 'book bank' which lends books directly to students. A hardship fund was established at the University of Makerere, to provide financial assistance for needy students. This is in the form of payments for part-time work undertaken on the campus by students who are identified at the local level as being in need of financial support. Local government officials (Heads of the Resistance Councils that have been established to administer local services) determine the eligibility of students to take part in this 'Needy Students Work Scheme', but it can cater for only a minority of students, and the government is actively considering the introduction of student loans to help finance university-level education. The Education Policy Review Commission recently recommended that students and their parents should gradually assume full responsibility for meeting non-instructional expenses, including food and travel, but that loans should be provided for students from poor families. This has not yet been implemented, and indeed the introduction of charges for board and lodging has been fiercely resisted by students, and the idea that higher education should be free remains firmly entrenched in many minds, even though parents are expected to pay fees at the primary and secondary level. However, the government recognizes the need to divert some resources from higher education to lower levels, in the light of its commitment to provide basic education for all, and loans are now seen as one possible way to increase cost recovery in higher education.

The need for cost sharing is also recognized in *Tanzania*, where students now receive bursaries and free tuition, accommodation and board. Among various options being considered at present in Tanzania are the provision of scholarships on grounds of academic merit, bursaries for the most financially needy students, and loans to help students finance charges for board and lodging. There are no specific

recommendations yet for changing the system of student support, but as in Uganda, the government recognizes the need to increase cost recovery in higher education in order to achieve the goal of basic education for all.

## **2. Reasons for interest in student loans**

One of the main reasons for the current wave of interest in cost sharing and loans as a form of cost recovery in higher education is the increased pressure on public budgets caused by inflation, balance of payments crises and financial austerity, which have necessitated structural adjustment programmes in many countries. One participant quoted the Minister of Education in Zambia, who spoke of 'The Wind of Stringency' sweeping across Africa, and beating African universities and other higher education institutions with increasing force.

Figures given for Uganda demonstrate this very clearly. It is estimated that government expenditure on education in 1988/89 was only 21 per cent, in real terms, of the level of resources allocated in 1970/71, and due to the increase in population, this meant that on a per capita basis the real value of public expenditure on education was only 13 per cent of its level in 1970/71. It was mainly this problem of declining resources for higher education that forced the government to abolish personal allowances in Uganda and to consider the introduction of student loans. Similarly in Malawi, the introduction of tuition fees and loans was a direct result of the economic crisis, leading to the necessity for World Bank credits which incorporated conditionalities, including the introduction of tuition fees and the abolition of personal allowances.

In Nigeria the federal government reduced the proportion of the recurrent budget allocated to education from 32 per cent in 1979/80 to 20 per cent in 1990 and 14 per cent in 1991. This led to substantial cuts in funding for universities at a time when demand for university places was increasing, and loans were seen as a way to increase resources for higher education, by the establishment of a 'revolving fund'; there are now proposals for an 'Education Bank' to administer student loans and to generate income for investment in higher education.

Financial stringency is not the only reason, however, for increasing interest in student loans in Africa. Much of the discussion on present patterns of finance for higher education in English-speaking Africa focused on the need to reallocate resources to widen access and improve

quality in primary and secondary education, as well as to raise standards in higher education. Rapid expansion and the growing burden of financing students' food and accommodation, books and even personal expenses and 'pocket money' in countries where students have become used to receiving a personal allowance (known as 'boom' in Kenya and Uganda), have led to grave financial crises in African universities, overcrowding and deteriorating standards in lecture rooms, libraries and laboratories. Reducing the costs of student support in order to increase the proportion of budgets allocated to teaching and instructional costs is seen as necessary in many countries, but all participants were anxious that needy students should not be prevented by financial hardship from studying at the tertiary level.

Loans are one way in which this may be achieved, but there was also discussion of other forms of student support, including targeted scholarships and bursaries, and the 'work-study' programme introduced in Uganda. The repayment of loans through a fixed proportion of earnings, as in Botswana, or during National Service, as in Ghana, were options that aroused considerable interest, and it was recognized that graduates can repay society for the costs of their higher education in different ways, not only through financial payments.

There was some discussion of the arguments for and against loans, with considerable emphasis on equity issues. If higher education is mainly the preserve of a privileged elite, and if graduates can look forward to high lifetime earnings as a result of their higher education, then loans are more equitable than the system of free tuition, grants and allowances now prevailing in many African countries. On the other hand, if there is high graduate unemployment and high rates of default, then the savings generated by a student loan programme will be minimal, and many participants acknowledged that so far recovery of outstanding student loans had been very disappointing, and the idea of a 'revolving fund' impossible to achieve. The main focus of the discussions therefore was on ways of improving the administration of loan programmes, increasing recovery rates and reducing default, targeting support on those in greatest need and ensuring that those who benefit from higher education through better job prospects and higher lifetime earnings do recognize and discharge their obligation to repay their loans. There was a valuable exchange of information on practicalities such as how to determine eligibility for loans, interest rates and repayment terms and the

role of banks in administering loans; this information is summarized in the following section, while Section 4 considers the question of whether student loans are feasible in the African context, in view of the many difficulties that have surrounded existing programmes.

### **3. The design and management of student loan programmes**

Discussion of the way current loan programmes operate in English-speaking Africa revealed that none of the existing schemes is without administrative problems, but all the countries represented at the forum have recently introduced or are currently planning improvements or reforms designed to make the management and recovery of loans more effective.

There are considerable differences between countries in the way loan programmes are administered, eligibility for student loans and their terms and conditions. It was clear that there is no single model that is suitable for all countries but participants agreed that certain conditions are necessary for the effective management of student loan programmes:

(i) *A sound institutional structure*, which builds upon existing strengths in a country. So, for example, Ghana has chosen to give administrative responsibility for loans to the Social Security and National Insurance Trust (SSNIT), which has already established a system of data collection and analysis which covers most graduates employed in the modern sector. All employees are required to contribute to the Social Security fund or to provide information if they contribute to an alternative pension fund. Thus, the government of Ghana believes it will be more efficient for SSNIT to be responsible for loan recovery than to establish an autonomous student loan board, as has been done in Nigeria. Similarly, in Zimbabwe, administration of the student loan programme is linked with the Vocational Training Fund, administered by the Ministry of Higher Education, whereas in Malawi the university has responsibility for selecting loan recipients, disbursement and recovery of loans.

More important than who should have responsibility for administering loans is the question of how student loans are administered. All were agreed that an adequate system of data collection, storage and analysis is essential, if loan recovery is to be effective.

Banks may be involved in the disbursement of loans, but experience in many countries shows that commercial banks are unwilling to devote substantial resources to collecting loan repayments, because of the relatively small size and long repayment period of student loans. For example, commercial banks were used to disburse and recover student loans in Ghana after 1974, but recovery was poor, as the banks were given funds by the Ministry of Finance and did not have a strong incentive to collect repayments. In order to improve recovery, the government later required the banks to lend their own funds, but this was also not successful and the new student loan scheme, introduced in 1989, uses the social security system, rather than banks, to administer and recover loans. In Zimbabwe the government is considering privatizing the administration and recovery of loans but experience in other countries suggests that the commercial banks will be unwilling to administer student loans without either coercion or substantial government subsidies.

Thus, in most countries the burden of loan collection ultimately falls on the government or public agency responsible for the student loan programme, so that it is essential to ensure that an adequate system is in place for recording information about borrowers, and the size of their debt, and for collecting loan repayments, with the assistance of employers or the income tax or social security system if this is possible. Computerization will help improve the efficiency of data analysis, but it will not by itself solve problems of collecting and analyzing student and graduate records.

(ii) *A sound financial management system*, which ensures that the value of the initial capital of a student loan fund is maintained, taking account of prevailing interest rates and inflation. Many countries, for example Lesotho and Nigeria, have tried to establish a revolving fund, under which loan repayments from graduates will be used to finance loans for the next cohort or generation of students. However, no existing loan programme is self-financing in this way, because student loans are subsidized, with graduates paying interest well below market rates, and most loan programmes suffer from high levels of default. Even if default can be eliminated or minimized, the problem of low or even negative real interest rates will remain in most countries. In Malawi, for example, the University Student Loans Scheme was financed by capital provided under a World Bank education credit, and this has been invested so that

only the interest on the initial capital, and not the capital itself, will be used to finance loans to students. Moreover, borrowers are expected to repay the loans in four years and to pay interest of 15 per cent, in order to ensure that the value of the loan fund is maintained. These terms are much less favourable to the student borrower than in many African countries, where students often have ten years or more to repay loans, and are charged interest of only 3 to 5 per cent. Even so, the University of Malawi expects that it will be very difficult to ensure a revolving fund, without further government contributions to maintain the value of the capital and to allow for expansion of student numbers.

(iii) *A sound legal framework* for student loans. In several countries student loan programmes face legal obstacles, for example the Limitation of Actions Act in Kenya and the Law on Prescription of Debts in Zimbabwe make it impossible to enforce loans if collection of the debt is postponed or allowed to lapse for six years. In both these countries changes in the law are being planned, in order to remove this limitation. Similarly, in Malawi, the law on contracts had to be amended, in order to allow students under the age of 21 to enter into a legally binding agreement to repay their loans.

(iv) *Effective machinery for targeting financial support* and selecting recipients for loans, scholarships or other forms of public subsidy. In some countries, for example Kenya, all students are eligible for loans, but where interest rates are substantially subsidized by the government, this imposes a heavy burden on public funds. In other countries, for example Malawi and Zimbabwe, a means test is used to identify needy students, so that grants or subsidized loans can be targeted on those from poor family backgrounds. The Nigerian Student Loans Board uses a means test that takes account of four factors: parental occupation, income, size of family and number of children in the education system. In Zimbabwe the poorest students receive half grant and half loan, and those with higher family incomes receive only loans. In Uganda, responsibility for selecting the most needy students lies with local government officials, whereas in Malawi it is the university authorities that identify those in greatest financial need. Whatever the system adopted, it is essential that any means testing should be accurate, if it is to be fair.

In some countries, for example Ghana, bursaries are awarded on the basis of manpower priorities, and Botswana is considering allocating loan-bursaries on the basis of estimated manpower needs. Students choosing courses or subjects where there are critical manpower shortages would receive a full bursary; students taking courses associated with less critical shortages would receive a combined grant and loan, whereas students choosing courses for which there is no shortage of graduates would be required to take a full loan.

Thus, targeting can be used to meet both efficiency and equity goals. On the other hand, giving grants or subsidized loans to all students, regardless of family income or choice of subject, is likely to satisfy neither criterion.

(v) *An effective machinery for loan recovery*, to ensure that default is minimized. Efforts are under way in Kenya, Nigeria and Zimbabwe to improve loan recovery. In many cases in the past records were not adequately maintained, so that graduates were not even aware that their loans were due for repayment, nor the mechanisms by which they could start to repay their loans. Previous attempts to involve employers in loan recovery have not been successful, but in both Kenya and Nigeria it is now planned to impose a legal obligation on employers to collect loan repayments from graduate employees. In Ghana the deduction of loan repayments from graduates' national service allowances helped to reduce default, but it is now expected that collecting loan repayments through the social security system will be even more effective. All employees and self-employed workers are legally required to contribute to the social security and pension fund, and indeed they have a strong incentive to do so, since they will be unable to draw social security or pension benefits unless they have made contributions. In future, graduates who have taken a loan will not be eligible for a pension until they have repaid their loans and have a full contribution record.

Some countries, for example Nigeria, require borrowers to provide two guarantors, who must pay back the loan in case of default. However, some participants feared that this would discourage students from very poor families, who might be unable to find guarantors, and experience in several countries suggests that it is very difficult to enforce payment by guarantors. There was some discussion of the effectiveness of sanctions against loan defaulters. No country has yet set up an effective system of

sanctions, although attempts have been made, for example the publication by the Nigerian Student Loans Board of lists of names of defaulters.

(vi) *An effective publicity campaign* to ensure widespread acceptance and understanding of the principles of student loans. It was agreed that the most effective way to ensure good recovery of student loans was to educate public opinion, to ensure that the obligation to repay student loans was taken seriously by all parties, including the students themselves, their parents, authorities throughout the higher education system and employers. In some countries one of the major problems in the past was that students did not take this obligation seriously, because of firmly entrenched ideas that higher education should be free. If loans replace a system of universal grants or bursaries, it is essential that students themselves should understand the need for the change, for example to help finance the expansion of higher or secondary education or to improve quality. For example, in Ghana students were initially hostile to the idea of loans, but were eventually persuaded of their necessity and in fact it was students' representatives who suggested the collection of loans through deductions from national service allowances. In Uganda the decision to abolish personal allowances, or 'boom', led to student riots and the closure of universities, but the government waged a publicity campaign to convince local communities of the justice and necessity of this policy, and eventually after universities re-opened it was the student body who suggested the establishment of a work-study programme offering employment on campus for needy students.

