Chapter 3
KENYA
Wycliffe Otieno

Historical Background

The development of higher education in Kenya cannot be discussed in isolation from the history of Kenya, as it owes its origins to colonial efforts at establishing a common system of education for East Africa. These origins can be traced from 1921 with the opening of a technical school on Makerere Hill in Kampala, Uganda. A year later, the school was renamed Makerere College and offered technical education for those who sat for the Cambridge School Certificate (CSC) examinations. Following the recommendations of the Earl De La Warr Report in 1937, the college started offering diploma courses in Medicine, Agriculture, Education and Veterinary Sciences (Bogonko 1992). In 1949, it was elevated to University College status following the recommendations of the Asquith Report four years earlier. It was consequently renamed the University College of East Africa and offered University of London degrees. As the only university-level institution in the region, it admitted students from the three East African colonies. In 1956, another college, the Royal Technical College of East Africa, was opened in Nairobi, Kenya, to offer diplomas in technical and commercial education for the whole of East Africa. In 1958, the government appointed a committee headed by J F Lockwood which recommended the establishment of a Federal University of East Africa. However, this did not come about until 1963 when the University of East Africa was inaugurated with two constituent colleges in Nairobi and Dar es Salaam. The parent university in Makerere offered Medicine and Agriculture with Dar es Salaam offering Law, while Nairobi offered Engineering, Veterinary Medicine and Architecture.
In 1968, the Working Party on Higher Education in East Africa was set up and it recommended the elevation of each college to full university status by 1970. Consequently, on 25 March 1970, the University of East Africa was dissolved and three independent universities, namely Makerere University Kampala (MUK), the University of Dar es Salaam (UDSM) and the University of Nairobi (UoN) were inaugurated. This marked the beginning of the independent development of university education in each of the three countries. In Kenya, the government proclaimed the establishment of the University of Nairobi through an Act of Parliament the same year. The dissolution of the University of East Africa was thus an opportunity for the independent states to fully regulate the development of higher education through enacting the relevant policies including financing. Thus, Kenya had its first fully-fledged university. In 1972, Kenyatta College, which had hitherto been a diploma teacher training centre, became a constituent college of the UoN before being elevated to full university status in 1985, one year after the setting up of the second university, Moi, in 1984. Other universities established subsequently include: Egerton University in 1987, Jomo Kenyatta University of Agriculture and Technology (JKUAT) in 1994, Maseno University in 2000, and Masinde Muliro University of Science and Technology in 2006. In all, Kenya has a total of seven public and 18 private universities with varying levels of accreditation.

**Evolution of Higher Education Policy**

*Imperatives of Highly Skilled Human Resources and ‘Free’ University Education*

On the attainment of independence, the Kenyan Government immediately set up a commission of inquiry into the country’s education system. Known as the Kenya Education Commission, under the chairmanship of Prof. Simeon Ominde, it is credited with providing the policy direction for the education sector. The commission was set up against the backdrop of colonial education policies that had severely discriminated against the education of the African segment of the population and the consequent need to train an African cadre of experts to staff the various facets of the economy in the new nation. Understandably therefore, the Commission gave prime consideration to higher education, and recommended that efforts be made to ensure that there was a trained and sufficient number of highly skilled human resources to take over the management of the country’s affairs from the departing Europeans. This recommendation formed the pedestal on which higher education policy was hinged, at least for the first two decades of independence.
In order to achieve the goal of having enough highly skilled human resources, university education therefore became almost entirely free in terms of direct costs. As will be evident, four clear phases can be identified in the evolution of higher education financing policy in Kenya, with the policies adopted in each of these phases being invariably dictated by the immediate to long-term human resource needs, and the prevailing economic circumstances. This was the first phase, namely, that of highly subsidised higher education funding.

It should be noted that the recommendation of the education commission and the policy measures arising from it were taken at a time when the young nation did not have a fully fledged university of its own, the Federal University of East Africa for the three countries only having been inaugurated a year before in 1963. This meant that the number of students that could be admitted to higher education was limited. Moreover, the University College in Nairobi was only offering Engineering, Veterinary Medicine and Architecture. Those who wanted to undertake other courses such as Law had to go to the University College in Dar es Salaam while medical students had to be enrolled in Makerere in Uganda. Thus, the opportunities available were not only limited but lacked diversity in terms of the breadth of the curricula and programmes. In 1970, the University of East Africa was wound up and Makerere University, the University of Dar es Salaam and the University of Nairobi were inaugurated. This marked the beginning of the independent development of public university education in each of the three states.

In the meantime, private, mainly religious, provision of higher education also started during the colonial era. The first secular private university, the United States International University (USIU), was started in 1969. Upon the enactment of the Commission for Higher Education Act in 1985, private universities have grown in quick succession from an initial three in 1978 to the current 18 with varying levels of accreditation.

**Initiation of Cost Transfers**

A policy shift began in 1974 with the government’s Third Development Plan. In the first decade, the government managed to train a significant number of people to take over the running of the economy. It also succeeded in offering basic education to the citizens thereby nearly satisfying the pervasive demand that characterised the period immediately after independence. In subsequent years, the university population increased while economic growth declined. From a real GDP growth rate of more than 8% annually in the 1963–1972 decade, the growth rate declined to 4% annually, and government income declined significantly (Wagacha & Ngugi 1999). The decline in economic growth was also triggered
by the oil price shock of 1973, a development that resulted in serious structural constraints in the economy. Together, these developments forced the government to rethink its strategy of financing university education. Provision of highly subsidised education was no longer feasible in the face of diminished resources. In 1974, the government introduced a student loan programme. Initially, there was strong resistance to its introduction, but the government managed to put it in place nevertheless. However, the loan programme performed abysmally. It was characterised by high subsidies, poor administration, lack of legal framework and, consequently, low repayments.

Reforming the Regulatory Regime: Enactment of Council of Higher Education

In the 1980s the need to create a legal regime to regulate the provision of university education by non-state providers was overwhelming. In 1985, the government enacted the Commission for Higher Education (CHE) Act with the express mandate to oversee the development of both public and private higher education, though it has ended up ‘policing’ the private rather than the public institutions.

A decade after the enactment of the CHE Act, the government released the Economic Reforms for 1996–1998: The Policy Framework Paper (Republic of Kenya 1996: 36) which articulated its position on liberalisation and measures to encourage greater private sector participation in the economy. On education, it underlined the need to ‘put in place policies to encourage the participation of the private sector in the establishment and operation of educational institutions’. Overall, the measures adopted by the government from the late 1980s have created a policy environment for increased provision of higher education by private sector players. This has seen an increase in the number of private universities from three in 1978 to the current 18.

Introduction of Cost Sharing

The late 1980s marked yet another change in Kenya’s education financing policy. The government officially ‘introduced’ a cost-sharing policy in 1988 via Sessional Paper No. 6. This marked the government’s abolition of ‘free’ and highly subsidised education. At the university level, the institutionalisation of structural adjustment entailed an increased emphasis on user charges and budget rationalisation that saw the diversion of more resources to primary education because of the high social rates of return to this level and intensification of deferred cost-recovery measures at the university level.

The government introduced direct tuition fees in 1992 and abolished free meals with the introduction of the cafeteria system (known as ‘Pay-As-You-
Given its inability to fully finance university education, the government left the institutions to find ways of generating own income to supplement public funds. Limited government funding meant a restricted supply of places. Consequently, it adopted a policy of encouraging private sector participation in developing higher education. Indeed, the private higher education sub-sector had always existed, except that there was a vacuum in terms of a regulatory framework.

Private Higher Education and Privatisation of Public Universities
Partial public privatisation, or the introduction of private entry schemes in public universities, has stemmed from the tacit encouragement by the government of the public institutions’ efforts to find innovative ways of expanding enrolment while generating own funds to supplement diminishing state support. All the public institutions have initiated several programmes going by various names such as Self Sponsored Programmes (SSPs), Module II and Alternative Degree Programmes (ADPs). These programmes are open to those who are not absorbed by the public universities in the regular programmes controlled by the Joint Admissions Board (JAB) as well as the working class who would want to further their education. By all accounts, the introduction of these programmes has resulted in a partial privatisation of public education. The private entry schemes are characterised by high tuition fees compared to regular programmes. For instance, while a regular bachelor’s degree in Computer Science costs a total of KES 120 000 (US$ 1 538 – tuition and accommodation) per year, tuition alone in the Module II programmes costs upwards of KES 240 000 (US$ 3 077) per year.

