Funding mechanisms are especially important in shaping higher education outcomes in areas such as quality, efficiency, equity and system responsiveness. Salmi and Hauptman (2006) for instance, identify three goals that countries seek to achieve through the funding of tertiary education:

1. Increasing access to, and equity in tertiary education as measured by:
   - increasing overall participation rates for students of a traditional enrolment age who enter a tertiary education institution in the year following their graduation from secondary school;
   - expanding the number and range of lifelong learning opportunities particularly for older students and other non-traditional groups of students including distance learners;
   - reducing disparities in participation rates between students from low and high family backgrounds as well as other important dimensions of equity such as gender and racial/ethnic group;
   - increasing private sector investment and activity in the provision and support of tertiary education activities.

2. Increasing the external efficiency of tertiary education systems by improving both:
   - the quality of education provided; and
   - the relevance of programmes and of graduates in meeting societal and labour market needs.

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1 Note: This chapter is reproduced largely from Pillay 2008.
3. Improving the internal efficiency and sustainability of tertiary education systems by:
   - reducing or moderating the growth over time of costs per student and improving how resources are allocated, both among institutions and within institutions; and
   - decreasing repetition and raising the rates of degree completion.

This volume has attempted to assess the structure and pattern of higher education financing and their implications for access and equity in a comparative study of nine African countries.

African higher education is characterised by extremely low participation rates. With the exception of Mauritius and South Africa, this is true also for the countries considered in this study. Moreover, three key determinants – gender, socio-economic status and region – act to skew the already low participation rates in favour of males, richer families and urban households.

Access and equity in higher education are fundamentally determined by access to and the quality of secondary education. In most African countries, access to secondary schooling is extremely limited and often of poor quality.

Public spending on higher education as a proportion of the education budget varies substantially amongst countries considered in this study. In the case of Lesotho, Mozambique, Namibia and South Africa, higher education spending is relatively high as a percentage of the education budget.

Some Common Themes

It is evident that higher education financing in the countries considered in this study is often inadequate, and almost everywhere inequitable and inefficient.

Even though participation rates remain low in the context of a growing population, enrolments are growing everywhere in absolute terms, in several cases quite dramatically. In the face of serious financial resource constraints for higher education, education ministries have responded mainly in two ways. First, there has been a clear shift towards some form of cost sharing in the form of tuition fees, for example, in Namibia and the East African countries. In the latter group, this has taken the form of a dual-track system where a fee-paying system co-exists with a free, government-sponsored scheme for some students. Second, governments in virtually all countries have permitted the introduction and subsequent expansion of the private higher education sector.

While the cost-sharing and private sector strategies have enabled governments
to address to some extent the issue of inadequate public sector funding of higher education, it has almost everywhere resulted in greater inequity. In Kenya and Uganda, for instance, cost sharing unlike in Namibia and South Africa where everyone pays tuition fees, is only for those who cannot access government sponsorships. These scholarships invariably go to those students from more affluent households who are able to access the best schools.

Furthermore, private higher education in Africa, unlike in the industrialised world, appears to be where many of the poor seek access. However, in countries such as Mozambique and Tanzania, many of the private higher education institutions are of questionable quality. Moreover, the situation is not helped by the absence of an effective regulatory framework for private higher education in most countries. Furthermore, in most African countries, private higher education institutions, again unlike in the industrialised world, are for-profit institutions.

A further dimension of the private sector expansion is the entry of overseas providers of higher education in several countries. While these providers may help to address capacity gaps in higher education provision, many of the countries in which they are operating lack the necessary regulatory capacity to effectively monitor quality.

In the countries under consideration here, such as for example, Mozambique, Namibia and Tanzania, higher education financing is extremely inefficient. This is due partly to the fact that higher education financing is largely ad hoc and is not based on any attempt to develop a closer link between sectoral planning and budgeting. In some cases budgeting is done on a purely incremental basis and in other others solely on inputs (student numbers).

Inadequacy of funding for higher education is often a consequence of weak departments of higher education within Ministries of Education. In several countries, there is a an inability and/or unwillingness to make the case for more funding of higher education in the face of politically stronger schooling and other departments within the ministry.

There is moreover, a widespread lack of planning and oversight capacity in these departments of higher education.

Inefficiency of higher education expenditure has been exacerbated by the absence in most countries of a systematic funding mechanism such as a funding formula. Most countries rely on incremental budgeting processes (for example, increases linked to inflation) rather than developing a funding formula that would be able to ensure greater predictability in the budgeting process and ‘certainty of revenue’ for higher education institutions. Such predictability would be enhanced also by the development of closer links between education planning and the budgetary process, the latter ideally comprising a three-year Medium Term
Expenditure Framework. Very few countries, with South Africa being a notable exception, have established the necessary planning capacity for higher education in the Ministry of Education, and/or appropriate budgetary frameworks for the country as a whole.