It is also essential that students should understand that failure to repay their loans involves depriving future generations of pupils and students of the opportunity for adequate primary, secondary or higher education. Participants expressed very eloquently the need to promote positive attitudes towards wider cost sharing in higher education, and understanding of the importance of paying debts. Unless public authorities and universities themselves could inculcate the idea that the receipt of a student loan involves a real obligation to repay the debt, and that failure to repay (except in cases of real hardship) is, in the words of one participant, tantamount to "stealing from taxpayers and cheating future generations of students", it will be difficult to change attitudes of students and graduates, and reduce default. It was agreed that political

will and effective publicity were both necessary to ensure that not only students, but also the public at large understood and accepted the principles of cost sharing and loan repayment.

#### **4. The feasibility of student loans**

Despite the problems that have been encountered in administering student loans in Africa, there was considerable optimism expressed at the forum about the possibility and scope for improvements in the future, and agreement about the necessity of achieving wider cost sharing in higher education. It was agreed that provided that loan recovery could be improved, student loans could make an important contribution to the finance of higher education, particularly by enabling universities to introduce realistic charges for board and lodging and even, in some cases, by allowing tuition fees to be introduced or increased.

It was also agreed, however, that loans were not always the most effective form of student support. For the most needy students grants, scholarships or bursaries may be more effective than loans as a way of encouraging participation. Other options, such as compulsory contributions of a proportion of income, as in Botswana, compulsory national service for graduates, with part of the national service allowance being deducted to cover loan repayments as in Ghana, should also be explored. It is also important to compare the income generated from loan repayments with the costs of administering the loan programme. In some cases the costs of administration, together with high rates of default, have so depleted the income from student loan programmes, that it would actually be cheaper to give grants, rather than loans.

Nevertheless, there was general agreement that student loans do have a part to play in promoting wider cost sharing in higher education, and there was optimism that they could be made to work more effectively. Participants believed that a successful student loan programme needs to meet the following conditions:

- (i) There must be adequate initial capital for the loan fund, and this must be wisely invested, to generate income to finance loans to students.

- (ii) The purchasing power of the capital must be maintained, by the reinvestment of part of the income, to allow for the effects of inflation as well as the non-recovery of some loans (for example in case of death).
- (iii) The number of loans must be restricted to a level which the fund is able to sustain; this means that a system of effective targeting is needed to ensure that loans are used to support the most needy students, or to provide incentives for students to study courses with high priority in terms of manpower needs.
- (iv) Student loans should charge a realistic rate of interest, which is adequate to cover inflation and administrative costs.
- (v) Loan recovery must be efficient, which requires that the obligation to repay loans is legally enforceable, that accurate records are maintained, and that effective mechanisms are established to collect loan repayments, either through existing machinery such as the collection of income tax or social security contributions, or with the help of employers.

Existing student loan programmes in Africa do not satisfy these conditions. Most loans are highly subsidized, with graduates paying low rates of interest, which means that there are substantial 'hidden grants'. Loan recovery has been disappointing, with very high rates of default in most countries. Several countries, such as Ghana and Kenya, have tried to make loans available to all students, rather than restricting eligibility on grounds of family income. This has been criticized on grounds of both cost and equity, since it means that taxpayers with below-average incomes are subsidizing graduates with above-average incomes.

If student loans charge low rates of interest and if loan recovery is low, then the costs of subsidizing student loans impose a particularly heavy burden on the taxpayer, which will prove impossible if student numbers increase rapidly as has recently occurred in Kenya, for example.

The forum was therefore welcomed as an opportunity for the exchange of information and ideas that could help to make student loans a more powerful and effective tool for generating funds for higher education, and for sharing costs more equitably. It was the first time that

### *Students loans in higher education*

participants from so many African countries had come together to discuss student loans, and indeed the first time that many participants were aware of the existence and details of student loan programmes in other English-speaking African countries. The fact that so many countries are currently reforming the management of student loans demonstrates both the urgency of the financial problems facing higher education and the determination to find new ways of generating income for expansion and improvements in quality. It is to be hoped that the exchange of information at this meeting, and the maintenance of contacts and links established at the forum, will help to achieve this goal.

### III. Background paper

## **The role of student loans in higher education in English-speaking Africa: current situation and future prospects**

*by Maureen Woodhall*

#### **1. Introduction: arguments for and against student loans**

Student loans have been widely advocated as a way of providing financial support for students and as a way of sharing the costs of higher education that is both equitable and efficient. Economists and others who recommend loans as a means of cost sharing argue that education is both a personal and a social investment, so that a loan programme financed from public funds will enable those who cannot afford to pay tuition fees or to meet the costs of books and living expenses, to borrow to finance their higher education and to repay the loan when they later enjoy better job prospects and higher earnings as a result of their qualifications. Many developed countries, including Japan, Sweden and the USA, rely heavily on student loan programmes to assist students to meet both their tuition and their maintenance costs. Other countries have recently introduced loan programmes or other forms of deferred payment of higher education costs. For example, Australia introduced a Higher Education Contribution Scheme (HECS) in 1989, and students have a choice between paying an 'up-front' fee or paying later through the income tax system. A new student loan scheme was introduced in the United Kingdom in 1990.

There are many critics of student loans, however, who argue that loans may discourage students from entering higher education, particularly those from low-income families or women who may be

afraid of incurring debt; loans may also be difficult and expensive to administer and there is a danger that default may reduce the potential savings from providing financial support through loans rather than grants. Several countries have recently made significant changes in their loan programmes or in the balance between loans, grants and other forms of student support, in order to overcome problems, to improve the efficiency and equity of existing programmes or to help finance expansion of higher education. The first IIEP forum on student loans summarized recent experience in Denmark, Germany, Netherlands, Sweden, the United Kingdom and the USA.

Loans have been proposed in developing countries as well as industrialized economies. The World Bank (1986) has examined experience with student loans and has recommended that developing countries should consider reducing the high levels of public subsidy for higher education in order to reallocate scarce resources to primary and secondary schooling, and avoid a transfer of income from poor to rich, which is likely to be the result of providing free tuition and free board and lodging for students in higher education, who often come from more advantaged homes and will later enjoy higher incomes than the majority of taxpayers. Loans are seen as one way to introduce or increase cost recovery while maintaining access for students from low-income families. Loan schemes already exist in some developing countries and are being considered in many more. Woodhall (1987) has examined the choices facing policy-makers in developing countries when they consider designing and introducing student loans, and the second IIEP forum summarized experience in Asia, including China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore and Thailand.

In Africa student loans are a more recent innovation than in Asia or Latin America, where the first programmes date from the 1960s or even earlier. There are now several schemes in existence in Africa and Governments in several countries are considering the feasibility of a loan programme, but there are many sceptics who doubt whether economic, social and political conditions are appropriate for successful implementation in most African countries. This booklet provides a brief

summary of experience in some English-speaking countries in Africa, based on information provided in the background papers and questionnaires by the participants of this forum, together with a few earlier publications. It is intended to serve as an introduction to the more detailed discussions at the forum, which will allow all participants to benefit from an exchange of ideas and sharing of experience on a topic which is highly topical in view of the economic problems and financial stringency facing most African countries.

## **2. Early examples of student loan programmes and proposals in Africa**

One of the first African countries to introduce a loan programme for university students was Ghana, where a Committee appointed by the Government to review the financing of education first proposed a system of loans in 1968, and detailed proposals were put forward in 1970 by a Committee which advocated a "modest redistribution of the cost burden" of university education on grounds of social justice. The arguments put forward by this Committee, (known as the Dowuona Committee) make interesting and highly relevant reading more than twenty years later:

"It is partly to reduce the burden of educational costs on the tax paying community, and partly to achieve greater social justice that the Committee feels that students and/or their families should themselves contribute something directly to the public cost of education at university institutions. In this way, the beneficiaries will partially repay the generosity of their community in educating them and thus make it possible for educational facilities to be expanded more widely and more quickly to others." (Republic of Ghana, 1970, p.10)

This is remarkably similar to the argument put forward 20 years later in Australia by the Committee that proposed the introduction of the Higher Education Contribution Scheme on grounds that it would represent :

"... a funding partnership in which the beneficiaries make a direct and fair contribution to the cost of higher education, to supplement the funds provided by taxpayers. ... Australian taxpayers should not be expected to carry the burden of financing the growth envisaged in higher education, particularly since few directly enjoy its financial benefits." (Committee on Higher Education Funding, Australia, 1988)

However, the loan scheme that was introduced in Ghana in 1971 was short-lived, and was abandoned after a change of government in 1972. An analysis of this early African experience (Williams, 1974) found many explanations for the unpopularity of student loans in Ghana, despite the fact that they had been put forward on grounds of social justice, and that tuition would continue to be free, with loans being provided only for living expenses. These explanations include a failure to mobilize public opinion on the advantages of loans, and a feeling among students that they were being made "scapegoats of the country's failure to control higher education costs", although Williams also believed that loans "seemed to have been accepted by the public at large and even student opposition was less vocal once the scheme was in operation." His final verdict on this experience is still worth quoting today:

"Student loans are not a soft option for African Governments, an easy alternative to difficult policies. They can usefully contribute to the improvement of higher education in Africa and to fairer African societies. But if they are to be fully accepted they must be part of a programme of common endeavour with equality of sacrifice by leaders as well as led." (Williams, 1974, p. 343).

The background paper on Ghana (see Annex A - II) provided for this forum shows that the idea of student loans was not abandoned after 1972. Loans to finance books were introduced in 1975, but by 1986 less than 1 per cent of the amount due for repayment had actually been

collected and significant changes in loan recovery were introduced in 1986 and a new loan scheme was established in 1989, financed by the Social Security and National Insurance Trust (SSNIT) and with loan repayments collected through the SSNIT.

The idea of loans to help finance higher education was first put forward in Lesotho in 1952 and a small fund established to provide both bursaries and loans; a Higher Education Fund set up in 1968 continued to give both bursaries and loans but in 1978 this was replaced by a Loan Bursary Fund and all student support in Lesotho is now in the form of loans. Loan schemes were proposed in several other African countries in the late 1960s and early 1970s. Loans were proposed in Botswana in 1966 and the first loan schemes were established in Nigeria in 1973 and in Kenya in 1974. However both these countries have experienced serious problems with default and the idea gained ground in some circles that student loans are unworkable in the African context.

In the last few years however, the grave financial crisis facing many African universities, together with the very rapid expansion in student numbers and the continuing strong social demand for further expansion has resulted in a revival of interest in student loans in many of the countries represented at this forum. There is also a renewed commitment in several countries to make existing schemes more effective. Some of this can be explained by pressure from the World Bank and the International Monetary Fund for structural adjustment and increased cost recovery to reduce the burden on public funds. This is by no means the only explanation however, and the background papers make clear that the increased priority being given to primary and secondary education to achieve 'Education for all' and the widespread acceptance of the need for cost-sharing at lower levels of education is leading many governments to reassess subsidies for higher education, and attempt to reduce the burden on public funds.

### **3. Current patterns of finance for higher education**

Higher Education is highly subsidized in most of the countries represented at this forum. In Uganda, both tuition and food and accommodation are provided free and until very recently all students received allowances to cover the costs of books and personal expenses. In Malawi, cost sharing was introduced in 1985 as a condition of a World Bank education credit, but the student contribution of K200 (US\$72) represents only 2 per cent of the total cost of K9,000 (US\$3,240) for tuition, board and lodging. In Botswana, all students receive a bursary to cover the costs of tuition, board and lodging and in Ghana tuition and lodgings are free, although students pay the costs of their food. In Nigeria, students at Federal universities receive free tuition and subsidized housing, but pay full costs for food, while students at state universities pay fees for tuition as well as food and accommodation. Tuition fees and charges for food and accommodation have been introduced in Kenya, but these are still highly subsidized and so far tuition fees have been covered by loans available to all students, although there are plans to increase the element of cost sharing in higher education in the future. In Zimbabwe, universities charge tuition fees which vary by subject; students receive support by means of grants and loans, but the amount is dependent on family income and students from the highest income categories are expected to meet a substantial proportion of the fees.

The cost of subsidising university students has risen sharply in many African countries, as student numbers have escalated. In Kenya, the total number of university students has risen dramatically from 7,000 in 1981-82 to 40,000 in 1990-91. In Uganda, the costs of food and lodging and personal allowances rose so rapidly as a result of inflation that in 1988 they absorbed 82 per cent of the total university recurrent budget. This is one reason why there have been proposals in many countries to increase cost recovery or reduce personal allowances. Another reason for concern is that the current high levels of subsidy were introduced when there was a desperate shortage of skilled manpower in

Africa, whereas the labour market situation has changed in many countries and graduates now have to search for employment in some cases.