An analysis of issues and trends in privatisation should take into account the purely private universities as well as the privatisation of public universities. Currie and Vidovich (2001) note that the ideological shift towards privatisation includes both increasing the provision of education services by for-profit and non-profit private organisations, and tendencies to marketisation within institutions that continue to be publicly funded and driven. While the development of private universities is not a new phenomenon, the privatisation of public institutions is a recent one and Kenya is not alone in both tendencies. Other regions such as Latin America have had a long history of private higher education institutions while the growth has also been fairly significant in Asia (Wongosothorn & Wang 1997). In Kenya, of the total of 18 private universities, 14 are religious-based institutions. Private institutions have an enrolment that is about 20% of the total university student population. Together, students who get little or no public funding (including those in Module II programmes in public
universities) constitute over 40% of university enrolment in Kenya. This is a significant proportion and confirms the crucial role played by private institutions in expanding higher education access, contrary to Altbach’s (1999) assertion that students’ inability to pay and lack of capital will result in a slower growth of private higher education in the continent as opposed to the trend in other parts of the world.

The liberalisation of higher education in Kenya has thus seen a major reorientation of policy. Higher education is no longer merely geared towards the production of ‘highly skilled’ human resources as at independence, but is also seen in the wider context of the challenges facing human development in the rapidly increasing technological and integrating world.

While public universities dominate in enrolment, their pace of numerical growth has been slow compared to the private universities. A number of public and private non-university higher education institutions have been set up at different times and in different parts of the country. Like universities, however, the concentration of these institutions tends to be in the urban and high-growth areas, with Nairobi dominating.

A major problem in the study of higher education in Kenya is an intense, disproportionate focus on the university sub-sector, such that not much is known about the non-university tertiary sub-sector. For example, in Kenya, the exact number of the non-public higher education institutions is not known.

Higher Education in the Current Policy Framework

Kenya is currently implementing a five-year education programme called the Kenya Education Sector Support Programme (KESSP). KESSP sets out a total of 23 investment programmes for implementation, of which university education is one investment programme. KESSP notes that the rapid expansion of university education has stretched the capacity of existing facilities with adverse effects on teaching and learning, morale of staff, research productivity and the intellectual climate in the public university sub-sector.

Some of the strategies are already being implemented. These include the development of a national skills training strategy and the elevation of national polytechnics to offer degree programmes. However, as argued later on in this chapter, the government is yet to address the high cost of technical education, which is one of the main barriers to increasing enrolment in technical institutions.
Institutions

To some degree, this chapter continues the trend described above of focusing extensively on universities. Two reasons explain this focus. First, this is where the funds are concentrated. Second, there is much more data available on the university sector.

Higher Education Institutions
Any study on articulation and differentiation in higher education would no doubt single out: (i) the university and non-university institutions; (ii) the academic and technical, training and research; (iii) the public and the private; and (iv) the non-profit versus the for-profit institutions. This is true for Kenya and all institutions fall into one or more of these four categories.

It is, however, important to add that, as in Kenya, institutions can be further grouped into three main categories, that is, institutions that: (i) provide higher education; (ii) regulate the provision of higher education; and (iii) finance higher education. Institutions in the latter two categories include the Commission for Higher Education (CHE) – the regulator and the Higher Education Loans Board (HELB) that provides loans, scholarships and bursaries.

Universities
Public universities receive direct state funding, though most have been able to launch private entry schemes through which they have been able to raise substantial revenue. Universities are autonomous and are independently managed by the university councils. Private universities raise funds from their own sources and do not receive any grants from the State. They have varying degrees of recognition. The highest degree of recognition is the award of charter. Others operate on the basis of letters of interim authority awaiting chartering. Those that existed before the enactment of the CHE Act and the promulgation of Universities Rules of 1989 fall in the ‘Registered’ category.

CHE is the state body that presides over quality assurance in private universities, awards interim letters of authority to new private universities and confirms them as chartered institutions. Although CHE’s administrative mandate is functionally restricted to the regulation of private universities, statutorily the commission should also regulate the entire higher education system including public universities.

Table 3.1 presents the public and private universities in Kenya.

Non-University Higher Education Institutions
Closely related but distinctly apart from the university sector in Kenya are the
tertiary- and middle-level colleges offering various programmes. These include six diploma colleges for the training of non-graduate secondary school teachers, 20 teacher training colleges (TTCs) for primary school teachers, four national polytechnics, 17 institutes of technology and 20 technical training institutes (TTIs). There are also a number of private post-secondary education and training institutions whose precise numbers are not known. Non-graduate healthcare professionals (e.g. nurses and clinical officers) are trained in 11 medical training colleges (MTCs) in various parts of the country.

### Table 3.1: Public and Private Universities in Kenya (2007)

<table>
<thead>
<tr>
<th>public universities (7)</th>
<th>private universities: chartered (7)</th>
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<tr>
<th>other private universities</th>
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<tr>
<td>letters of interim authority (7)</td>
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<tr>
<td>Gretsa University (2006)</td>
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<tr>
<td>Kenya College of Accountancy (2007)</td>
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</tbody>
</table>

Source: CHE

### Number of Higher Education Institutions by Type of Location

There is a clear pattern in the location of universities in Kenya. The tendency seems to be to locate institutions in densely populated and economically active areas. In this case, Nairobi and central Kenya seem to be the preferred regions. Understandably, there are more institutions in the urban areas principally because these areas happen to be the national and regional economic hubs, are more heavily populated and have readily available infrastructure. Institutions
based in the rural areas are a result of deliberate government policy. For instance, the location of Moi University in a rural area was a deliberate attempt by the government to minimise student unrest that had been experienced at the University of Nairobi. Other middle-level institutions including the MTCs, TTIs and TTCs are spread all over the country with most being found in rural or peri-urban locations.

Participation

The Government of Kenya has endeavoured to increase participation in higher education since independence. Even when there was only the Federal University of East Africa, enrolment of Kenyan students in overseas universities was pursued to ensure widened access to higher education.

University Enrolments

Students who qualify for post-secondary schooling either enrol in the regular programmes in the public universities, in the self-sponsored programmes in the public universities, at private universities, at the middle-level colleges including the national polytechnics, teacher training colleges (both certificate and diploma) or opt for university education overseas. The minimum qualification needed for university admission is a C+ pass. Despite more than 50 000 students qualifying for admission each year, not more than 10 000 get admission into the regular programme. As a result, a number of students qualify but are not admitted (see Table 3.2).


<table>
<thead>
<tr>
<th>ACADEMIC YEAR</th>
<th>TOTAL FORM 4 ENROLMENT</th>
<th>NO. QUALIFIED (C+ AND ABOVE)</th>
<th>JOINT ADMISSIONS BOARD ADMISSIONS</th>
<th>% QUALIFIED ADMITTED</th>
<th>% OF FORM 4 ADMITTED</th>
</tr>
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<tbody>
<tr>
<td>2002/2003</td>
<td>176 018</td>
<td>42 158</td>
<td>11 046</td>
<td>26.2</td>
<td>6.3%</td>
</tr>
<tr>
<td>2003/2004</td>
<td>186 939</td>
<td>42 721</td>
<td>10 791</td>
<td>25.3</td>
<td>5.8%</td>
</tr>
<tr>
<td>2004/2005</td>
<td>193 087</td>
<td>58 218</td>
<td>10 200</td>
<td>17.5</td>
<td>5.3%</td>
</tr>
<tr>
<td>2005/2006</td>
<td>209 276</td>
<td>68 030</td>
<td>10 000</td>
<td>14.7</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Source: Joint Admissions Board and Statistical Abstract 2006

Despite the limited direct intake, the population of university students has continued to grow (Table 3.3). Public universities dominate in enrolments, even though there are more private institutions. By 2004/2005, the six public
Higher Education Financing in East and Southern Africa

Universities had enrolled 91,541 students, while all the private universities (18) had enrolled 10,050 students.

The total enrolment of self-sponsored students (Module II) at UoN in 2004/2005 was more than the number of regular full-time students and also higher than enrolment in all private universities. Enrolments in the self-sponsored programmes are higher because many students are integrated (attend the same classes as regular students, as opposed to mainly evening and school-based study) in full-time study. What this confirms is that public universities have been able to expand their internal capacity much faster than the private universities. The part-time, private programmes are responsible for this increase, since there is stagnation in the number of regular students being enrolled in public universities.