A major aspect of inefficiency in expenditure relates to the manner in which so-called loan schemes operate in several countries. In Botswana, Lesotho and Tanzania, for instance, governments operate loan schemes for higher education students. In practice, however, these have been scholarships for study in both local and foreign institutions, as no serious efforts have been made to collect such loans. In practice, therefore, higher education has been free. It has also been inequitable as the students who access these ‘loans’ are often from the most affluent households.

In the small countries, especially Botswana, Lesotho and Mauritius, limited capacity has resulted in substantial resources being spent on education outside the country. In Mauritius, the costs of overseas study are borne by private households. In Botswana and Lesotho, however, the costs have been carried largely by the state. While there are clearly high private returns to individuals, the social benefits to Botswana and Lesotho more broadly (through, for example, returning graduates, remittances) have not been quantified but the cost to the taxpayers has been high.

Internal efficiency (as reflected in high drop-out and repetition rates, and poor quality of outputs) characterises all systems and is partly a consequence of poor academic salaries resulting in poor quality of teaching and/or poorly motivated staff.

In several countries (Lesotho, Tanzania and Mozambique), there is significant external donor involvement in higher education financing. The long-term implications of this for the government are quite serious.

Good Practices

It is evident that the overall picture of higher education financing, with a few notable exceptions, is characterised by inadequacy, inefficiency and inequity. Nevertheless, there are several examples of ‘good practice’ that other African countries may want to study and possibly emulate.

Financing practices that address the inadequacy of public expenditure
1. Private–Public Partnerships: To address the issue of scarce public resources, Botswana has established a new university on a private–public partnership basis.
In this model, the state provided substantial funding for capital expenditure while the private sector will be responsible for operational expenditure.

2. The differentiated government funding model in Mauritius: In Mauritius, all public institutions are not funded in the same way. Where there are seen to be high private returns (e.g. the University of Technology) the state provides proportionally lower funds as opposed to institutions providing higher education with greater social returns (e.g. teacher education).

3. Cost sharing: Several countries have recently introduced cost sharing in the form of tuition fees to address the inadequacy of institutional revenue. This is particularly so in Namibia, Mauritius and Tanzania. South Africa has always had a system of fee paying in higher education. However, not all countries apply cost sharing equitably because of the dual-track tuition programmes (Kenya, Uganda).

Financing Policies that Address Equity

1. Provincial scholarships: Mozambique provides scholarships to poor students from rural areas.

2. Loans to students in private higher education institutions – e.g. Botswana and Tanzania – in both cases (in Tanzania until 2007/2008 when cost recovery began) these are effectively grants but they enhance equity because the proportion of students going to private education are often from the lower socio-economic groups.

3. Loan schemes to address access and equity: South Africa’s national student loan scheme is designed to attract larger numbers of historically disadvantaged students into higher education. Although there is some controversy about how ‘disadvantage’ is defined, the scheme attracts a high level of funding from government, operates at a high level of efficiency in terms of cost recovery, and uses ‘means-testing’ to ensure that loans go to those who are at the lower end of the socio-economic spectrum. Similarly, Kenya has developed a loan scheme that works relatively well in terms of addressing equity in the public higher education system.

Financing Policies that Address Efficiency

1. Linking higher education planning to budgeting – e.g. South Africa. In South Africa, as reported earlier, there is a close link between planning (at both
Higher Education Financing in East and Southern Africa

the institutional and system levels) and funding, higher education institutions are required to submit three-year ‘rolling plans’ to the government as part of the state’s planning and Medium Term Expenditure Framework budgeting process. Such planning and budgeting instruments can serve to enhance efficiency in the utilisation of limited public resources.

2. Funding to improve quality of educational provision: Mozambique provides a funding facility, the Quality Enhancement and Innovative Facility – an initiative to reward both public and private institutions and individuals for the development of quality-enhancement programmes.

Some Possible Lessons

It is inevitable, given serious public resource constraints, that the higher education sector must look at alternative mechanisms for generating funding to enhance access and equity. Among the funding mechanisms that need to be considered are some form of cost sharing and the development of loan schemes that promote access and equity and are efficient in terms of cost recovery. A third issue relates to the development of a funding formula for higher education that can promote the more effective utilisation of scarce financial resources and enable governments to achieve broader objectives of the higher education system (e.g. appropriate human resource development).