Many countries offer scholarships, bursaries or allowances to students to cover some or all their expenses, and in several countries students receive loans or a mixture of grants and loans. Scholarships are awarded on the basis of academic merit in Nigeria and loans on the basis of financial need. Ghana gives scholarships on grounds of exceptional merit, and gives bursaries to students undertaking courses deemed to be 'critical' or 'essential' for national development, while most students are eligible for loans to help finance living expenses. All students in Botswana receive bursaries, while in Zimbabwe a means test is used to determine both the level and type of support. Students from the lowest income groups receive full support, covering all their fees and this is in the form of 50 per cent grant and 50 per cent loan, but those with higher levels of income must pay between 25 and 56 per cent of the fees themselves, and those from the top income category receive support only in cases of need, and this will be entirely as a loan. In Uganda, all students received a personal allowance as well as money for books until 1989-90 when personal allowances were abolished and a 'book bank' established. In Kenya, all students are entitled to a loan which includes a personal allowance, although there have been some proposals to phase out or reduce the personal allowance or limit it to financially needy students but this has not been implemented. In Malawi, loans are provided only for financially needy students.

An unusual feature of student support in some African countries is the system of national service or 'bonding' that requires graduates to work for the public service for a period after graduation. Both Ghana and Nigeria have systems of national service and in Botswana students are 'bonded' for a period (equal to their length of study plus one year) during which they are assigned to a public or private employer and must pay 5 per cent of their gross salary in addition to income tax, as reimbursement of part of the costs of their higher education. Although not called a graduate tax or student loan this system has similarities with the Higher Education Contribution Scheme in Australia or the

income-contingent repayment of student loans in Sweden. Graduates who have taken a loan in Sweden or chosen the deferred payment option in Australia must pay a fixed proportion (2-4 per cent) of their income to discharge their debt.

Student loan schemes currently exist in Ghana, Kenya, Lesotho, Malawi, Nigeria and Zimbabwe. There are considerable differences in the terms and conditions of the loans. Interest varies from 2 per cent in Kenya, 4 per cent in Zimbabwe to 7 per cent in Nigeria and 15 per cent in Malawi. In Ghana the total interest on student loans is 19.5 per cent, but the Government pays an interest subsidy of 16.5 per cent and graduates pay only 3 per cent. Repayment periods vary from five to ten years and Malawi and Zimbabwe offer a 'grace period' of six months after graduation while Kenya no longer offers a 'grace period' and Nigeria offers two years. In some cases loans are administered by a special Student Loans Board (as in Nigeria), in Kenya two national banks assist with disbursement and the Ministry of Education is responsible for collecting repayments, but there are proposals to establish an autonomous Board to administer loans. In Malawi, the university is responsible for both the selection of loan recipients and the collection of repayments. A major problem with several of these loan programmes is the high level of default. This is cited as a problem in both Lesotho and Zimbabwe, while in Kenya and Nigeria less than 20 per cent of loan repayments due have been collected, although both countries are currently making considerable efforts to improve loan recovery.

#### **4. Conclusion: the feasibility of student loans in Africa**

In summary, there is increasing interest in student loans in several African countries. New schemes have been established in Ghana and Malawi, reforms are being introduced in Kenya, Nigeria and Zimbabwe to make loan management and recovery more effective and the Governments of Botswana and Uganda have considered whether loans may be feasible in the future. The opportunity provided in this forum to discuss and share experiences, common problems and new approaches is therefore extremely timely.

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## **IV. Annexes**

### **Annex A**

**Summaries of current systems of higher education  
finance and student support**

# I. Botswana

## 1. Introduction

Higher education is provided, financed and controlled by the Government of Botswana. It is offered at the University of Botswana (UB), the semi-autonomous, Botswana Agricultural College (BAC), four primary and two secondary teacher training colleges. In addition, about 200 students study abroad each year, particularly in subject areas not provided at local institutions. Post-secondary vocational and technical education is offered at the Botswana Polytechnic and the Automotive Trade Testing Centre. Agricultural education is funded and run by the Ministry of Agriculture, while nursing education is the responsibility of the Ministry of Health.

The University of Botswana enrolment has increased from 66 students in 1966 to 3,149 in 1989/90 (Republic of Botswana, 1990a).

Prior to independence, Bechuanaland, as it was then known, had no institutions of higher or post-secondary education. In 1961 a bursary scheme was started with the purpose of sending students to universities and other institutions of higher education in the United Kingdom or elsewhere for various types of training. The scheme was controlled by the Central Bursaries Committee.

A means-tested bursary scheme was introduced in the late 1960s and early 1970s. The awards were made on the basis of a means test and scale of assessment with a defined upper cut-off point net of family income. The difference between the bursary award and the full costs (tuition fees and maintenance) was to be paid by the guardian or parent.

The means-tested finance system did not last long. There were several problems with its implementation, and in 1973 the bursary scheme reverted to outright grants/bursaries.

## 2. The bursary award scheme

Bursaries cover tuition fees, room and board, books and supplies as well as an allowance for personal expenses. Every student who qualifies (in terms of academic performance in the secondary school

examinations) and applies for a bursary has the right to receive it regardless of family income. Students who accept bursaries commit themselves to an assignment in government, private and parastatal (semi-private) sectors for a period equalling the length of study plus one year. Thus a student receiving a government bursary for four years will serve in the assigned sector for a five-year period.

In addition to this service contract, students also sign an agreement to pay back to government a portion of their incomes (5 per cent of the initial gross salary over the service period) on top of the normal taxes, e.g., income tax. The same service and re-imburement responsibilities apply to Batswana financed to study abroad. This system is officially called bonding.

In 1985 the bonding system was expanded by introducing a 12-month compulsory national service scheme, known locally as Tirelo Sechaba, for all Form 5 school leavers. Tirelo Sechaba is also a requirement for higher education "regardless of the source of a student's financial sponsorship", (Government of Botswana 1985:11).

The present bursary award scheme is in many respects a combination of grants and loans (at least 'hidden' loans). It was introduced in the belief that this system of student aid contributes towards the goal of equal opportunities.

Government's contribution to university revenue for the 1987/88 financial year was around Pula 20.56 million (US\$9,700,000) (14.4 per cent of the total education expenditure of Pula 142.43 million (US\$67,184,000)). Of this figure, Pula 9.886 million (US\$4,651,000) or 47.9 per cent goes towards bursaries; while the rest is a lump sum transfer from government (Government of Botswana 1990a).

### **3. Administration of student aid**

The bursary award scheme is administered by the Bursaries Department of the Ministry of Education. Activities of the department include: selection and placement students in institutions of higher

learning; general administration of bursaries (payment of fees, allowances, handling correspondence relating to students' welfare, etc.); career guidance and counselling of students, etc.

The Central Bursaries Committee, consisting of representatives from the Employers' Federation, civil service associations, Directorate of Public Service Management (DPSM) and others, acts in an advisory capacity in all matters relating to scholarships, including interviewing students and advising on the suitability of the candidates. The primary criterion for allocating bursaries/scholarships is the equitable distribution of training places among the critical areas of manpower needs of the economy. The next criterion is the applicant's choice of course in higher education. Underlying the allocation of applicants is academic achievement at the senior secondary school leaving examinations.

The Bursaries Department keeps a record of the students' place of study and year of expected completion. A list of students about to complete their studies is submitted to DPSM which is charged with the responsibility of allocating graduates to different departments, private and parastatal sectors. At the end of their final academic year, students are asked to indicate their employment preferences. They are then allocated according to the above criteria.

Once a graduate has been employed/allocated, arrangements are made with the employer to deduct the repayment monthly prior to paying the employee (as is done with income tax). The money then becomes part of the general government revenue, and is not credited to, say, a higher education revolving fund.

The country has a serious shortage of university educated people. In this regard, the question of making provision for unemployed graduates has not yet arisen. Occasionally, defaulting occurs where graduates change jobs before completing their contracts or refuse to take up employment in the assigned sector. In accordance with the contract the graduate signed prior to being offered a bursary, government requires the graduate to pay back to government all the costs of his/her training over a given period until the total costs are recovered. In cases where the

employer 'steals' (for lack of a better word) the graduate, the employer re-imburses Government the equivalent amount. This is enforced through the engagement of a local firm of private detectives.

There is no fixed time when a graduate must start repayment nor an officially stipulated 'grace period' as this depends on when the necessary formalities of allocation are completed.

#### **4. Future developments**

One of the major objectives of university education finance in the National Development Plan 6 (1985-1991) is "to review bursaries policy with the aim of gearing sponsorship offers to manpower priorities. To review the bonding and to investigate the possibility of selective sponsorship as well as a combination of grants and loans". (Government of Botswana 1985).

This objective is, according to the Botswana Government, "aimed at developing a cost recovery mechanism in the interest of greater equity" (Government of Botswana 1985)

On 10th March 1990 a report of the *Presidential Commission on the Review of Incomes Policy* was released. Its recommendations include the following: "The present bursary system should be reorganized into a student grant/loan system, with students following more technical, science-based and professional studies receiving more generous support".

As a corollary to this, the Commissioners argue that in order to encourage students to enter careers which meet manpower requirements of the country, and to move to a more cost recovery programme, a combination of loans and grants based on three categories: (i) specialised and critical, (ii) non-critical, and (iii) personal interest be introduced.

"Students in category (i) would receive a grant covering all the educational costs plus an enhanced allowance. Students in category (ii) would receive the normal grant and allowance, while those in category (iii) would have to meet their own maintenance expenses (perhaps through government guaranteed loans) and the grant would only cover educational costs". (Government of Botswana, 1990b).

They further recommend that, in order to maintain the principle of equal access to educational opportunities, a system of interest free loans should be introduced. The main recommendation was accepted, but the proposal for 'enhanced allowances' was rejected, on the ground that enhanced salaries of graduates entering critical manpower areas would provide adequate incentives for students to opt for training in such critical areas. The Bursaries Department is currently working out the modalities of a loan/grant system.

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## II. Ghana

### 1. Introduction

In Ghana, buildings, equipment and all other infrastructure for public tertiary education are provided by Central Government. Tuition is free for all Ghanaians attending public educational institutions at all levels (from primary to university). Central Government also bears, inter alia, the following higher education costs:

- (i) Scholarships and bursaries for students in tertiary institutions.
- (ii) Partial interest on student loans.
- (iii) Until the beginning of the 1988/89 academic year, the total boarding fees for students in the universities.
- (iv) Until the beginning of the 1971/72 academic year, an amount to be used in purchasing textbooks and equipment and to meet incidental expenses.

At the beginning of the 1971/72 academic year, a student loan scheme was introduced, under which university students were expected to take a loan for their upkeep while tuition remained free. This scheme was abolished after a change in government in 1972.

A revised scheme was introduced in September 1975 under which any Ghanaian university student could obtain a loan from a specified State bank to purchase books and equipment and also to meet his living expenses. Each year central government provided the bank with the amount required for disbursement. By March 1986 when government was considering a petition by students to increase the loan level the total amount due for repayment was  $\text{¢}33.48$  million<sup>8</sup> (US\$90,000) but only

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8. The unit of currency is the cedi (¢).

¢184,338 (US\$495) had been collected by the bank.

The amendment law which increased the loan levels in 1986 therefore contained provisions which were aimed at improving loan recovery, some of which are that:

- (i) two public banks were enjoined to use their own funds to grant loans to students, rather than public funds;
- (ii) loans should be guaranteed by parents/guardians of students;
- (iii) loan recovery was to be started during national service, rather than waiting to start repayment after a borrower had got permanent employment; borrowers who had pursued courses of study of a duration of five or more years had 15 per cent of their monthly national service allowance deducted at source while those who pursued courses of shorter duration had 10 per cent deducted from their allowances.

So far ¢22.1 million (US\$59,400) has been recovered through deductions from the national service allowance. This is a significant improvement on the original mode of recovery.

In January 1989 a new loans scheme was put in place. This scheme is financed with funds provided by the Social Security and National Insurance Trust (SSNIT). Central Government has given SSNIT initial capital to be invested so as to meet government's obligation of paying 16.5 per cent as interest on the loan while student borrowers pay an interest of three per cent. Another feature of the current scheme is that when borrowers gain employment their total monthly contributions to the Social Security Scheme will be used to defray the loan until repayment is completed. Students who are contributing to the scheme will start repayment immediately after borrowing.

## **2. Current patterns of financing higher education**

There are three universities in Ghana, namely the University of Ghana, University of Science and Technology and University of Cape Coast, which are public institutions. There are also six Polytechnics and seven Diploma Awarding Teacher Training Colleges, an Institute of Professional Studies (mainly for Accountants and middle-level administrators) and a School of Translators. All of these are public institutions, and provide free tuition. Government grants cover all costs of tuition and student halls of residence, which average ₵770,000 (US\$2,070) in universities and ₵294,000 (US\$790) in teacher training colleges. There are three private institutions, but only one of these (a college of Business Management) charges fees; the other private colleges are financed by religious bodies.