It is evident from Table 3.3 that the private university share of total enrolments is currently only 11%, down from a high of 20% before the onset of privatisation (that is, self-sponsored students) in public universities (Otieno 2005). The rapid growth of the public sector universities, especially through Module II programmes, largely explains the reduced private university share. Public sector enrolments in 2004/2005 reflect an increase of 80.5% (or 16.1% annually) from 2000/2001. In contrast, private university growth was 18.4% (3.7% annually) over the same period. This growth pattern reflects the changing fortunes of public and private institutions. The privatisation gains by the former create hurdles for the latter. For the private universities, stringent accreditation requirements played a great role in initial growth, but less stringent regulation (or the lack of it), now largely explains the public surge.

Two more aspects of public and private provision stand out. First, though public universities remain public, more than half of the enrolments are in private entry schemes in these universities (Kiamba 2003). Second, there are more female students in the private than public universities. In the former, they constitute about 52% of enrolments whereas in the latter, they are only about 30% of the total student population.

Technical Education Enrolments

Technical education is popularly known as TIVET, referring to technical, industrial, vocational and entrepreneurship education and training. Technical education is offered at four national polytechnics (Kenya, Mombasa, Eldoret and Kisumu), 17 institutes of technology, 20 technical training institutes and the Kenya Technical Teacher Training College (KTTC). In addition to these, a number of government ministries also offer three-year professional training at diploma level for their middle-level human resource requirements. In addition,
there are several other private commercial technical institutions whose exact number is not known.

Enrolments at TIVET institutions have fluctuated between 2002/2003 and 2006/2007. Enrolments grew from 52,254 to 66,737 students between 2002/2003 and 2003/2004 only to decrease to 29,870 in 2005/2006. The decrease may be attributed to (i) abolition of production courses in these institutions; (ii) unaffordability due to the high cost of technical education (estimated at KES 110,000 per year [MoE MPER 2007]) compared with the high poverty levels; (iii) lack of scholarships or any form of government support for those not able to pay; and (iv) diversification of courses offered in the institutions and relevance of the same to the labour market. In 2006/2007 females constituted 41% of enrolment.


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<tbody>
<tr>
<td>Nairobi</td>
<td>10,532</td>
<td>4,301</td>
<td>15,426</td>
<td>9,270</td>
<td>16,200</td>
<td>9,489</td>
<td>16,992</td>
<td>9,720</td>
<td>21,268</td>
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<tr>
<td>Full time</td>
<td>8,383</td>
<td>3,341</td>
<td>8,724</td>
<td>4,450</td>
<td>9,163</td>
<td>4,428</td>
<td>9,603</td>
<td>4,406</td>
<td>9,987</td>
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<tr>
<td>Part time</td>
<td>2,149</td>
<td>960</td>
<td>6,702</td>
<td>4,820</td>
<td>7,037</td>
<td>5,061</td>
<td>7,389</td>
<td>5,314</td>
<td>11,281</td>
<td>6,456</td>
</tr>
<tr>
<td>Kenyatta</td>
<td>5,943</td>
<td>4,010</td>
<td>6,831</td>
<td>4,984</td>
<td>10,737</td>
<td>4,998</td>
<td>10,753</td>
<td>5,023</td>
<td>11,252</td>
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<tr>
<td>Full time</td>
<td>4,510</td>
<td>3,019</td>
<td>5,384</td>
<td>3,983</td>
<td>4,972</td>
<td>3,329</td>
<td>5,221</td>
<td>3,495</td>
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<td>Part time</td>
<td>1,433</td>
<td>991</td>
<td>1,447</td>
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<td>1,669</td>
<td>5,532</td>
<td>1,528</td>
<td>6,939</td>
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<td>Moi</td>
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<td>3,766</td>
<td>5,469</td>
<td>3,869</td>
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<td>4,304</td>
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<tr>
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<td>Egerton</td>
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<td>Full time</td>
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<td>6,307</td>
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<td>6,207</td>
<td>2,196</td>
<td>5,540</td>
<td>1,960</td>
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<tr>
<td>Part time</td>
<td>648</td>
<td>229</td>
<td>655</td>
<td>232</td>
<td>668</td>
<td>236</td>
<td>701</td>
<td>248</td>
<td>810</td>
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<td>JKUAT</td>
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<td>1,442</td>
<td>613</td>
<td>1,373</td>
<td>624</td>
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<tr>
<td>Part time</td>
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<td>1,742</td>
<td>791</td>
<td>1,829</td>
<td>831</td>
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<td>Maseno</td>
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<td>394</td>
<td>651</td>
<td>414</td>
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<td>39,637</td>
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<td>PRIVATE UNIVERSITIES</td>
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<tr>
<td>Private: unaccredited</td>
<td>876</td>
<td>472</td>
<td>949</td>
<td>511</td>
<td>748</td>
<td>742</td>
<td>763</td>
<td>757</td>
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<td>907</td>
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<td>Sub-Total</td>
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<td>4,522</td>
<td>4,071</td>
<td>4,600</td>
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<td>4,597</td>
<td>5,453</td>
</tr>
<tr>
<td>Total</td>
<td>37,414</td>
<td>21,781</td>
<td>43,708</td>
<td>27,641</td>
<td>51,099</td>
<td>29,862</td>
<td>51,500</td>
<td>30,592</td>
<td>57,991</td>
<td>33,550</td>
</tr>
</tbody>
</table>

Source: Ministry of Education
Two of the national polytechnics have been elevated to degree awarding institutions from 2007. The Italian Government has helped the upgrading process with staff retraining and upgrading of facilities. It has enabled the institutions to establish linkages with the Milan Polytechnic. The polytechnics account for a total of 37% of technical education enrolments.

Enrolments in Teacher Education
There are 28 primary teacher training colleges in the country, of which 20 are public; there are also three diploma teacher training colleges. Enrolment in 2006 in these teacher training colleges was just under 18 000 in 2006, with females making up 50.5% of enrolment. Teacher training colleges form an important avenue for those who desire to continue with post-secondary education but fail to secure admission in the universities and other technical education institutions. Notably, however, enrolment in these institutions has not risen as steadily as in other higher education institutions. For the five years under consideration, the highest increase in enrolment of 1 064 was recorded in 2003. Subsequently, admissions have increased by less than 300 students, with some years such as 2004 recording a decrease over the previous year’s admissions.

Funding and Expenditure
The university education sub-sector in Kenya can be categorised into three distinct finance structures: publicly-financed, privately-financed and a mix of public–private finance. The financing structure is closely tied to institutional type and ownership. However, there is a systematic move by public institutions to tap private funds, while private institutions also endeavour to access public funds. In general, public institutions have more latitude in accessing private funds than do private institutions in appropriating public funds. Purely public funding for higher education is exemplified by the yearly government allocations to public universities. Traditionally, public universities have received generous funding from the government; these funds have constituted the major sources of income for these institutions.

Government Expenditure on Education
Education takes the bulk of the resources provided for the social sector (education, health and home affairs), accounting for up to 73% of the total social sector budget. As a proportion of total government budget, it is still significant at about 27% and equivalent to 6.4% of GDP.
Expenditure Analysis by Type

For the purpose of this chapter, analysis is restricted to a five-year period within the financial years 2002/2003 and 2006/2007. The education budget has been rising steadily over this period. It rose by 14% from KES 63 billion in 2002/2003 to KES 72 billion in 2003/2004. Between 2003/2004 and 2004/2005 the recurrent expenditure allocations rose from KES 72 billion to KES 80 billion representing a 11% increase. Allocations have continued to rise to peak at KES 99.8 billion by 2006/2007. In 2002/2003, education took up 29.6% of the total budget but this had fallen to 23.7% by 2006/2007.

Recurrent expenditure allocations have been rising steadily, increasing from KES 61 billion during 2002/2003 to KES 68 billion in 2003/2004, and to KES 86 billion in 2005/2006. Recurrent expenditures are substantially high, in all the allocations for the five-year period, comprising over 80% of the total MoE budget. On the other hand, development expenditure allocations have remained below the KES 10 billion mark.

Higher Education Spending

Over time, funding for higher education has been dictated by prevailing economic conditions and national commitments to meeting specific international targets at various levels of education. Invariably, external factors such as the position taken by multi-lateral agencies, notably the World Bank and the International Monetary Fund (IMF), have also had a major impact on higher education financing policy. These include capping enrolment levels, which itself affects the level of institutional funding. Traditionally, funding for university education had been based on the budget prepared by the universities; in 1995 this practice changed with the adoption of the unit cost formula.