The only costs falling directly on students, therefore, are expenditure on food, rent in private accommodation, books and stationery, transport and other incidental expenses. These costs range from ₵120,000 to ₵196,000 (US\$320 to US\$530) for a 32-week academic year, and ₵220,000 to ₵335,000 (US\$590 to US\$900) for longer courses such as medicine.

Under the government student support scheme, students pursuing tertiary level courses in public education in 1990/91 may:

- (i) take a *maximum loan* of ₵72,000 (US\$195).
- (ii) qualify for a *scholarship award* of ₵72,000 (US\$195).
- (iii) qualify for a *full bursary* of ₵36,000 (US\$97).
- (iv) qualify for a *partial bursary* of ₵18,000 (US\$48).
- (v) in addition there are some *special allowances*, to cover costs of field trips, thesis preparation, etc.

Table 1 gives comparative figures on public expenditure on student support and total education expenditure in 1989/90.

Table 1

Type of sponsorship	(a) Total support	(b) (Total expenditure on higher education)	(a)/(b)
Loans	¢0.89 billion	¢7.49 billion	0.119
Scholarships/ Bursaries	¢0.03 billion	¢7.49 billion	0.004
Grants/ Allowances	¢0.05 billion	¢7.49 billion	0.007

Note: US\$1.00 = ¢372.

### 3. Administration of student loans and scholarships

The Social Security and National Insurance Trust (SSNIT) administers the student loan scheme while the Scholarships Secretariat administers the Scholarships/Bursary Scheme.

All students pursuing tertiary level courses in public institutions are eligible for a loan of up to a maximum of ¢72,000.00 (US\$195) (1990/91) from SSNIT except students who are staff of organizations which do not contribute to the social security scheme. (Such organizations are advised to evolve their own loan schemes). However:

- (i) Students on study leave with pay who are contributors to the social security scheme are entitled to 50 per cent of the loan.

### *Student loans in higher education*

- (ii) Contributing workers pursuing approved part-time courses of not less than 15 hours per week are entitled to 50 per cent of the maximum loan.
- (iii) Full-time workers on courses in tertiary institutions are entitled to take 50 per cent of the maximum loan.
- (iv) Postgraduate students on scholarship have the option of benefiting from a full loan for a maximum of three years.
- (v) Severely disabled students also have the option of taking the full amount of the loan in addition to being granted scholarships.

The scholarships secretariat administers:

- (i) *Grants* to universities and other institutions to cover student allowances for field trips, thesis/project expenses, etc.
- (ii) *Scholarships*: These are to be provided at a common fixed level annually for the following categories of beneficiaries:
  - (a) postgraduate students;
  - (b) merit award for outstanding students (about 5 per cent in all fields);
  - (c) severely disabled students.
- (iii) *Bursaries*:
  - (a) *Full bursaries* are awarded to all students in good standing pursuing courses which are currently deemed to be *critical* for national development, for example, agriculture, computer science, mechanical engineering.

- (b) *Partial bursaries* are awarded to all students in good standing pursuing courses which are currently deemed to be *essential* for national development, for example, architecture, accounting, banking, medicine, pharmacy.

Government continues to bear the cost of tuition and the provision of all facilities in public tertiary institutions. All students are therefore required to sign bonds as a condition for accepting a scholarship/bursary/grant from government. The implications of the bond are that the students would be required to work in Ghana Government establishments or released to work in non-governmental organizations in Ghana for a period of two years for each year of sponsorship received or for a period of five years for sponsorship beyond two years.

Eligible students are granted a loan after they have entered into an agreement with SSNIT for repayment of the loan and the loan has been guaranteed by three persons who are contributors to the social security pensions scheme or such other persons as SSNIT may approve. A recipient of the loan is registered by SSNIT and given a provisional social security number and membership certificate. On the completion of his course of studies the provisional social security number becomes his permanent social security number.

The rate of interest on the loan is 19 per cent (which was the prevailing government treasury bill rate at the start of the scheme in 1988). Government has agreed to pay 16.5 per cent on behalf of students. Students therefore pay only 3 per cent as interest. Government at the beginning of the scheme provided SSNIT with initial seed capital to make the scheme become self-financing and in fulfilment of the obligation to pay interest subsidies of 16.5 per cent.

The maximum period for the repayment of the loan is 10 years. SSNIT determines the period of repayment for the various categories of students. This is because the duration of courses in tertiary institutions vary from one year to seven years. Consequently, the total amounts borrowed by students vary. The borrower is normally expected to commence repayment of the loan as soon as he is engaged in employment after the completion of his course of studies.

### *Student loans in higher education*

All students are given the same terms both in terms of the amount which can be borrowed and the terms of repayment. A law which enjoins all categories of workers to become members of the social security scheme has been enacted. Hence the requirement that the monthly social security contributions of a borrower will be used to repay the loan, coupled with the provision that the pensions due to guarantors will be used to pay off loan balances of defaulters will minimize default.

For the time being the maximum loan level is increased by 20 per cent each year, and the loan repayment of a borrower is tied to his total social security contribution which is currently 17.5 per cent (5 per cent from employee and 12.5 per cent from employer) of his basic salary.

Using the following assumptions:

(i) Initial loan	-	¢50,000 (1988/89)
(ii) Interest on loan	-	3 per cent per annum
(iii) Length of course	-	3 years
(iv) Initial salary	-	¢394,000 (1990/91)
(v) Annual increment in salary	-	2.5 per cent
(vi) Loan repayment	-	17.5 per cent of salary

*Table 2* gives a comparison (in ¢) between the average level of debt compared with graduate salaries.

Table 2

Year	New loan	Total loan	Loan + interest	Repayment	Balance
1	50 000	50 000	51 500	-	51 500
2	60 000	111 500	114 845	-	114 845
3	72 000	186 845	192 450	-	192 450
4	-	192 450	198 224	68 950	129 274
5	-	129 274	133 153	70 673	62 480
6	-	62 480	64 354	72 440	-

Note: US\$1.00 = ¢372.

The main feature of this scheme is that it does not directly affect the pay packets of borrowers. Workers must normally pay contributions for 20 years in order to qualify for a full social security pension. Now those who have taken a student loan must contribute for a longer period (20 years *plus* the number of years required to repay the loan) in order to qualify for a full pension.

#### **4. Future policy**

In a government White Paper on the reforms to the tertiary education system, published recently, government views on cost sharing between government, the student population and the private sector are stated as follows:

*Government contribution:*

- (i) provision of recurrent grants, equipment and capital grants, to cover the costs of free tuition;
- (ii) provision of specified grants for students and teaching staff;
- (iii) provision of scholarships on the basis of merit and in accordance with government's development priorities including the improved management of the public administration system, decentralization and the planning reforms;
- (iv) assistance to students to obtain loans to defray maintenance and other expenses.

*Student population:*

Gradual assumption of the responsibility for the payment of full costs of lodging and incidental expenses.

*Private sector:*

Communities, commerce and industry will be encouraged to provide for student sponsorship, work study arrangements, endowments of tertiary institutions, including the endowment of professorial chairs for priority teaching areas and bequests for teaching infrastructure such as libraries, workshops and laboratories.

Student loans have been considered feasible in Ghana since 1970. Successive governments without exception have stated that tuition is free in all public educational institutions. However, non-tuition costs including student maintenance should be the responsibility of students/parents/guardians. Therefore the scholarships/bursary/loan schemes have been put in place to assist students/parents/guardians to meet their responsibilities.

In the past, the main problem with student loans in Ghana has been the low rate of recovery of loan repayments. It is hoped that the new scheme, introduced in 1989, will minimize defaults by linking repayment of loans with pension contributions.

The main reservation about the loan is that the maximum level is inadequate to meet student needs. This demand cannot be met because the scheme is meant to assist students/parents/guardians and only limited funds can be made available from the social security fund so that SSNIT does not find itself unable to pay pensions due in the future.

### **III. Kenya**

#### **1. Introduction**

Education has expanded rapidly in Kenya, and the Government is committed to making basic education accessible to all Kenyans, and has therefore introduced free primary education, first announced in 1974, which has resulted in primary school enrolment ratios of about 90 per cent. There is also a strong commitment to cost-sharing in education, and local communities, parents, religious and private organizations make direct contributions to education costs under the principle of 'Harambee'.

The government is also committed to producing high-level manpower for the economy, and the last ten years have seen a dramatic increase in student numbers. The number of universities has increased from one to four, and undergraduate enrolments have increased from 7,000 in 1981/82 to 40,000 in 1990/91. In addition there are over 12,000 Kenyans studying abroad, and 2,000 in private universities and colleges. There are also 159 post-secondary training institutions, offering lower level courses, including 66 public and 93 private institutions. Local communities, parents and donors have played a major role in developing the infrastructure for some of these post-secondary institutions. There are 11 community based polytechnics or other 'Harambee' training institutions, initiated on a self-help basis by local communities.

#### **2. Financing of universities and other higher education institutions**

Upon Kenya becoming independent in 1963, all fees for higher education were abolished in order to encourage greater numbers to pursue higher education and thereby accelerate the education of both high- and middle-level manpower for the economy. However in 1974, the government changed the financing of university education through the introduction of a loan scheme as a cost-sharing strategy.

### *Students loans in higher education*

The cost of university education was increasing with the annual increase in student enrolments. The student numbers had doubled over a period of four years from 3,000 students in 1970 to 6,000 students in 1974, and the education budget had grown from 29 per cent of the total government recurrent expenditure to 34 per cent. The loan scheme was introduced as a means of assisting needy students to pursue their higher education, while reducing the burden on public funds. The loan covers items such as accommodation and feeding, books and personal expenses, and during the 1989/90 academic year an additional tuition loan was introduced to cover 25 per cent of the tuition cost. Currently, students are charged KSh.1,800 (US\$63) as a registration fee which is paid directly in cash from the students' pockets. The combined effect of these measures is that the proportion of the cost of undergraduate education that should be met by the students is now 38 per cent of the total cost, while public expenditure on student support as proportion of the education budget is now about 7 per cent.

Students pursuing education abroad have to meet the total cost of their education, except a marginal number benefiting from scholarships by friendly countries and also limited bursaries. The local private university students meet all their cost of education. A few scholarships for post-graduate studies have been made available by various donors but their number is very limited. The Kenya Government provides post-graduate scholarships for the local public universities, but the applicants have far exceeded the scholarships available. Consequently, some postgraduate students have opted to pay full fees for their education at this level on a self-sponsorship basis.

The government meets the total cost for post-secondary education in public institutions. However, the Board of Governors in some of the post-secondary institutions charge fees to meet expenses such as uniforms, medical expenses, personal books, students' extra-curricular activities, examinations and entertainments. The average cost for a teacher trainee is about KSh.10,000 (US\$350) and the students meet an average of 10 per cent of the cost under the Board of Governors charges. Previously, students in post-secondary institutions received some personal allowances from public funds but the Government has recently

abolished these allowances. The importance with which the government has viewed education is demonstrated in the growing annual allocations of funds to education in comparison with other government services. Indeed the government allocation of the recurrent budget to education has increased to 37 per cent of the total recurrent expenditure. Within the education budget, university education is taking about 19 per cent due to the rapid expansion witnessed over the last five years.

### **3. Student loans**

The subject of student loans has featured in various government reports in the last decade. Generally, student loans are accepted as a method of financing the high cost of higher education in order to:

- ensure cost-sharing at this level of education, thus enabling the Government to sustain the expenditure at the basic and secondary education levels;
- ensure that qualified candidates are not denied opportunities for further education, through assistance with loans;
- maintain the increased numbers of students;
- ensure continued production of high level manpower to meet labour market requirements;
- create a fund to sustain this level of education in the future.

Government reports, which include the University Grants Committee Report (1981), the Financing of Higher Education Report (1982) and the Working Party on Education and Manpower Training for the Next Decade and Beyond (1988) have dwelt on strategies and rationale for management and administration of student loans and have also made specific recommendations on measures to implement student loans as a cost-sharing strategy in the financing of higher education. The government at one stage anticipated that the loan scheme would probably expand to benefit all students in the universities and other post-secondary training institutions. This objective can only be obtained in the long run, however, when the stated goal is achieved for the creation of a

permanent revolving fund, which will eventually become self-perpetuating. This depends on success in managing and recovering loans, which so far has been disappointing. The government has therefore recently set up a committee to review the operation of the University Student Loan Scheme and to recommend a legal and institutional framework which will be cost-effective and efficient.