Funding for higher education has increased marginally during the financial years under consideration. In 2002/2003, higher education expenditure took up 11.5% of the total MoE expenditure, rising to 13.8% in 2003/2004 and 16.4% in 2005/2006. This significant rise in the higher education expenditure is attributed to the increase in lecturer salaries and house allowances. The financial year 2006/2007 saw a substantial decline in higher education allocations in both volume and proportion. This was the result of a deliberate shift in policy to place greater focus on lower levels of education and new items such as quality assurance across the system.

Higher education spending as a proportion of GDP for the five years has averaged 0.88% while as a proportion of total education spending, it has averaged 13.74%. This latter figure is below the international and sub-Saharan African average of between 15 and 20%. The highest allocation occurred in 2004/2005.
when the respective proportions were 1.06% and 16.1% while the lowest was 2002/2003 (11.7%), increasing gradually to peak at 16.10% during 2005/2006 before declining to 14.40% during 2006/2007.

**Comparative MoE Budget Allocations by Levels of Education**

Basic education remains the priority area of expenditure for the government, averaging 53% for the four years from 2002/2003 to 2005/2006, compared to 23% for secondary education and 12% for higher education. Given respective enrolments, roughly for every shilling the government spends on university education, it spends two shillings on secondary education and 4.50 cents on primary education. The government, however, spends substantially less at early childhood education, special education and technical education which recorded means of 0.13%, 0.23% and 1.78% respectively. Teacher education is also low at 0.43% for the four years. The low allocations to technical education result, in part, from relatively low student presence in these institutions which also results from low institutional capacities and the improved access to university education.

Spending on salaries at all levels of education averages 86%, though universities have the lowest proportion. State allocation to public universities comprises 80% of individual institution’s wage bill – the universities are in turn required to raise 20% of their wage bills from their internal revenues.

Any efforts to make university education affordable to the majority of the poor households should therefore begin with a shift in allocations from recurrent expenditure on salaries to development expenditure in public universities in order expand capacity. Tangible efforts in this direction have only been seen in the freeze on new primary and secondary teacher employment. Although this measure prevents further rise in the ministry’s wage bill, it does not rationalise the already high wage bill within the ministry. But these efforts have more or less been eroded with the huge increases in teacher salaries to be effected from 1 July 2007. It is estimated that the MoE will require an additional KES 9.4 billion to meet the new salaries. University lecturers are also to benefit from a 14% salary raise. The MoE’s overall budget and, specifically, its recurrent budgets, are set to rise significantly.

**Patterns of State Funding of Public Universities**

State funding of universities is usually presented as a wholesome allocation that is worked out as a function of the total student population. From the assumed unit cost of KES 120 000, funding to individual institutions is arrived at by multiplying enrolment by KES 70 000. The balance of KES 50 000 is expected to be met by the student, either through a publicly funded loan and bursary
scheme or other private sources. On the basis of the above grant computations, a university with 10,000 students would get KES 700 million. However, actual allocations are hardly 100% of these estimates (in most instances less). The government grant is usually disbursed as a lump-sum allocation with no itemised budgetary specifications on expenditures; it is the individual institution that in turn decides on its allocations by cost item.

State funding constitutes the bulk of universities’ income, representing anything between 50 and 90% of total institutional revenues. While the total revenues of smaller public universities are made up almost entirely of grant allocations from government, for bigger public universities (with higher student numbers) capitation grants constitute lower proportions of their total revenue. This observation arises in part from the fact that while the bigger public universities (e.g. UoN and KU) have capacities to accommodate more self-sponsored students, the smaller institutions (e.g. Maseno and MMUST) face spatial, locational and structural constraints in attracting significant numbers of self-sponsored students to raise substantial private revenues. Other factors that diminish the grant capitation as a proportion of total revenue include donor funding to the institutions. Income from Module II programmes constitutes an average of 15%, though the actual proportions vary significantly between institutions. The UoN has the highest proportion of its income being derived from the MII programmes at an average of 40%, while MMUST has the lowest at 7.7%.

The disproportionately low figures for Module II earnings on the official records of some universities could also be the result of deliberate under-declarations of earnings in anticipation of higher allocations from the government. This deduction draws from the fact that administrators of various institutions can ‘lobby’ for better state allocations based on their institutions’ balance sheet ‘deficit’ levels and proximity to state power.

**Financing Private Universities**

There has been a phenomenal growth in the number of private universities, from just three in 1980 to 18 in 2007. This contrasts with only seven public universities in over 40 years. While public universities get direct funding from the state, private universities depend on endowments, tuition fees and direct funding from founders and sponsors. While public universities are highly subsidised by the state, private universities have to recover most of their costs from instruction and other services such as hostel accommodation. As expected, this has made these universities notably expensive compared to the public institutions. The only form of public funding for these universities comes in the form of student loans. However, this is notably small compared to the amounts received by public
universities. Lack of public funding for private universities partly stems from the legal definition of public and private universities. According to the law, ‘a “private university” means a university established with funds other than public funds’, while ‘a “public university” means a university maintained or assisted out of public funds’ (Kenya 1985: 90).

**Cost of Private University Education**

In comparison to public universities, private universities charge relatively high fees. A study by Wesonga *et al.* (2003) noted that the cost of university education per student per year (tuition only) for the chartered institutions and those with letters of interim authority ranged from KES 117 760 (US$ 1 570) to KES 171 540 (US$ 2 287) per term/quarter/semester. However, they note that tuition charges levied by private universities reflect the prevailing recurrent costs incurred. If development expenses are factored in, the overall unit cost would be much higher.

Private university students pay tuition that is on average 11 times higher than that of students in governmentally supported programmes in public universities. The high fee levels are not due to any special courses offered, but due to the profit motive of these institutions, including the religious institutions, and also the fact that the public university education is heavily subsidised by the state.

An important question is whether the high fees in private universities are inhibiting access and equity. Moreover, access to higher education is already inequitable because the rich have a higher representation in secondary level education. In Kenya, the introduction of the Module II programmes in public universities has effectively introduced an element of cross-subsidisation with the income from these programmes being used to improve facilities that are shared by both the regular and Module II programmes. The private institutions therefore charge fees that not only reflect the actual cost of offering university education but they are also meant to generate surplus funds.

While the public university sector seems unable to enrol more students because of limited capacity (an argument which does not hold considering that the institutions limit admission in the regular programme but ‘open’ the self-sponsored programmes, making one wonder where the ‘extra’ capacity comes from), private universities are closed to many who aspire to higher education because of their inability to pay the higher fees. This means that the capacity in private universities is underutilised, much as maintaining low enrolment is in line with increasing teacher–student interaction, one of the methods presumed to ‘assure’ quality. It is also true that most private universities are driven by a profit motive, meaning that they have to strike a balance between maintaining
a realistic number of students while attracting more funds through increasing enrolment. The extent to which the universities have succeeded in doing this has not been investigated so far and remains largely unknown.

*Private Household Expenditure*

University education does not exist in a vacuum, and the level of private household expenditure at this level closely relates to the broader financing policy of the government (that influences decisions on how much to spend on each level, short- and long-term national human resource needs, the size of the private sector and poverty levels).

Further analysis on household expenditure at both public and private higher education institutions reveals the differences. The cost to parents for public institutions varies between KES 62 250 and KES 195 250 and an average KES 276 558 for private institutions.

*Unit Costs*

The most realistic method for funding institutions of higher education is to base tuition fees and other items on the real cost of providing those services. Funding based on any other model introduces distortions which impact negatively on equity and quality of education. This argument forms the rationale for a unit cost-based system in financing.

*Unit Costs in University Education in Kenya*

Public university financing in Kenya has been based on the unit cost system. Currently, the government uses an assumed unit cost of KES 120 000 per year. Each university gets funds depending on enrolment levels. This funding formula is unreasonable for a number of reasons. First, it is generally low and, secondly, it assumes that the cost of producing a philosophy graduate is the same as that of producing a medical doctor or an engineer. The system thus introduces distortions in the financing of university education. Third, the costs were computed in 1995 and do not reflect the real current situation. It is clear that policy-makers need to rethink the funding formula to make it more realistic. Fourth, under the unit cost system, government’s preoccupation is funding universities in terms of the number of students only and not in terms of university needs for infrastructure development. This explains why the volume of funding for capital development has gone down drastically. Universities no longer submit budgets based on planned projects but merely on projected enrolment.
Even though the unit cost of KES 120 000 is supposed to be the basis of funding universities in Kenya, an analysis of state allocations to universities over the last several years reveals that the government has not really adhered to this principle. Actual funding is mostly higher than the supposed unit cost. For instance, UoN was funded at the rate of KES 145 986 per student for 2004/2005, while Maseno’s funding was equivalent to KES 114 024 per student for the same financial period. According to the unit cost formula, some universities such as JKUAT would appear to be over-funded by more than 100%. The UoN realised that the basis of government funding is inadequate and does not reflect the reality. The university commission a committee to study its programmes and come up with a new cost structure for its programmes that reflect staff, student and infrastructure costs. The report has since been shared with the government and the CHE to form the basis of further discussions on the review of current unit costs. Using an objective formula, the unit costs that the committee worked out are notably higher than what had been worked out by a committee in 2003. For example, the unit costs for an Economics degree was KES 270 000; for a Humanities degree KES 180 000, and for Medicine KES 360 000.