#### **4. Administration of student loans**

When the University Students Loan Scheme was established in 1974, a section of the Ministry of Education was charged with the responsibility for disbursement of the loans. It was not until 1980 that another office was opened to carry out the loans collections. The Student Loans for Public Universities have been managed under the two sections of the Ministry of Education until 1988/89 academic year when loans disbursements were decentralized to the 41 districts in the countryside to be processed by the provincial administration and the commercial banks. The latter will also be expected to recover the loans in future.

Loans to students are disbursed twice in one academic year. The portion of the loan for catering and accommodation is directed to each of the four public universities where internal arrangements for the management of these services is done. About 34 per cent of the loan is earmarked for the students' personal expenses including books while the tuition loan is directed to the universities for the necessary purchases of academic materials.

An interest rate of 2 per cent has been charged on the loans as a service charge. Currently, banks are receiving the 2 per cent of the loans in anticipation of their future roles, especially in loan collections. However the backlog of matured loans prior to 1988 are being recovered by the Loan Recovery Unit in the Ministry of Education. The repayment period for the loans is ten years. For the new graduates, about 15-20 per cent of their salaries is directed to the repayment of the loans. A grace period of between two to three years was in force before 1988, but the new agreement with the banks has no provision for a grace period. This means that graduates are expected to start repayment immediately on

employment. There have been no provisions for any special category of loanees such as the low-paid, unemployed or others facing financial problems.

The Government of Kenya is preparing legislation to enhance the loans collection and to reduce the number of defaulters, which is currently very high, ranging between 75-80 per cent. However, since the government has committed itself to implementing the loan scheme as a cost-sharing strategy in the financing of higher education in the country, attention is now directed to improving the loan scheme with a view to ensuring its future success.

There are proposals to enhance the recovery mechanisms by linking the system with income tax. All student loan borrowers would be issued with a tax payer number which identifies them as loanees. The employers would be expected to co-operate and inform the student loan agency about the number of loanees on the pay roll.

Once the scheme is computerized and the PAYE (tax system) introduced, significant levels of improvement are anticipated.

## IV. Lesotho

### 1. Introduction

The idea of loans to students in Lesotho originated in May 1952, when the then Paramount Chief Lerotholi ordered the establishment of a Basotho Higher Education Fund (Sethaba-thaba Fund) with the twin objectives of:

- (i) granting bursaries to citizens of Lesotho for prescribed courses of study at universities and other educational institutions in the United Kingdom and elsewhere.
- (ii) granting loan bursaries to citizens of Lesotho to be repaid without interest by the holders upon completion of their course of study at universities and other educational institutions in the United Kingdom and elsewhere.

Although most of the bursaries were free, there were some cases where loans were considered and approved. The fund was to be financed by levies imposed on business organizations and taxes imposed on individuals. After independence in 1966, it was found necessary to transfer administration of bursaries from His Majesty's office to the Ministry of Education and, consequently, Act No.4 of 1968 was passed by Parliament establishing a fund known as the Higher Education Fund, superseding the Sethaba-thaba Fund. The objectives of this fund were similar to those of the previous fund.

The legislation establishing the Higher Education Fund in 1968 did not indicate how it should be financed. In practice, therefore, the Ministry of Education had to include, annually, estimates for bursaries in its recurrent budget for appropriation to the fund. Within ten years of operation of the fund, the government could no longer afford to bear the cost of bursaries alone. There was therefore a need to apportion the cost. Therefore the idea of free bursaries was abandoned in 1978.

## **2. The current situation**

The Loan Bursary Fund was established in 1978 by Legal Notice No.20 of 1978. By this regulation the cost of bursaries at universities and other tertiary institutions would be apportioned between the Government and the students who had to repay a portion of the cost upon employment.

The purpose of the fund was to provide a revolving fund from which assistance could be given to Basotho to further their education on a repayment or partial repayment basis. The change to the loan bursary scheme was made on the following grounds:

- (i) The increasing cost of education and training.
- (ii) The increasing number of learners.
- (iii) The limited funds and resources which were available for education and training.

It was therefore hoped that when the fund was fully operational the following benefits would accrue:

- (i) It will provide a revolving fund from which more and more deserving students could be assisted.
- (ii) In the long-run the scheme should significantly reduce the financial burden on government for education and training purposes.
- (iii) Such a scheme would have positive psychological effects on the students in that a student would feel that he/she was paying for his/her studies. The free scholarships were not taken seriously by the students; hence an alarming rate of failure in tertiary institutions.

### *Student loans in higher education*

- (vi) It will instil an attitude of indebtedness for the privilege of advanced training afforded.

Loan bursaries cover the costs of free tuition and accommodation, a living allowance, book allowance and certain travel expenses. Borrowers undertake to work in Lesotho for a minimum of five years after completing their course of study, and to repay:

- (i) 100 per cent of the loan if he/she decides not to work in Lesotho after completing higher education;
- (ii) 65 per cent of the loan if he/she works in the private sector or a parastatal organization;
- (iii) 50 per cent of the loan if he/she works in the public service.

In addition there is a provision for students who achieve outstanding performance in higher education to receive 10 per cent remission of the loan, which means that they must repay only 55 per cent or 40 per cent of their loan, depending on their subsequent employment.

Repayment of loans is expected within 5 years, in equal monthly instalments, but with no interest on outstanding debts. There is provision for postponement or remission of repayment in cases of unemployment or illness.

### **3. Problems encountered in the administration of the loan bursary fund**

The fund was started with a sum appropriated by the government and after ten years of its formation the fund was still largely financed by appropriations from the government. The objective that it be a revolving fund had not been realized.

The reasons for this state of affairs can be summarized as follows:

- (i) Lack of appropriate office space.
- (ii) Lack of staff with appropriate skills to manage the fund effectively.
- (iii) Weaknesses in the Legal Framework that established the fund, i.e., legal Notice No. 20 of 1978.
- (iv) Difficulty in tracing the students after qualification as some had left the country to work in the Republic of South Africa.
- (v) High rate of default.

In 1987 an expert on financial matters from the British Overseas Development Administration (ODA) was requested to look into the administration of the fund with a view to recommending improvements in the accounting records and staffing of the fund.

Following his recommendations a Loan Bursary Unit was established and improvements have been made in the repayment of loans. The legal framework is being examined with a view to eliminating the weaknesses noted.

## V. Malawi

### 1. Introduction

Until 1985, students at the University of Malawi and other institutions of higher education in the country did not contribute anything towards their education. Instead, they were paid allowances for incidental expenses in addition to free board and lodging. At the University of Malawi, students were paid an allowance of K144<sup>9</sup> (US\$52) per year. The cost of maintaining a student at the University at that time came to approximately K6,000 (US\$2,160) per year inclusive of the allowance and this is what was demanded as fees from foreign students.

The situation changed in 1985 when the Government decided, on the World Bank's advice, that students should contribute the sum of K200 (US\$72) towards their education. The Government faced serious economic problems and the World Bank therefore recommended, and made it a condition for negotiation of an education credit, that the personal allowance of K144, previously paid to all students, should be abolished. It was at this time that it was decided that needy students, who had hitherto used the allowance for payment of part of their financial contribution, should be given a loans facility.

There are at present 2,900 university students at the only university in Malawi. About 50 per cent of the students are classified needy in accordance with the current criteria which are outlined below. The present official fees are K9,000 (US\$3,240) per year and students are required to pay K200. The balance is covered by government bursary.

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9. The unit of currency is the Kwacha (K).

## **2. The loan scheme**

Faced with financial crisis and with the conditions imposed for a World Bank credit, the Government of Malawi adopted a policy of restructuring the education system in order to improve the quality, equity, and efficiency of the system as well as the overall management of the education sector.

As part of the strategy adopted by government for strengthening institutional capacity and management and improving the system, cost recovery measures had to be instituted in all education sectors. This entailed increasing fees in secondary schools and the imposition of a small fee at the University of Malawi, in addition to the abolition of student allowances.

The cost recovery measures at the University of Malawi in practice meant that the K144 allowance which was paid to students had to be abolished and students had to contribute a fee of K200.

Since students are admitted to the University on merit, and not on a means test, it turned out that some students could not afford the financial contribution of K200 although this constituted only two per cent of the fees charged to foreign students.

In order to ensure that no qualified candidate was denied access to university education because of his/her inability to pay the K200 financial contribution, and given that many of the students came from poor families with annual income of less than K400, a students loan scheme had to be established. Government then, on behalf of the University, took up the matter with the World Bank, who had originated the cost recovery proposals. It was proposed to the World Bank that the education sector credit, which included cost recovery as a conditionality, should provide funds for a student loan scheme. The World Bank reacted positively and provided the sum of US\$1 million which converted to K2.8 million for the loans scheme.

### **3. Administration of the loans scheme**

The loans scheme, which is only for University of Malawi students, is administered by the University. When the money arrived, the University Council set up an Allocations Committee and appointed the University Registrar as its Chairman. Other members of the Committee are: the Secretary for Education and Culture, the Secretary to the Treasury, the four Principals of the constituent colleges of the University of Malawi, the Chairman of the Students' Union, and the University's Finance Officer. In addition, a loans officer was recruited for the day-to-day transactions of the scheme. The World Bank credit provided funds to allow the University to send her to the USA for training in loan management.

Since the University has four colleges, it was decided to have a loans sub-committee at each college which studies each and every application before recommending to the main Committee. The College Committee comprise all Faculty Deans, the College Registrar and the Chairman of the College Student Union.

### **4. Eligibility**

The loan facility in operation is extended to needy students only. This is the understanding on which the World Bank loaned the funds to the Malawi Government. It was therefore necessary, before implementation, to agree on criteria which could be used to determine a needy student. After some discussions, it was agreed that a student would be deemed needy if he or she satisfies the following yardsticks:

- (i) has no living parents or guardian who would pay the financial contribution;
- (ii) has parents or guardian with no known source of income;

- (iii) satisfies other eligibility criteria which may be accepted by the Loans Allocation Committee depending on prevailing circumstances. This was supposed to cover circumstances like disagreement between student and parent/guardian which might be brought about by marital problems, e.g. divorce.

It was also agreed that students' character should be taken into account as this could have implications for credit risk.

## **5. Security**

In order to ensure that funds for the scheme do not become progressively decapitalized through defaults, it was decided to prepare an agreement which would bind the students in courts of law. This proved difficult as most of the students would be classified as minors and would not therefore be responsible for contracts they would sign. The Ministry of Justice therefore amended the contract law in 1987, so that for the purposes of the university loans scheme, a contract signed by students under 21 years would be binding. The agreement forms also stipulate that borrowers would not be expected to seek employment abroad until they have fully settled their loan obligations.

## **6. Terms of loans**

Needy students are entitled to borrow up to K400 (US\$144) during each year they are at college. It is expected that K200 of the amount would be used to pay for the financial contribution and the balance for incidental expenses. The loans which may add up to K1,600 (US\$575) at the end of the four year programmes, are expected to be repaid in four years with the first instalment being paid six months after graduation at which time the loan attracts interest at 15 per cent per year on the outstanding portion of the loan. The repayment conditions are not tied to employment or any gainful occupation. All loan beneficiaries are expected to start repaying six months after graduation.

## **7. Collection**

The loans scheme fund is expected to become fully revolving, and loans given to students must be repaid if the scheme is to continue. The collection task is also the university's responsibility. Graduating students are reminded, during the last term of the final year, of their obligations and are requested to fulfill them when they leave.

The University may also enter into an arrangement with employers of the graduates whereby the employer is requested to recover the loan obligations at source and remit the amounts deducted to the University. The arrangement has legal backing in that the amendment to the University Act which came into effect with the introduction of the Loans Scheme, stipulates among other things, that employers are required to facilitate loan recoveries on behalf of the University.

Since the scheme is only three years old, the exercise of collecting loans through employers has only just started and the response so far is very encouraging. The University has managed to trace about 70 per cent of loan grantees and some of them have repaid the loans in full, by applying for advances from their employers. It is too early to make any estimate of default rates. It is anticipated, however, that there will be defaulters. Some of the borrowers might have died, in which case the loans will have to be written off. Others (especially women) might have married foreigners and left the country. The default rate will be known as soon as the current tracing exercise has been completed.

## **8. Average level of debt compared to graduate salaries**

The average level of debt, compared with graduate salaries, appears reasonable. The maximum cumulative loan a student may be granted during four years is K1,600 (US\$575) which is expected to be repaid in four years at K400 per year. An average graduate may earn about K5,000 (US\$1,800) per year. That is, a graduate would be expected to pay only eight per cent of his/her salary towards repaying the loan which is regarded as manageable.

## **9. Future policy**

There are certainly arguments in favour of increased cost recovery which have been accepted by government, although the proposal was not fully debated before it was implemented. It is anticipated that the financial contribution will go up. In fact, the University has already been advised by government to increase it to K280 (US\$100) in 1991, and that it should go up to K400 (US\$144) by 1994. This will still be very reasonable when the rate of inflation is taken into account. The present policy of government is to shift resources from higher to primary education which is perceived to offer a higher return on investment, and has high priority. As long as the loan fund is enhanced to accommodate the anticipated increase in fees, the loans scheme will remain feasible, although in the long run its success will depend on keeping down the rate of default.

## **VI. Nigeria**

### **1 Introduction**

In Nigeria, the significance of education and manpower development for the growth of the country is an issue that has engaged the attention of the government over the years. This has also been very well articulated in government policies and pronouncements in the last decade. But although government has remained committed to education, it may be unable to continue to shoulder, all alone, the burden of funding education at all levels in the country. This paper briefly reviews the current patterns and problems of financing higher education in Nigeria, the evolution and administration of the Students Loans Scheme, the possibility of the present loans scheme metamorphosing into an education bank and the feasibility of the Students Loans Scheme.

### **2. Current pattern of financing higher education**

There are 29 universities in Nigeria (21 federal and 8 state owned) and 53 colleges of education (19 federal and 34 state owned). Total enrolment in Nigerian universities for the 1989/90 academic session was about 159,677 for the first degree and post graduate candidates only. Enrolment in the polytechnics for the 1989/90 academic session was 73,161 while the colleges of education which train teachers for the nation's educational system enrolled 42,665 students during the same period. Almost the entire sub-sector of higher education is financed by the two levels of government -- federal and state.

Tuition is free for undergraduate students in Federal Government universities. However, postgraduate students are charged tuition of about N700.00<sup>10</sup> (US\$70) per year. Students in institutions of higher learning pay full costs for feeding while costs of boarding and medical services are subsidized. In State-owned universities, higher rates of fees are charged for all categories of students.

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10. The unit of currency is the Naira (N).

Federal and State Governments each year award bursaries/scholarships to deserving students for various courses under different forms of support. Until the 1975/76 academic year, federal bursary awards covered both undergraduate and post-graduate courses tenable locally and overseas. From 1976/77, it was limited to only post-graduate students. The Federal Government provides about N2,415.00 (US\$240) per year for each postgraduate student as a scholarship and over N2,000.00 (US\$200) per year as an allowance for maintenance, book, thesis, travel and special equipment. Under the Technical Teachers Training Programme (TTTP), the federal government makes awards tenable in the USA, the United Kingdom and within Nigeria. The awards are aimed at improving the capability of teachers who desire to make technical education a career. The Federal Government sponsors a crash programme aimed at producing intermediate technical manpower. Such Programmes are tenable in Canada, France, Italy, Nigeria, Poland, Romania, the United Kingdom, USA and Yugoslavia.

As in many countries, financing education in Nigeria by means of scholarships has always been costly. For example, between 1980 and 1984, post-graduate scholarships and awards cost the federal and state governments over N206 million (US\$20,600,000). While the student population is increasing geometrically, the number of federal and state government bursaries/scholarships is declining. For example, available statistics show that the federal government scholarship for undergraduates, which went up by 78 per cent (from 1,859 awards in 1972 to 8,520 in 1976), dropped to zero in 1977, representing a quantum decline of 358 per cent. The postgraduate awards continued for some time, but also dropped from 2,000 in 1976 to zero in 1984.

Data on sectoral budget provisions show that federal government recurrent allocation to education as a percentage of total budget declined from 32 per cent in 1979/80 fiscal year to 20 per cent in 1990 and further to about 14 per cent in 1991. Also, at the sub-sectoral level, capital and recurrent allocations to the universities have fluctuated, especially between 1981 and 1987. For example, capital allocation declined from approximately N350 million (US\$35,000,000) in 1981 to about N120 million (US\$12,000,000) in 1987 while recurrent expenditure declined

from N334 million (US\$33,400,000) to N304 million (US\$30,400,000) during the same period. But demand for higher education as reflected in the total applications for university admissions for example, increased by 69 per cent between the 1978/79 and 1986/87 sessions. It is in this context of declining resources and increasing demand for higher education, that student loans are bound to be significant as a form of student support in higher education in Nigeria.

### **3. Administration of student loans**

It was in the late 1960s that the aspirations of Nigerian youth to receive Western education resulted in an unprecedented increase in demand for higher education, and led to a study of the feasibility of establishing a system of financial support for young people wishing to study in Nigeria.

Consequently, a Decree was promulgated (Decree No. 25 of 1972) which came into effect in the same year) establishing the Nigerian Students Loans Board. The Board was inaugurated on 10 May 1973 by the then Federal Commissioner of Education. The aim of the Board was to assist indigent Nigerian students in completing their education in the country by granting them loans. The Board was also expected to recover such loans at maturity.

In the early seventies, the exodus of young Nigerians to overseas countries in pursuit of education became a social problem. Thus, an amendment was proposed for Decree No. 25, of 1972. This led to the promulgation in September 1976 of Decree No. 21 of 1976. It was this Decree, therefore, that eventually internationalized the functions of the Nigerian Students Loans Board.

Although the Nigerian Student Loans Board has of today made awards of over N46 million (US\$4,600,000) to beneficiaries, it still faces the acute problem of recovering an outstanding matured loan of over N40 million (US\$4,000,000). Difficulty in recovering loans can be traced to a number of factors. First, the enabling decrees of 1972 and 1976 contained a number of loopholes whereby loan defaulters and their guarantors easily evaded their responsibilities. Second, there were

administrative and bureaucratic constraints: although public expectations were increasing, the Board's physical, administrative and human resources to meet those expectations were inadequate. Third, social factors impinging on the attitude of an average Nigerian towards the loan scheme have constituted a serious problem: even the elite of the Nigerian society feels that the refund of loans is unnecessary, an attitude which amounts to appropriating a share of the 'national cake'.

In order to overcome the shortcomings of previous enabling decrees, the Students Loans Board Decree<sup>11</sup>, No. 12 of 1988 was passed in April 1988. It repealed earlier legislation on the Loan Scheme. It also decentralized the processes of loan award and recovery. This decentralization necessitated the establishment of the Board's Headquarters at the Federal Capital Territory, Abuja, and the creation of three Zonal Offices: Bauchi for the North, Akure for the West and Port Harcourt for the East.

Decree No. 12 1988 aims to promote efficient administration of the loan scheme by establishing the following guidelines:

- (i) the institution of learning shall be required to certify that the student seeking a loan is a *bona fide* student;
- (ii) the student shall provide two guarantors of sufficient ability and means who shall be persons or organizations eligible in law to be forced to make a repayment of the loan;
- (iii) a maximum loan of N1,000 (US\$100) per year shall be payable to each of the successful students in any Nigerian institutions of higher learning, subject to a total loan of N5,000 (US\$500);
- (iv) for overseas students it shall be a maximum loan of N5,000 per year subject to a total loan of N20,000 (US\$2,000);

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11. *Federal Republic of Nigeria, Official Gazette, Decree No. 12: Students Loans Board Decree 1988*, Lagos, 13 April, 1988, Vol. 75, pp. A547-A555.

*Student loans in higher education*

- (v) the loan shall be paid annually, in advance, directly to the student with the appropriate acknowledgement of receipt;
- (vi) approval for the loans to be paid to the student shall be given at the area office located in the State of origin of the student notwithstanding the location of his institution or place of abode;
- (vii) the loan shall attract an interest rate of 7 per cent;
- (viii) every loan granted by the Board shall become due for repayment within a period of two years from graduation or immediately the student is employed, whichever is earlier;
- (ix) the period of repayment of the loan and the interest thereon shall not extend beyond ten years.

Other measures that have been taken by the new Board to ensure effective administration of loans include:

- (i) The establishment and operation of 21 Area Offices -- one in each state capital -- to make the loan facility easily accessible to the rural populace at the state and local government levels, and enhance recovery efforts.
- (ii) The issuance of its own Clearance Certificates to graduate beneficiaries to enable them to secure employment as stipulated in the enabling decree.
- (iii) The pooling of its overseas accounts into two centres in London and New York for effective administration.
- (iv) The computerization of its operations to ensure an effective information and data retrieval system for loans disbursement and recovery.

- (v) The recruitment of the right calibre of staff with a requisite background in accounting, banking, finance and computer applications.
- (vi) Accelerated recovery efforts through:
  - (a) Private Law Firms as debt collectors.
  - (b) Field loans officers of the Board to trace and track down defaulters in the states.
  - (c) Contact with employers of graduates.
- (vii) Informing the student population about loan facilities, and terms and conditions of loans.

#### **4. Future policy**

The Nigerian Government alone cannot meet the enormous burden of funding education. Economic crisis has forced the government to introduce a structural adjustment programme, with the help of the International Monetary Fund and World Bank, which has led to a reassessment of the degree of public sector involvement in the finance of education, in the light of the objectives of the programme of which self-reliance in all sectors of the economy, is one, and privatization and commercialization another.

It is in full recognition of the undue burden of educational financing on the public sector, and, therefore, the need for an acceptable, workable system of cost-sharing between the public and private sectors in funding education that the concept of an Education Bank is being proposed by the Students Loans Board.

There is, at the moment, no credit market from which a civil servant parent can borrow for his child's tuition at the beginning of an academic year. But the Federal Mortgage Bank of Nigeria already has a housing scheme from which he can benefit; and, if he is a farmer, the Nigerian Agricultural and Co-operative Bank gives agricultural Credit; or, if he is

a petty-trader, the Peoples Bank lends for small-scale enterprise, etc. Credit facilities abound for endeavours in most areas of the economy, except for education.

Indeed, in the face of a global economic recession and the resulting budgetary constraints in Nigeria, on the one hand, and the necessary costs of a balanced human resources development policy on the other, an Education Bank has been proposed as an essential strategy for the long-term survival of the country's educational system and the best hope for the realization of the goal of providing 'equal opportunities for all' as part of Nigeria's national policy on education. Advocates believe that such a bank could yield benefits to government and the general public (including students, parents, academics, researchers, publishers, consultants, educational institutions, organizations and investors, to whom credit would be available).

The principal functions of the bank would be the approval, disbursement and recovery of loans. Functions would include:

- (i) To grant loans to students to finance their education in higher institutions which would be repaid from their future enhanced income at a low interest rate.
- (ii) To grant short-term loans to individuals, co-operative societies or other bodies in appropriate cases, provided that it is satisfied that the scheme for which the loans are requested are viable and would enhance the educational development of the country's institutions and that there is adequate security for such loans.
- (iii) To promote the mobilization of savings, grants, awards and scholarships from the public and private sectors for educational investments.
- (iv) To accept deposits from private individuals, institutions, and organizations to finance educational investment.

- (v) To provide financial advice on educational matters to higher institutions, educational and allied organizations, parents and students, and educational investors.
- (vi) To encourage and promote the development of viable research works, consultancy services and any other relevant ventures within the higher institutions.
- (vii) To do all such other things as may be deemed incidental or conducive to the attainment of efficient educational investment.
- (viii) To aid authors in financing their book printing and publications locally.
- (ix) To assist academics in their educational travels for workshops, conferences and seminars.

Advocates believe that an Education Bank, unlike a government parastatal, would have greater potential for achieving autonomy and becoming independent of government subventions. It would be in a position to generate income to invest in education, by attracting credit from external financial institutions, and by ploughing back profits, loan repayments and interest to establish and sustain a revolving fund. The Nigerian Student Loans Board is currently carrying out a feasibility study to assess proposals for an Education Bank, as well as introducing measures to improve loan recovery and increase the efficiency of the student loan programme.

## **VII. Uganda**

### **1. Introduction**

The structure of Uganda's education system has remained essentially unchanged since Independence in 1962. The existing structure consists of seven years of primary cycle followed by four years of lower secondary and two of higher secondary. Those who complete the higher secondary may then opt for tertiary education. There are several institutions for tertiary education in the country, some of which are very old and well-established while others are still in their infancy. There is growing social demand for higher education which the existing institutions are not able to fulfil. With the age-old tradition of the government providing 100 per cent financing of higher education, it faces the dilemma of whether to expand the opportunities of higher education to meet this social demand, or to expand facilities for basic education to cover the large segment (about 40 per cent) of school age children who at present do not receive any formal education. The government has now chosen the policy of passing on some of the burden of expenditure on higher education to students and their families in order to save resources for basic education.

### **2. Current patterns of financing higher education**

The oldest institution of higher education in Uganda is Makerere University, which was established in 1922. For a long time, it remained a premier institution in Sub-Saharan Africa. Now there are two more universities, one of which, Mbarara University of Science and Technology, is publicly funded, and one, the Islamic University, Mbale, is funded from international sources. Another private university is in the process of being established by the Roman Catholic Church.