A fact worth noting is that the unit costs used as the basis for funding university education (including students) were computed in 1995. This is notwithstanding the increase in the maximum possible loan allocation by KES 10 000 from KES 42 000 to KES 52 000 in 2003. This in itself raises fundamental questions since funding per student is pegged at KES 120 000 with the government direct contribution still standing at KES 70 000. If the maximum possible loan of KES 55 000 and KES 8 000 direct student contribution (or bursary) are added, the figure stands at KES 133 000 and not the conventionally known KES 120 000.

The new clustering of programmes that introduces a new cluster of medical and related programmes seems more realistic in so far as it tries to apportion the cost components. It should be noted that the CHE also undertook a review of unit costs for public universities in 2004. According to the CHE, the differentiated unit cost would accomplish three objectives, namely: (i) ensure fairness in payment of tuition for the different degree programmes; (ii) enable universities to get adequate funds to carry out their mission of teaching and research; and (iii) enable the government to sponsor students in accordance with the development needs of the country. In implementing a differentiated unit cost per degree cluster, priority is given to scholarship and critical skills. While the regular programmes continue to be highly subsidised, the self-sponsored programmes more or less charge full costs close to these unit costs. However, the CHE recommendations are yet to see light of day, three years on. This is
characteristic of the lack of necessary political will to implement proposed higher education policies, the same fate that met earlier attempts to revise the unit costs.

*Unit Expenditures*

According to the most recent analysis of the MoE (Kenya 2007), the primary:secondary:university financing ratio is 1:3:24 (compared to the rest of Africa [1:3:11], Latin America [1:2:4], East Asia [1:2:8] and the OECD countries [1:1.4:2]). The current ratios would seem to be a significant improvement from the 1990s, when the ratios were 1:4:42-46 (Abagi 1997; Weidman 2000). The change in policy with the implementation of free primary education, increases in secondary school bursary programme and the reduced state funding for public universities (e.g. the requirement that they meet 20% of salaries from internal sources) could explain these changes.

*State Funding by Institution*

Officially, three factors determine the level of institutional funding: enrolment; the ‘strain’ levels of available facilities that may necessitate expansion; the existence of stalled capital projects; and the expected levels of privately earned revenues in an institution. Unofficially, however, the level of funding is also influenced by how well the individual university vice-chancellors are able to negotiate with Treasury. Table 3.4 summarises institutional funding by category for the last five years.

It is clear from Table 3.4 that the University of Nairobi (UoN) is the largest consumer of the recurrent budgetary allocations to public universities. However, the university has not benefited from development fund allocations primarily because it has been generating substantial amounts of revenue from its parallel degree programmes with which it has been able to fund most of its capital project costs that include completion of stalled teaching and learning facilities.

Kenyatta University has not benefited from state allocations for development expenditure and this is because the institution has not had serious capacity constraints at accommodating its students in the teaching, learning and residential facilities.

Egerton University receives disproportionately high development expenditure funds, which are second only to those seen at Jomo Kenyatta University of Agriculture and Technology (JKUAT). These high allocations to Egerton are targeted at the completion of its many stalled capital projects that include teaching and learning facilities, and residential hostels.

Moi University’s low development expenditure allocations draws from the
fact that it is the only institution of higher learning to have started off as a fully fledged university, it has better developed infrastructure with very low levels of capacity strains.

JKUAT has had significantly high development expenditure allocations, particularly because it is a technology-based university with high-cost facilities.

Maseno University has had modest development budget allocations mainly because as a relatively young university it has serious facility deficiencies for student accommodation and other teaching and learning facilities.

### Table 3.4: Institutional Funding 2002/2003–2006/2007 (KES million)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Nairobi</td>
<td>Recurrent</td>
<td>1,653.00</td>
<td>1,970.46</td>
<td>2,675.86</td>
<td>3,648.86</td>
<td>3,269.86</td>
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<td></td>
<td>Development</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>27.00</td>
</tr>
<tr>
<td>Kenyatta</td>
<td>Recurrent</td>
<td>863.30</td>
<td>876.60</td>
<td>1,266.23</td>
<td>1,266.23</td>
<td>1,558.11</td>
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<tr>
<td></td>
<td>Development</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>30.00</td>
</tr>
<tr>
<td>Egerton</td>
<td>Recurrent</td>
<td>1,050.71</td>
<td>1,099.70</td>
<td>1,476.54</td>
<td>1,633.90</td>
<td>1,750.14</td>
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<tr>
<td></td>
<td>Development</td>
<td>232.40</td>
<td>500.00</td>
<td>190.41</td>
<td>90.00</td>
<td>90.00</td>
</tr>
<tr>
<td>Moi</td>
<td>Recurrent</td>
<td>1,089.11</td>
<td>1,105.90</td>
<td>1,576.60</td>
<td>1,600.68</td>
<td>1,851.58</td>
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<tr>
<td></td>
<td>Development</td>
<td>26.50</td>
<td>3.00</td>
<td>190.41</td>
<td>20.00</td>
<td>40.00</td>
</tr>
<tr>
<td>JGUAT</td>
<td>Recurrent</td>
<td>691.50</td>
<td>691.50</td>
<td>734.17</td>
<td>892.22</td>
<td>914.17</td>
</tr>
<tr>
<td></td>
<td>Development</td>
<td>555.08</td>
<td>628.13</td>
<td>60.00</td>
<td>0</td>
<td>70.00</td>
</tr>
<tr>
<td>Maseno</td>
<td>Recurrent</td>
<td>390.60</td>
<td>478.00</td>
<td>655.00</td>
<td>905.00</td>
<td>763.00</td>
</tr>
<tr>
<td></td>
<td>Development</td>
<td>7.00</td>
<td>45.20</td>
<td>65.00</td>
<td>39.98</td>
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</tr>
</tbody>
</table>

All the universities have registered increases in recurrent expenditure for all years, with the exception of UoN and Maseno. UoN had a reduced funding for in 2006/2007 because of the huge income it derives from the self-sponsored programmes. However, Maseno records a very sharp decline in recurrent allocation, though its income from the self-sponsored programmes is the lowest in the public universities.

### Student Financing Schemes

Student financing instruments include scholarships, student loans (by far the most popular), educational vouchers, work study programmes and a system of waivers (the most rare). In Kenya, the student loan programme is the most
widespread, though largely limited to public university students. In a few cases, private universities have work study programmes but these are very limited in scope. A number of public universities started work study programmes but due to abuse, lack of funds and limited impact, they were largely abandoned.

Within public universities, there are two main schemes through which students finance their education depending on the student’s mode of entry. The regular subsidised students get governmental support while self-sponsored students pay from private (student’s or family’s) sources. Taking into account state and private sector participation in higher education finance, the following emerge as the most distinct modes of higher education financing.

Full Government-Sponsored Scholarships
These are opportunities to pursue an all costs paid higher education course with funds drawn from the government departments or foreign donations for study opportunities within Kenya and abroad administered by the MoE. Such opportunities are rare and are shrouded in non-transparent administrative processes. Some of the scholarships are funded externally, or through bi-lateral and multi-lateral agreements. Examples include the Indo–Kenya scholarship programme, Sino–Kenya scholarships and Commonwealth scholarships.

Partial Government Funding
Partial government funding is an option where the government pays a given proportion of the assumed cost of the programme for an academic year and the student pays for the remaining portion directly from private sources or through a study loan from the Higher Education Loans Board (HELB) or both. In this mode, there are two types of beneficiaries.