Among 34 institutions of higher education fully financed by the government there are two public universities (Makerere University, which accounts for 40 per cent of all higher education enrolments and

Mbarara University of Science and Technology), one polytechnic, one Institute of Teacher Education and 10 National Teachers Colleges, a National College of Business Studies, five Colleges of Commerce and four Technical Colleges, all controlled by the Ministry of Education, and 10 institutions controlled by other Ministries, which provide essentially specialized departmental training, for example in Agriculture or Public Administration.

There are only eight institutions of higher education in the non-government sector, including the Islamic University, two theological colleges, the Chartered Institute of Bankers and four Colleges of Commerce or other vocational colleges.

In all government supported tertiary-level institutions, education is completely free for all full-time students. The government bears the entire cost of students' tuition, books, food and living expenses. Most students are residential, and those who live outside the campus are paid 'living out' allowances.

While, in general, no fees are charged to students, the National College of Business Studies (NCBS) and the Colleges of Commerce (UCCs) enrol part-time students for secretarial and other professional courses, who pay fees. The government makes no contribution for these students. In privately-funded institutions students pay fees or are supported by religious or other charitable organizations.

### **3. Type and level of student support**

Up to 1988, students used to be paid allowances for travel from home to the place of study three times a year, and also for stationery, books and pocket expenses. These allowances have been abolished since 1989. Now book banks have been established from where students can borrow books, and students have to incur expenditure on travel and stationery. However, students still do not pay any fees and their boarding, lodging and medical expenses are borne by the government. The government also bears the cost of special faculty requirements such as equipment and instruments needed for any particular course.

### *Student loans in higher education*

This situation is somewhat anomalous in view of the fact that primary education is not free, and parents pay substantial amounts as fees and other charges both at the primary and secondary levels of education. In some secondary schools, parents pay as much as Sh.150,000 (US\$170) per year. Since places in institutions of higher education are limited in number, parents heave a sigh of relief when their children gain entry to higher education, where education is completely free, and even living expenses are met by the government. The people have become so accustomed to this system that any proposal to pass on some of the cost of higher education to parents is fiercely resented.

The government did not experience such problems with this system in the past, when the economy was in a better shape and education served mainly the interests of the elite in society. But with the growing demand for democratization of education and increasing pressure to provide basic education for all, the government has realized the need for diverting resources from higher education to lower levels of education.

*Table 1* shows the level and type of student support at Makerere University before and after the changes introduced in 1989. By 1988 the average expenditure per student on food, lodging and medical care (weighted average of items (f) and (g) in *Table 1*) was Sh.96,000 (US\$110), and total expenditure on board, lodging and all student allowances amounted to Sh.181,000 (US\$200) per student, which accounted for 82 per cent of the total recurrent budget of the university. This resulted in a very low proportion of university funds allocated to staff salaries, and critical shortages of instructional materials, books and periodicals in libraries.

In 1989, the allowances (a) to (d) were abolished and the expenditure on teachers' salaries/allowances and some other items increased considerably. As a result, in 1989/90 while the expenditure on students' allowances and food fell to Sh.131,000 (US\$150), the total per student recurrent expenditure at the university rose to Sh.347,831 (US\$390), compared with Sh.220,000 (US\$245) in 1988. The expenditure on students' allowances and food costs thus fell to 38 per cent of the total recurrent budget, compared with 82 per cent in 1988. (Of course, instead of paying a book allowance, the government had to

incur an expenditure of Sh.300 million (US\$335,000) on establishing the book bank. It is expected that in three to four years when the book bank is fully established, this expenditure will decrease considerably, whereas the supply of books will be much enhanced.

At other institutions of higher education, the position is broadly similar.

Table 1. Type and level of student support, Makerere university

Item	Details	Average per student (U.sh.)	Remarks
(a) <i>Travel allowance</i>	Bus fare for journeys from home to Kampala and back, thrice a year.	18,000	Abolished in 1989
(b) <i>Book allowance</i>	Cost varied from course to course	25,000	Abolished in 1989, and book bank scheme introduced
(c) <i>Stationery allowance</i>	Cost of paper and other items of stationery	6,000	Abolished in 1989
(d) <i>Personal allowance</i>	Also called boom and meant for pocket expenses	1,000	Abolished in 1989
(e) <i>Special faculty allowance</i>	Cost of special equipment and instruments in any particular course It ranges between 20,000 and 80,000 and is also nil for some courses	35,000	Continuing
(f) <i>Living-out allowance</i>	It is for day students not living in student halls. At present 1,200 out of 6,500 are living out	120,000	Continuing
(g) <i>Expenditure on food, lodging etc.</i>	Govt. incurs expenditure on board/lodging at the rate of Sh.370 per day for 210 working days in a year. (For about one-third students who attend 4 terms, it is for 280 days) It also covers medical expenses	90,000	Continuing

Note: US\$1.00 = 895 U. sh.

### *Student loans in higher education*

So far as scholarships are concerned, the provisions are limited. At Makerere University, there are only 100 students out of 6,500 who receive Uganda State Scholarships, ranging from Sh.10,000 (US\$11) to 30,000 (US\$33) per year. They are selected on the basis of their performance in the 'A level' examination. In other tertiary-level institutions, there are no such scholarships.

### *Needy students work scheme*

The government has just introduced a scheme for assisting needy students in institutions of higher education by providing them opportunities for earning while learning. The government has earmarked a sum of Sh.68 million (US\$76,000) for this scheme in 1991/92. Its purpose is to assist those who find it difficult to meet their day-to-day expenses on stationery, etc. and for travel, in the wake of withdrawal of stationery, travel and personal allowances.

In order to ensure that only needy students benefit from this scheme, it is envisaged that students will apply for assistance through their respective local authorities (Heads of Resistance Councils), and District Administrators will screen the applications and determine the eligibility of students for award.

Students will have to work during vacations or during their study term on the campus and will get paid for the work. It will not be an allowance but will represent remuneration for work. The scheme is expected to be implemented from this year (1991).

## **4. Future policy**

### *Proposals on student loans*

The government is in favour of introducing student loans and also implementing other proposals on cost sharing. The Education Policy Review Commission (EPRC) appointed by the Government of Uganda, which submitted its report in 1989, considered this issue and came to the conclusion that the cost of higher education should be shared by both the

government and the beneficiaries. However, to alleviate the difficulty of those coming from poor families, the Commission proposed a system of study loans and providing students with part-time work. Its specific recommendations on this issue are summarized below:

- (i) Students and parents should assume full responsibility for meeting all non-instructional expenses such as cost of transportation to and from their homes, pocket money, feeding and dependents' allowances.
- (ii) For the students who cannot raise the necessary finances, the government should establish a system of study loans to be repaid only when the student completes his studies and finds gainful employment.
- (iii) The tertiary-level institutions should try to provide part-time paid employment to students who are unable to meet their financial obligations.
- (iv) The financial responsibility of the government (to the students) should be confined to payment of tuition fees, cost of books, examinations and medical care.
- (v) All tertiary-level institutions should undertake some revenue generating projects.

The government has already implemented some of the EPRC recommendations and abolished some of the allowances as already mentioned above. However, it still incurs the expenditure on feeding and accommodating students and on their special faculty requirements. Government is considering the proposal of gradually passing on the feeding cost also to students, and the proposal on student loans is under active consideration.

The government is going to spell out its views on student loans soon in a White Paper on the EPRC report. While the details have yet to be worked out, the proposal under consideration is that of providing loans to students to cover the estimated boarding, stationery and travel costs, which they will repay when they start earning. In sanctioning loans, priority will be given to those who are really needy and who are pursuing courses in areas in which there is shortage of qualified manpower. A suitable bonding system has been recommended with guarantees from sureties to facilitate recovery of the loans. The proposals have yet to take concrete shape for implementation.

Tentatively, it may be presumed that in Uganda about 50 per cent of students will need loans ranging from Sh.50,000 (US\$56) to 100,000 (US\$112) per year for their higher studies. It implies that initially a fund of Sh.600 million (US\$670,000) will have to be established to start this scheme. And until the loan recovery starts, this amount will have to be budgeted for the loan fund every year.

The main obstacle the government visualizes in introducing this scheme is that of finding a satisfactory system for administration and recovery of loans. It is questionable how far the families and employers would co-operate in repayment of the loan. Particularly for those who will be self-employed, strong legal provisions will have to be made to ensure loan recovery. Another obstacle is that of finding the requisite resources (to the tune of Sh.600 million per year initially) for starting this scheme.

Although the scheme of student loans has not yet been introduced, the government considers it feasible. Since the government is serious about implementing its policy on cost sharing in higher education, it has to find a way of safeguarding the interests of poor and deserving students who may not be in a position to share the high cost of higher education. As the government is considering the proposal of gradually passing on the cost of food and lodging also to the students and their families, it becomes all the more important for the government to devise suitable financial support schemes for needy students to enable them to pursue their studies. It has already decided to introduce a 'Needy Students Work Scheme' and is actively considering the possibility of introducing

a loan scheme also in due course. The main obstacle is, however, that of finding adequate resources for starting the loan scheme and evolving suitable safeguards and procedures for administration and recovering of the loans.

## **VIII. Zimbabwe**

### **1. Introduction**

Higher education in Zimbabwe falls under the Ministry of Higher Education established in 1988. Higher education refers to tertiary education which includes teacher training, artisan and technician training as well as university-level education.

### **2. Current patterns of financing higher education**

Zimbabwe has three universities, the University of Zimbabwe, National University of Science and Technology and Africa University. The National University of Science and Technology opened its doors to its first students in March 1991; Africa University will open its doors to its first students in 1992.

There are two Polytechnics, twelve Government Teacher Education Institutions, three private Teacher Education Institutions and eight Government Technical Colleges.

There are 103 registered private colleges offering mainly single subject courses for business and commercial fields. The courses are approved by government and the institutions are registered. Monitoring visits are conducted by government. Private colleges train up to 15,000 students per year.

Both public and private institutions charge fees. Public institutions charge fees prescribed by government, whereas private institutions determine their own fee levels which are mostly pegged at commercial rates. The level of fees varies from one type of course to another.

Government provides financial assistance in the form of grants/loans to students attending full-time University and Teacher Education Institutions, with highest levels of support going to students pursuing first degree courses and certificate and diploma courses in teacher education.

### 3. Vocational training loan fund

The Government has established a Vocational Training Loan Fund (VTL) which is intended to become a revolving fund and is administered by the Ministry of Higher Education. So far, however, the Fund is not a truly revolving fund and the amount in the VTL Fund is supplemented each year from voted funds. *Table 1* shows the number and amount of loans awarded to students at the University of Zimbabwe and Teacher Colleges between 1978 and 1990.

The Ministry uses a 'Means Scale Test' to determine the level and type of support for university students. The support rates are based on the cost of living index which varies annually. There are four means scale bands as shown in *Table 2*. The level of family income determines whether a student is eligible for full or partial support, given in the form of half grant, half loan. Students from families in the top income band are given only loans, and must demonstrate financial need.

A detailed breakdown of university fees, student support levels and parent contribution is shown in *Table 3*. Parents pay directly to the university their share of the fees.

Students attending Teacher Education Institutions are given some Z\$435<sup>12</sup> (US\$88) per year for their tuition fees (\$120, accommodation (Z\$135), books (Z\$150) and amenities (Z\$30). The Vocational Training Loan Fund pays this Z\$435 to the college which first deducts the tuition fees, boarding and amenities before paying out the balance to the students. Student boarding in government institutions is heavily subsidized. Private Teacher Education Institutions are owned by missionaries, and get no government subsidies, and students at these private colleges are not eligible for loans, but must finance tuition, living expenses and books themselves.

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12. The unit of currency is the Zimbabwe dollar (Z\$).

*Student loans in higher education*

Table 1. Number and amount of loans awarded in Zimbabwe 1978-90

Year	Loan recipients	Loans granted (Z\$)	Receipts (Z\$)	Loans due for repayment (Z\$)	Loans not yet due for repayment (Z\$)
University of Zimbabwe					
1978	1 100	237 563	197 575	407 195	436 193
1979	1 300	206 147	200 472	466 364	377 820
1980	1 500	247 755	213 852	488 549	386 432
1981	1 700	432 171	245 947	497 390	559 730
1982	1 890	1 054 908	197 362	565 272	1 348 651
1983	2 888	1 624 763	254 886	516 075	2 764 264
1984	3 742	2 321 385	261 324	632 497	4 617 595
1985	4 886	3 004 650	228 153	n.a.	n.a.
1986	5 873	4 061 257	333 975	1 597 010	n.a.
1987	6 699	6 241 745	575 552	1 793 882	n.a.
1988	7 873	5 823 737	888 680	8 865 728	13 490 225
1989	8 288	13 355 512	1 220 220	12 692 483	21 797 786
1990	8 500	11 394 191	1 881 716	17 951 872	26 050 457
Teachers' colleges					
1978	3 039	109 871	55 546	64 654	171 161
1979	3 082	134 277	57 293	95 280	217 225
1980	2 829	441 025	65 904	162 585	524 854
1981	3 610	738 200	171 644	280 560	973 186
1982	4 874	1 047 614	245 133	430 869	1 624 962
1983	6 481	1 467 650	369 010	636 328	2 521 459
1984	7 365	1 306 620	606 966	328 437	3 535 018
1985	6 372	1 446 220	879 242	1 380 274	3 051 234
1986	6 863	1 385 240	825 705	1 597 010	3 384 711
1987	7 374	2 018 685	628 825	1 793 882	4 577 185
1988	8 411	3 313 465	725 095	3 447 632	5 509 206
1989	7 648	2 571 670	576 263	2 697 120	8 254 363
1990	7 500	4 636 575	1 445 797	4 614 558	9 527 363

Note: US\$1.00 = Zimbabwe \$4.96.

n.a. = not available

Table 2. Determination of university student support level

Band	Annual income of parent guardian or surety	Level of support
1.	Below Z\$28 000	Full support (half loan/half grant)
2.	From Z\$28 001 to Z\$33 999	Partial support (half loan/half grant)
3.	From Z\$34 000 to Z\$39 000	Partial support (half loan/half grant)
4.	Above Z\$39 000	Loans only in cases of proven need.

Table 3. Detailed breakdown of university fees, student support and parent contribution

Discipline	Current fees	Level of support		Contribution by parent, guardian or sureties
		%	Amount	
<i>Band 1</i>				
Arts	Z\$4 895	100	Z\$4 896	zero
Science	Z\$5 331	100	Z\$5 331	zero
Medicine	Z\$5 539	100	Z\$5 539	zero
Veterinary				
Science	Z\$5 669	100	Z\$5 669	zero
<i>Band 2</i>				
Arts	Z\$4 895	61	Z\$2 986	Z\$1 909
Science	Z\$5 331	75	Z\$3 998	Z\$1 333
Medicine	Z\$5 539	76	Z\$4 210	Z\$1 329
Veterinary				
Science	Z\$5 669	76	Z\$4 308	Z\$1 361
<i>Band 3</i>				
Arts	Z\$4 895	44	Z\$2 154	Z\$2 741
Science	Z\$5 331	55	Z\$2 932	Z\$2 399
Medicine	Z\$5 539	56	Z\$3 102	Z\$2 437
Veterinary				
Science	Z\$5 669	56	Z\$3 175	Z\$2 449
<i>Band 4</i>	100 per cent loan in proven cases of need.			

#### **4. Zimbabwe Manpower Development Fund**

Parallel with the Vocational Training Loan Fund, the Ministry of Higher Education also administers the Zimbabwe Manpower Development Fund (ZIMDEF) which is a statutory fund established under the Manpower Planning and Development Act of 1984. Its main source of revenue is a one per cent levy from all private and parastatal employers with an annual wage bill of Z\$2,000 (US\$400) or more, while some specified industries such as farming, non-governmental organizations and non-trading organizations are exempt from paying the levy. ZIMDEF is mostly required to finance technical and vocational education under which fall apprenticeship training, upgrade-training of skilled workers and selected programmes in technical and vocational institutions controlled or approved by the Ministry of Higher Education, including the National Aviation Training School under Air Zimbabwe and the Engineering Training School under the National Railways of Zimbabwe. Both organizations are parastatals. In general, ZIMDEF pays wages, advances and loans, allowances, tuition and examination fees, medical aid, travelling expenses, hotel and hostel fees for apprentices and approved trainees. Employers, both private and parastatals, may also claim from ZIMDEF rebates in respect of approved courses.

The ZIMDEF loans are mostly focused on Ministry sponsored cadet lecturers who are being groomed for employment as lecturers in the Ministry's own technical and vocational institutions. Loans are also given to apprentices and approved trainees for acquisition of the tools necessary for their training.

For the financial year 1990/91 the Ministry of Higher Education was allocated Z\$203,141 million (US\$41,000,000) of which Z\$14,025 million (US\$2,828,000) (6.9 per cent) and Z\$2.2 million (US\$445,000) (1.1 per cent) was for student support for University and Teacher Education students respectively. However, these figures do not include grants given to the University to meet direct costs of tuition and

boarding, or voted funds allocated to Teacher Education and Technical and Vocational Institutions. In fact the grants and voted funds also constitute large subsidies towards student support.

## **5. Administration of student loans and other student support**

Student loans are administered by the Ministry of Higher Education, while External scholarships are administered by the Presidents' Office. This emphasizes the importance Zimbabwe attaches to donor funds which provide scholarships. Two thousand Zimbabweans are currently benefiting from donor funds at institutions of higher learning outside Zimbabwe. Strong emphasis is given to those areas of specialization which are considered critical for the socio-economic development of Zimbabwe. These considerations apply in respect of student financial assistance from both VTL and ZIMDEF as well as external scholarships.

Students who qualify for full or partial support (half grant-half loan) receive support throughout their period of training and the loan does not attract interest during this period. Students are expected to start repaying their debt a month after they have finished their course. Interest at the rate of 4 per cent is charged from the first month the debt becomes refundable. In the case of scholarships no repayments are expected but students are required to return and work in Zimbabwe for a period equivalent to their period of training.

A graduate is allowed six months grace period following which the parent, guardian or surety is required to pay in terms of the loan agreement contract entered into between the Government, the student and parent/guardian/surety.

University students are allowed five years to repay the loan but those from Teacher Education Institutions are allowed two years, because the loan amounts are smaller.

All repayments by University graduates and Teachers Education graduates are made to the Ministry's Vocational Training Loan Fund, while ZIMDEF loan beneficiaries pay to the Fund. Those working for

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the Central Government have automatic deductions placed on their salaries. Those not employed by government are expected to instruct their banks to make a monthly payment on their behalf.

Some even come to pay in person. Table 1 shows amounts advanced, receipts, loans due for recovery and those not yet due for recovery.

The total outstanding amounts in respect of loans given to University students and Teacher Education students rose from Z\$985,000 and Z\$790,000 in 1980 to Z\$11.8 million and \$5.07 million in 1985 respectively. By 1990 the figures had risen to \$41.5 million (US\$8,367,000) and \$14.7 million (US\$2,964,000) respectively. The Cadet Lecturers Programme at Technical Colleges started in 1984. By 1988, the outstanding loan amounted to \$1.65 million and now stands at \$2.4 million (US\$484,000).

The Ministry is encountering numerous problems in its endeavours to recover the loans. The following are only some of the problems being experienced.

- (i) Considerable numbers of borrowers cannot be traced through addresses provided.
- (ii) Mobility of graduates: soon after graduation some secure employment in the private sector where it is difficult for the Ministry to locate them.
- (iii) The management of the scheme has become problematic because the growth of the numbers of beneficiaries has not been matched in the size of the establishment administering the scheme. The situation has deteriorated to the extent that the ratio between the number of students and the number of staff in the VTL is now three times as high as ten years ago.

- (iv) The Prescription Law that a debt expires after six years, has created enormous problems for the VTL. Those students who know about the Prescription Law make efforts to evade payment for a period of six years, so as to take advantage of the cancellation of debts under this provision.

The following strategies have been tried in an effort to improve the loan recovery processes in the past.

- (i) Police have assisted in the tracing of debtors with limited success.
- (ii) The Accountant General's Office, a Department of the Ministry of Finance, Economic Planning and Development, responsible for practical financial assistance, reviewed the general accounting system of the VTL, with a view to eliminating accounting flaws. This exercise was again a limited success.
- (iii) Every year letters/circulars are sent to public sector institutions requesting them to give names of those graduates whom they have employed.
- (iv) Numerous cases, amounting to millions of Zimbabwe dollars, have been forwarded to the Civil Division of the Attorney General's Office for collection with limited success.
- (v) Meetings with the University personnel in order to discover where the students were employed have had equally limited success.

The following options are being considered:

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- (i) To recoup the long outstanding loans, legislation is to be amended to make it compulsory for employers to give details of graduates from a university in Zimbabwe whom they are employing, to start deducting the amount of loan plus interest owed to government and remit the same to the Ministry on a monthly basis. The prescription period is also to be extended or removed completely.
- (ii) Employment of an independent body to trace and recover the outstanding loans and charges is to be explored. Tracing charges are to be met by the defaulters (debtors) while the principal amount and the interest are recouped to government without a loss.
- (iii) To affiliate to credit houses so that people who do not pay their loans are automatically blacklisted from any credit facilities and borrowings.
- (iv) The Ministry set up a Working Committee to look into the disbursement and recovery of loans based on experiences in other countries and make appropriate recommendations.

### **6. Future policy**

The Government plans to reduce the rate of growth of education expenditures and increase cost-recovery. It also plans to reduce spending on education from 10 per cent of GDP to 9 per cent of GDP by financial year 1994/95. The proportion of the budget allocated to education will fall from 21.5 per cent to 19.4 per cent.

More specifically, the Ministry of Higher Education plans to cut down on costs in higher education as follows:

- (i) Fees strategies should be such that in due course charges in the Ministry's institutions equate to the real cost for each programme. In the immediate to short-term, fees could be increased to more economic levels.

There will be gradual increases from current to actual levels over time and for 1991 a 50 per cent increase in Technical Colleges is planned.

As technical college costs are estimated to be in the region of Z\$6,000 (US\$1,200) annually per student, depending upon the course taken, most students are likely to require access to financial assistance. Ultimately, there should be a financial assistance programme common to all government training institutions.

- (ii) Teachers' College fees also call for revision, but adjustment will not be as readily effected as in Technical Colleges because they are a full responsibility of the Government.

- (iii) At present, financial assistance is provided through VTL and is subject to a Means Scale Test. Virtually all beneficiaries receive support at the maximum rate, with the grant and loan of equal size. Reduction of the grant element from the current 50 per cent maximum could be effected as a first step towards eventual elimination of grants.

Should the grant be eliminated careful consideration will be given to extending the maximum repayment period of five years -- in present circumstances it is probable that this period is stressful to most recipients. The interest rate which stands at 4 per cent will be reviewed.

- (iv) By privatising the Vocational Training Loan Fund in order to improve recovery, commercial banks may administer the loans in conjunction with the Government.

- (v) Colleges should be allowed to sell goods which they have produced and operate a revolving fund or trading account.

## **7. Conclusion**

Despite the problems encountered, the Government is determined to keep a student loan programme and improve its efficiency. The economy requires skilled manpower. Estimates suggest that a minimum of 37,500 additional trained teachers are needed, and 60,000 graduates. It will be impossible to meet these needs without an adequate system of student support, and there are indications that if loans were withdrawn over 90 per cent of present students would not be able to finance their higher education. Yet the Government is committed to a programme of economic reform and structural adjustment, including reductions in public expenditure on education.

Any government in a situation similar to that in Zimbabwe will have no choice but to continue to provide loan finance for financing higher education. What needs to be done is to improve the recovery process so that the same amount finances as many of our students as possible.

## **Annex B**

### **Participants in the forum**

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Prof. E.J. Chuta, Executive Secretary, Nigerian Student Loans Board, Abuja F.C.T., Nigeria.

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## *Designated Members:*

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*Goran Ohlin*, Assistant Secretary-General, Office for Development, Research and Policy Analysis, Department of International Economic and Social Affairs, United Nations.

*Visvanathan Rajagopalan*, Vice President, Sector Policy and Research, Policy, Planning and Research, The World Bank.

*Allan F. Salt*, Director, Training Department, International Labour Office.

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## Educational Forum Series No. 3

The systems of financial support to students in higher education which have been in place for several decades are today coming under scrutiny in many countries -- both industrialized and developing -- and Governments are beginning to demand that students should meet a greater share of the costs of their higher education, either before or after they graduate.

Some countries are actively considering the introduction of loans to students; others are poised to put greater reliance on the loan systems they have been operating in recent years; yet others have rejected the possibility of introducing loans and are looking into the feasibility of introducing special tax schemes for students in higher education.

The subject of student loans has already reached a high point on the educational agenda in several countries and it appears certain that it will receive a great deal of attention in the months ahead. What has been largely missing from the discussion so far, however, is reference in the debate in any particular country to the manner in which other countries are tackling the same problem.

The International Institute for Educational Planning is therefore holding a series of educational forums devoted to the question of loans to higher education students, focusing on some of the principle aspects of the subjects now being addressed by governments, administrators, academics, parents and students alike.

The first forum specifically examined the situation in Western Europe and the USA; the second forum turned its attention to Asian countries. (Reports of these two forums have been published). The present booklet reports on the third forum in the series, held for countries of English-speaking Africa.

### The author

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