- Regularly admitted students in public universities. For this stream, the assumed unit cost of the programmes is KES 120 000, the government through the exchequer provides an allocation to the hosting university which translates to about KES 70 000 per student. The student in turn sources about KES 50 000 from government-sponsored loans administered by HELB that gives up to a maximum of KES 55 000 plus a bursary of KES 8 000 (non-refundable) for a total of KES 63 000 to the student, the deviation between the total KES 63 000 (KES 55 000 + KES 8 000 Bursary) and KES 50 000 (of KES 13 000) is attributable to inflationary correction factor for the value of KES 50 000 that has been lost to inflation since these assumed costs were set in 1991.
- Privately sponsored students in private universities. Responding to the
pressure from the popular social demand for higher education, HELB opened the borrowing window to some of the needy students enrolled in private universities. Such allocations are sent directly to the host universities to cover tuition costs to the student.

**Full Private Sponsorship**
In this option, the costs of higher education are met fully from the students’ private sources. This mode applies to two categories of students, i.e. privately sponsored students in public universities and students in private universities.

**Private Sector-Supported Funding**
In this arrangement, which is not common, students enrolled in higher education programmes either benefit from private sector bursaries or scholarships (e.g. the Rattansi Educational Trust bursaries to university students).

**HELB-Backed Second Loan Window**
This window is run by the board in collaboration with a commercial bank, the National Bank of Kenya (NBK), which allows students who can demonstrate ability to service their loans as they study to access funds for fees at a market interest rate of 15% per annum compared to the subsidised loans the HELB advances directly to the other students.

**Extent of Grant and Loan Financing**
While grant financing of university education in Kenya is channelled directly to the public universities, loan financing is administered in part by the university hosting the beneficiary where KES 16 000 out of the loan advanced to the applicant by HELB is disbursed directly to his/her institution. Depending on the total amount of loan awarded to an applicant, the remaining difference after the remission of KES 16 000 to the university is disbursed in two parts of equal halves at the start of each semester in an academic year.

Grant financing of university education in Kenya is restricted largely to public universities. While for some of the public universities (universities with incomplete or crucial capital projects), the grant would include finances for both recurrent and development costs, for the others (universities without on-going capital projects), allocations are restricted to the recurrent budget costs only. In most cases, the amount of recurrent budget finances allocated is meant to cover only the staff wage bills for the institutions.
Loan Financing of Higher Education

Loan financing of university education is government supported, where the state through the HELB provides regular students with means tested loans. The latest loan allocation stratifications by need level (for the 2006/2007 academic year) indicates that while those ranked most needy receive KES 55 000 in addition to a bursary of KES 8 000, the least needy applicants receive KES 35 000.


Categories of HELB Loan Beneficiaries within Public universities

There are two categories of HELB loan beneficiaries in public universities. The first comprises undergraduate students who are admitted under the government-sponsored module. The second category comprises postgraduate students who were past beneficiaries at undergraduate level but who have made efforts to repay all or part of their loans. From its inception in 1995, HELB’s primary focus has been on undergraduate public university students. With improved recovery, HELB expanded its loan support coverage to include postgraduate students and privately sponsored but needy students in private universities.

In general, there has been a steady rise in the total amount of loans disbursed to both undergraduate and postgraduate students. In particular, the amount of loans disbursed to undergraduate students accounts for the largest proportion of the HELB’s loan portfolio.

a) Undergraduate Loans. By the 2002/2003 academic year, total undergraduate loan disbursements had reached the KES 1 billion mark. In 2003/2004, there was a significant increase in total disbursements to KES 1.336 billion representing an increase of 22.2%. Total disbursements rose marginally to KES 1.458 billion in 2004/2005 followed by an increase of KES 224 million to KES 1.682 billion in 2005/2006.

b) Postgraduate HELB Loan Beneficiaries. The postgraduate loan beneficiary population of 389 in the 2002/2003 academic year was relatively low before rising significantly to 643 during the 2003/2004 academic year. However during the 2004/2005 academic year, the number of postgraduate beneficiaries declined to 431 before increasing again to 495 in 2005/2006 and further to 591 during the 2006/2007 academic year.
Total postgraduate loans disbursed during the 2002/2003 academic year amounted to KES 37 million increasing to around KES 60 million by 2006/2007. The increase can be attributed to both a rise in the number of students and an improvement in the HELB’s past loan recovery rates boosting its funds.

*Trends in Loan allocation by Strata*

In relation to the number of applicants and those actually awarded loans, HELB loan coverage is appreciably high. Between 98% and 99% of total applicants in every institution receive the loan. A closer look at the allocation proportions over the five-year period under study presents a consistent trend in the proportions of loan allocation by strata. This consistency in the proportion of loan allocation by strata implies two possibilities: that either student distribution in all the public universities by socio-economic characteristics is nearly uniform or that the HELB loan allocation process is possibly not means tested but rather based on a pre-set normal distribution curve formula.

*Loan Recovery Trends*

Recovery rates were initially low but have increased significantly during the past decade. From around 4% in the late 1990s the recovery rate on loans increased to 17.6% by 2002/2003. In KES terms, recovery amounts have risen consistently to KES 1.03 billion in 2006/2007. HELB has been recovering on average KES 88.3 million more per year. At this rate, it should record double its current disbursements in ten years from recovery alone. In other words, at an average loan size of KES 43,556 in 2006/2007, HELB should be able to give loans to finance the education of an additional 20,273 students per year in the next decade. These are new students who benefit from increased recoveries.

The current good record and future prospects nevertheless mask serious challenges from sectors that have very low repayment rates. Trends in loan repayment point to higher repayments by sectors which are easy to track, such as the civil service, teaching and other quasi-public bodies/parastatals.

Cumulatively, teachers, government departments (civil service) and parastatals accounted for 76.75% of all those who were repaying their loans in 2002. Relatively large sectors such as manufacturing and financial institutions contributed less than 1%. Though these are not the biggest employers when compared to the public sector, the potential repayment from these sectors has not been realised. Wages in these sector are much higher than in the public sector on average and beneficiaries would not feel the impact of repayment as much as their counterparts in the public service. The low repayment from these and other sectors, coupled with the high salaries, justify reforming the Kenyan loan...
programme from being a purely conventional/mortgage scheme to a more hybrid one.\footnote{We do not cite a specific authority here. The practice of private sector generally paying better salaries than the public sector in most African countries is a truism that barely needs defending. The exceptions where public salaries are higher than or comparable to the private are few in the continent (e.g., South Africa). In Kenya, PriceWaterhouseCoopers carries out annual surveys that reveal wide disparities between the public and private sector wages.} This will enable the HELB to recover loans in reasonable time taking care of value erosion, especially given the low interest rate of 4%.

**Equity in Public Expenditure**

Public spending on education in Kenya is highly inequitable. This inequity is apparent on several fronts. First, the government is spending significantly higher proportion of its resources on relatively few students. It was shown earlier on that for every university student, the government could actually educate 22 primary school pupils and four secondary school students.

Second, the proportion of students in higher education is highly skewed in favour of the rich. According to the Welfare Monitoring Survey (1997) and Deolaikar (1999) more than two-thirds of students in university education come from the richest and second richest quintile, while the very poor have a representation of only 7.5%. The implication is that at the university level, the public is subsidising the education of the rich.

Third, there is a high discrepancy between institutions both in the absolute amounts of funding and relative proportions. Some universities that have capital intensive programmes are funded at the same levels as those with purely Arts and Humanities programmes. The rationale for funding universities therefore introduces serious distortions.

Fourth, there is serious discrepancy between development and recurrent expenditure categories. This inevitably means that little is spent on areas that can improve the quality of education and enhance the capacity of institutions to increase enrolment.

Fifth, the student loan programme is inequitably distributed, with 80% of the loans being accessed by public university students to the detriment of the private self-sponsored, university students.

The general assumption is that parental contribution is limited to bridging the gap of KES 8,000 for those who fail to get a bursary of an equivalent amount. This, however, is a fallacy. Parental contribution in supplementing living expenses is unknown, but is assumed to vary substantially, given the different socio-economic status of students. Virtually all students have to supplement the loans given by HELB, more so for those who do not get full loan allocations. Even
for those who do get full allocations, the need to supplement remains. Currently, the living component of the undergraduate loan is distributed between tuition, boarding, stationery and food.

**Incidence of Expenditure by Household Income Category**

Levels of household financing of higher education depend on a number of factors. These include: (i) whether the student is attending a public university through a governmentally sponsored position or is purely self-sponsored; and (ii) if the student is government sponsored, the amount of fees paid also depends on whether the student receives a HELB loan. As has been seen in the previous sections, purely self-sponsored students pay full market costs of the course they are pursuing which differs by programme.

The HELB loan allocation strata for the 2006/2007 academic year (Table 3.5) can be used as a fairly accurate proxy indicator for determining the level of direct private financing of university education from household sources by socio-economic status level.

**Table 3.5: Estimated Household Expenditure by Income Category**

<table>
<thead>
<tr>
<th>STUDENT FAMILY SOCIO-ECONOMIC STATUS CLASSIFICATION</th>
<th>LOAN ALLOCATION</th>
<th>EXPECTED BURSARY ALLOCATION</th>
<th>EXPECTED TOP-UP FINANCES FROM PRIVATE SOURCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very needy to extremely needy</td>
<td>55 000</td>
<td>8 000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>50 000</td>
<td>7 000</td>
<td>6 000–13 000</td>
</tr>
<tr>
<td>Moderately needy</td>
<td>45 000</td>
<td>6 000</td>
<td>12 000–17 000</td>
</tr>
<tr>
<td></td>
<td>40 000</td>
<td>5 000</td>
<td>18 000–23 000</td>
</tr>
<tr>
<td>Less needy/non-needy</td>
<td>35 000</td>
<td>4 000</td>
<td>24 000–30 000</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>63 000+</td>
</tr>
</tbody>
</table>

Source: Johnstone & Marcucci 2007

Using the maximum amount of HELB allocations of KES 63 000 (full loan of KES 55 000 plus full bursary of KES 8 000) as the assumed amount that a student needs to secure from private sources, Table 3.5 shows the range of financing that individual students source privately over and above the loans awarded to them. While those students receiving full loans would be able to pay for tuition and other charges without falling back on family sources (at least for substantial sums), those students who do not receive any amounts have to source KES 63 000 or more from private sources.
A New Model for Financing Higher Education

Implications of Current Financing Patterns in Designing a Model

The transformation of the higher education financing framework in Kenya has been remarkable. From being exclusively state-funded, it exhibits an interesting mix of public–private financing. However, opportunities for harnessing private contributions have not been exploited fully.

Public funding itself raises important questions about the sufficiency of funding, the level of subsidy and its equity implications, the rationale for funding institutions and especially the difficulty in implementing a unit cost-based funding system.

Higher education certainly constitutes a significant proportion of overall state expenditure on education, though at 14% of overall state funding, it is lower than the international and sub-Saharan African average of 15–20%. There may be a real fear that as much as it is desirable, the adoption of real unit costs as a basis for funding institutions would increase the share of public resources devoted to education, as the state would have to fund institutions based on the new real unit costs. That the government is currently funding universities on bases that are clearly above the assumed unit cost demonstrates that this is possible. However, there is no doubt that such a move will drastically alter the balance of allocations to different levels of education. At a time when the government has derived much political capital from the free primary education programme, its focus now is consolidating the gains at primary level and the possibility of free (or at best affordable) secondary education.

With more than two-thirds of students in the universities coming from the richest and second richest income groups, university financing is regressive. With the student loan in place as it is currently, means testing and need analysis does not make much sense. Nevertheless, the loan programme is to be commended for significantly increasing recoveries and disbursing funds to more students, including those in the private universities. This is despite the fact that the loans do not cover a significant portion of their tuition fees, unlike in the public universities. The government has been reluctant to increase funding for the loans programme as part of the broader policy of increasing funding for basic education while leaving higher education to increasingly tap alternative sources of funding.

One option for higher education institutions, especially universities, is to build on the success of the self-sponsored programmes that have proved crucial in helping universities bridge the gap caused by reduced state allocations. There are, however, notable differences among universities, which raises questions on the future of those universities that are not able to raise revenue from these programmes.
From the foregoing, there is reason to be concerned about higher education financing, and a new framework must be put in place to correct the current inadequacies and inconsistencies, and address the new realities in higher education financing. Some of the challenges facing the sub-sector which necessitate a rethinking of the financing framework include dwindling state allocations, increasing enrolments, unrealistic unit costs, skewed representation of the social and economic groups in higher education, an increasing private higher education sub-sector, an expansion of private entry programmes in public universities, increasing pressure from the state for universities to meet a bigger proportion of their own budgets and a heavy household burden in financing secondary and technical education.

A fundamental consideration that should guide the formulation of a new financing framework is the extent to which higher education is a public or a private good. Economists, educators and sociologists are agreed that education is neither an exclusively private nor public good. Its provision by both the government and the private providers therefore becomes a necessity. However, there are difficult questions on the extent to which both the public and private sectors can continue financing higher education in Africa. For most governments whose resources are already constrained, overwhelming evidence that basic education has higher social rates of return makes focusing on that level morally and economically justifiable. The other question is as much one of economics as it is a moral one: can the state leave the provision of higher education entirely to the private sector? Leaving the provision of education to purely market forces is likely to result into uneven provision and access by different socio-economic groups. State intervention is necessary to guard collective social interest and ensure a balance, particularly for the under-privileged who may not be able to afford the market cost of private education.

In the current Kenyan system, public intervention either through direct provision or finance is also made necessary by the dearth of student aid programmes in most private higher education institutions and the resultant inability of these institutions to promote social mobility through provision of opportunity to bright and underprivileged students (Altbach 1999). The opening up of public institutions to private students is increasingly making higher education a commodity for the rich. The government should put in place mechanisms for cushioning the vulnerable by increasing its student aid programmes. This should mostly target an increased capitation of HELB and revising the means testing mechanism to ensure that only those who are financially needy are supported by public funds.

Institutions should also strive to tap external funds, especially for research, from international organisations. This could take the form of supporting specific projects
or postgraduate studies in fields that are relevant to the organisations. Locally, linkage with the industry and the private sector is also an avenue that should be pursued. The institutions will have to convince the private sector that there are benefits in the partnerships being fostered, including involving the sector in the design and, if possible, implementation of programmes. It might be necessary to make relevant changes in the governance structures of these institutions to include representatives of the industry as opposed to the current set up with top-heavy government representation which brings little innovation in these institutions.

Given the wide disparity in access to higher education by the poor in Kenya, an overriding principle in designing a new model of financing higher education in Kenya should not only aim at increasing the participation of the private sector, but also cushion the poor against market policies that will mostly favour students from the rich backgrounds. The kind of financing regime envisaged in this scenario is one that will put means testing and need analysis at the core of its basis on who to fund for what programme and in which institution. This is the challenge facing most African governments, Kenya included.

**Parameters for Designing a Financing Model**

The necessity of designing a new model is premised on the need to improve the current system to ensure better, more efficient and effective provision of higher education. It should adequately address increasing access, assuring quality, maintaining relevance to the economy and facilitating the realisation of national human resource needs, among other major objectives. These concerns are not limited to Kenya, and are applicable to the rest of the continent. Kenya must design a model that is in harmony with its broader development objectives. In this regard, a new financing framework should facilitate the realisation of the main pillars on which the current policy framework is hinged. These are access, quality, retention and equity.

The preceding sections of this chapter have highlighted the theoretical issues in higher education financing as well as the reality of the Kenyan situation. These should form the broad basis for determining the kind of financing model that the country adopts. In summary, there are several considerations that must guide the development of a new model for financing higher education. These are briefly discussed below.

**Mechanisms for Funding Institutions**

Public funds can be channelled directly to institutions or indirectly through students. The current system is a mix of both: universities get direct government capitation but also access publicly funded loans from the HELB through students.
The main problem with the system is that it is not incentive driven. Institutions are sure to receive funding from the government based on enrolment levels and given the arbitrary unit cost of KES 120,000. The tuition component of student loans is also sent directly to the university where a student is enrolled, while students pay other direct charges such as boarding directly to the university.

Two possible changes could be made to the current system. The first is to route funds through a body such as the Commission for Higher Education, a research agency such as the Kenya National Academy for Sciences, or the Higher Education Loans Board. A second is to directly fund students, with institutions receiving no money from the government at all. Institutions will then have to compete for students. The advantage of this approach is that institutions have to be responsive to students and also price their courses appropriately. Students would also be at liberty to enrol for non-degree programmes in accredited colleges.

**Type of Institutions to Fund**
The government has traditionally funded universities more generously compared to non-university higher education institutions. This has given universities an undue advantage over their non-university competitors in the higher education sector. But even among universities, only public universities have benefited from public resources. In a new financing framework, the government has to decide whether public funds should continue to be appropriated by public institutions only, or whether both public and private institutions should benefit. Another decision is whether those that benefit should include all higher education institutions, or only universities or any higher education institution accredited by the CHE, local institutions or both local and international institutions (beyond the Kenyan border).

The proposals here recognise that one of the long-term goals of any financing instrument and the accompanying design should be to invigorate the financial health of the institutions and eventually enhance standards through improved provision of teaching and learning resources including libraries, laboratories, expanded space and internships and attachments for students.

**Equity Considerations**
Equity considerations in funding higher education must be given priority. From the data presented in this report and elsewhere (e.g. Otieno 2005), other equity issues that must be addressed in a new funding regime are:

- Uniform funding levels to students in an institution such as a university irrespective of discipline, gender or socio-economic status;
• Weighting funding by study area, i.e. some disciplines receiving higher value vouchers/more funds;
• A financing regime that weights students by socio-economic background, with poor students receiving higher value vouchers/more funds in relation to the richer students; and
• Positive discrimination on the basis of gender, so that women get more funds to facilitate their entry into specific programmes or simply increase their numbers across the board.

The Question of Public Support to Module I versus Module II Students
There have been suggestions that the current funding system is unfair to students in privately sponsored programmes (Module II) in public universities who may not necessarily come from the richer sections of the population. Given the increase in the number of privately sponsored students, however, the government has to decide whether public funds earmarked for the public universities will be limited to students in the Joint Admission Board admitted (Module I) track or both the Module I track and the Module II track.

The Efficiency and Effectiveness Criteria
A model for funding higher education must achieve the twin goals of enhancing institutional efficiency and effectiveness in the delivery of higher education. Higher education institutions have operated on the basis of tradition, with little incentive to reform, or lack of disincentive in not reforming. A new funding framework should induce reforms and embed efficiency in the running of institutions by putting in place a system of financial rewards for good management, responsiveness to the clientele (students), relevance of programmes and linkages with industry. One method for doing this is to discourage the current complacency in public universities where institutions are sure to get public funds irrespective of the nature of their programmes, wastage or frequent closures.

Extent of Grant and Loan Financing
It was pointed out that because of the insufficiency of student loans, most students have to supplement the loans with private resources. For the poor, it is important that the difference between the actual cost of education and state support should not be too wide as to result in their dropping out of higher education. The rich are in most cases able to cover any financial short-falls and do not face any problems. A financing framework must therefore be able to positively discriminate between the different socio-economic groups and the appropriate safety nets that can
effectively cushion the very poor. Full grants or scholarships to poor but bright students are justifiable. Especially for rural women, it may be necessary to put in place a mix of partial scholarships and generous loans.

The Right of Choice: Consumer Sovereignty
Studies in Kenya indicate that overall up to 44% of all students in universities consider themselves to be in the wrong programmes in the wrong universities. In some universities, the proportion is as high as 74% (Otieno 2005). The situation is brought about by the admission system that literally allocates students to universities and programmes if they do not meet the subject cluster requirements but have met minimum admission criteria set by the JAB. These students finance their studies through loans which they have to repay. By this very principle of having to repay their loans, a financing model should be flexible enough to allow students to choose where to invest their money. It should empower students to demand and pay for the right programmes in institutions of their choice.

The Interplay of State Intervention and Market Forces
The state has played a major role in the funding and regulation of higher education in Kenya since independence. One of the outcomes of this domination is unrealistic unit costs in university education. This chapter has argued that this has brought distortions in the pricing of degree programmes, and also resulted in notable inequities. How long the state should continue giving directions on the fee levels in the Module I programmes cannot be predicted. What is not in doubt is the need for a change in state policy so that degree programmes are priced taking into consideration actual costs of providing them (Aduol 2001). It is rightly argued that leaving education provision purely to the market can result in uneven provision and in locking out the poor. Market influence in the provision of social services has its benefits, including efficiency and client responsiveness. There should therefore be a reasonable balance between the degree of state intervention to protect the greater social good, and allowing market forces to influence the provision of education. As argued here, the government’s role should be to decide how many students it can fund on a yearly basis using whatever instrument and then leave the universities to decide fee levels. Those universities that price themselves out of the market or provide programmes that are not in demand will have themselves to blame. Government funding should also be designed in a manner that induces efficiency and effectiveness in the service providers while at the same time empowering students as already emphasised earlier.

Given these considerations, the mode of design proposed for Kenya takes the form presented in Figure 3.1.
The Proposed Financing Model

Considering all the factors enumerated above, the current study proposes a hybrid model that incorporates scholarships, grants and loans (see Figure 3.1). The model takes into account socio-economic status and types of funding, and proposes a range of funding models from a 100% scholarship through grants, grant and loan combinations to full self-financing.

The checked cells in Figure 3.1 indicate eligibility for funding based on the specified criterion. Aspects that do not come out clearly in the model are the types of institutions to fund and which programmes to fund even in the public universities. One may expect that these features would conspicuously stand out in the model, and that one should be able to determine what facility is open to which students in what type of institution. Because there is less agreement on these issues, the model is deliberately vague on this aspect. The proposed model is one that cannot afford to be prescriptive.

The proposed model has three distinct features: (i) it gives prime consideration to the fields of study identified by the government as its priority areas of investment; (ii) it is discriminant; and (iii) following from (ii) above, equity is an important feature.

All students are first placed in expenditure quintiles – developed from a national survey and made available in documents such as the Welfare Monitoring Survey and the Integrated Household Budget Surveys. Female students are further broadly grouped into three socio-economic groups: poor, middle income and rich. The purpose of giving special consideration to women is to enhance their participation in higher education. All in all, students from poorer backgrounds get full scholarships and generous loans. It is clear that the mix of grants and loans end in level four. The remaining three levels see heavier reliance on loans and self-financing. The implications of this are two-fold. First, it limits the number that would access public funds earmarked for the operation of the voucher programme. Secondly, and stemming from the first, it enhances equity by ensuring a redistribution of educational access proportionately with the income level and gender, thus ensuring mobility of the disadvantaged in the society by facilitating their entry into careers that are considered lucrative.

The need for corrective measures cannot be overemphasised. In Kenya, as already severally stated, the richest 20% of the population receive 21% of the total public expenditure on education compared to 17% for the poorest 20%.
### Figure 3.1: Proposed Framework for Financing Higher Education in Kenya

<table>
<thead>
<tr>
<th>Study areas*</th>
<th>I. ALL STUDENTS’ SOCIO-ECONOMIC STATUS BY EXPENDITURE QUINTILES</th>
<th>II. FEMALE STUDENTS BY SOCIO-ECONOMIC STATUS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>POOREST</td>
<td>SECOND</td>
</tr>
<tr>
<td>Facility</td>
<td>Criterion*</td>
<td></td>
</tr>
<tr>
<td>1. Scholarship</td>
<td>= 100%</td>
<td>X</td>
</tr>
<tr>
<td>2. GRANT + loan</td>
<td>80 + (20)</td>
<td>X</td>
</tr>
<tr>
<td>3. Grant + LOAN</td>
<td>40 + (60)</td>
<td>X</td>
</tr>
<tr>
<td>4. Grant + self</td>
<td>50 + (0,y)</td>
<td>X</td>
</tr>
<tr>
<td>5. Self + loan</td>
<td>0 + (50,y)</td>
<td></td>
</tr>
<tr>
<td>6. SELF + loan</td>
<td>0 (y + 40)</td>
<td></td>
</tr>
<tr>
<td>7. SELF ONLY</td>
<td>0 (yy)</td>
<td></td>
</tr>
</tbody>
</table>

**Occupational Clusters:**
- A = Science and Technology
- B = Social Sciences
- C = Arts and Humanities

**Key:**
- **CAPS** Represent heavier financing using respective instruments, while lower case indicates limited funding by type.
  - * The numeral is the loan component of university education costs (for those qualifying after means testing) while ‘y’ is a vector of private outlays. This could be from own savings, commercial bank or Savings and Credit Cooperative Organisation (SACCO) loans or any form of funding from non-public sources.
  - + This represents the broader categories into which study areas/disciplines could be clustered in order of priority. Thus, ‘A’ represents the highest priority area followed by ‘B’ and ‘C’. The classification will depend wholly on the government as to what it considers its priority human resource needs. As indicated earlier, this would need to be done based on projected human resource needs in the short, medium and longer term, itself arising from a rigorous labour market analysis. This might appear to be restricting students to particular disciplines (and thus working against choice, the very goal that vouchers seek to promote). However, choice would still be possible at two levels: going for the same programme in any institution of preference or opting for alternative programme at the polytechnic or some other level, money having been placed in the hands of the students. It is generally assumed that the government’s projections would not be at considerable variance with the expectations of students. The whole system allows for a certain degree of flexibility, assuming that there are some programmes undertaken for ‘consumption’ purposes and not necessarily for future employment.