Cost Recovery

Cost sharing can take a number of forms:

- The introduction of tuition fees where those did not exist;
- A rise in the level of tuition fees where those already existed;
- The creation of a special tuition-paying track for a proportion of students;
- The imposition of ‘user charges’ (e.g. registration fees) for recovering the expenses of some previously heavily subsidised institutional services (such as meals and accommodation);
- The reduction of student grants or scholarships;
- An increase in the effective cost recovery on student loans (e.g. through a reduction of the subsidies on student loans);
- The limitation of capacity in the highly subsidised public sector together with the official encouragement of a tuition-dependent private tertiary education sector (OECD 2008).
The case for cost sharing can be made on several grounds. There are several rationales for students and families to share the costs of tertiary education with tax payers. The arguments often used to make the case for cost sharing are:

- Public money available for tertiary education is lacking in light of enrolment growth and competing priorities for public funds;
- Those who benefit should contribute to the costs of tertiary education;
- Public savings from individual contributions can be channelled to improve equity of access; and
- Tuition fees introduce the virtues of price as a market mechanism (OECD 2008).

However, there may be a number of technical aspects which make the realisation of cost sharing in developing/poor countries more challenging. This is essentially related to two aspects. First, the split of the cost (i.e. the share that each of government and the students/families should pay) is difficult to establish in any precise way because the magnitude of tertiary education externalities is very difficult to measure (OECD 2008). On the other hand, cost sharing, to be compatible with access and equality of opportunities, must be accompanied by measures which remove financial barriers to enter tertiary education at the time of the enrolment decision, especially for the more disadvantaged groups. This requires robust student financial aid systems typically formed of need-based grants and loan schemes and possibly other programmes to compensate for unequal educational opportunities at the secondary level (OECD 2008).

However, the implementation of student assistance programmes is hindered by aspects such as:

- Difficulties in determining the extent of need of students (or families);
- Problems of recovering costs from graduates in the form of loan repayments;
- The need for a substantial initial investment to launch a loan system based on public funds;
- The absence or limitations of private capital markets for student loans to complement the limited amounts of student lending available from public schemes;
- In a number of countries, the absence of a sufficiently affluent middle class that can afford tuition fees would require substantial investments in financial assistance to students (and families), often not readily available from the public budget.
A third dimension includes arguments of a strategic nature. It broadly relates to the assumption that the political acceptance of cost-sharing disadvantages tertiary education relative to competing claims on public money. The two main arguments are as follows:

1. Assuming that tertiary education has greater ability to supplement its public revenue with private revenues (not necessarily limited to cost sharing) places it at a great disadvantage relative to other social areas (such as basic education, health or welfare) and makes the reduction of dedicated public funds politically easier.

2. While a policy of cost sharing combined with student financial aid might target resources better, politicians might give lower priority to the development of the student aid system than to the expansion of cost sharing (e.g. higher tuition).

Clarifying what government wants from its funding is likely to be of great consequence. The question of what the government wants for its funding support is fundamental to the whole endeavour, yet in many countries there is no clear reasoning behind any particular level of funding other than the most general social, economic and tax equity rationales. Often too little attention is paid to using funding processes to address concerns about the relevance of tertiary education, including meeting the emerging societal and economic needs.

**Developing an Efficient and Equitable Loan Scheme**

Important lessons can be drawn from the South African and Kenyan experiences with regard to designing and implementing an effective student loan scheme. It is encouraging to see Namibia moving towards developing a loan scheme. The South African and Kenyan schemes are specifically designed to address issues of equity even through there is criticism of the Kenyan scheme because it does not provide adequate loans to poor students in the private sector.

**Developing a Higher Education Funding Formula to Promote more Effective Utilisation of Financial Resources and Attaining Higher Education Objectives**

As reported in Chapter 8, the funding framework developed in South Africa in the post-apartheid era re-conceptualised the relationship between institutional costs and government expenditure on higher education. This framework is seen as a distributive mechanism, that is, a way of allocating government funds to individual institutions in accordance both with the budget made available by government and with government’s policy priorities.
The funding framework developed for higher education in South Africa has a number of important implications for equity and efficiency, including ensuring certainty of revenue for institutions, and promoting institutional autonomy and equity.

Given the South African experience, key practical actions that other African countries adopting a funding formula should take note of are the following:

- Simplicity: Design a formula that is simple and can be understood by the broadest section as possible of the higher education community.
- Promote understanding and acceptance of the formula by institutions through designing appropriate consultative mechanisms and undertaking training programmes.
- Develop effective data management systems at both the institutional and government levels to ensure that the formula (particularly with respect to the input and output elements) can be implemented effectively.
- Higher education-labour market linkages: Design an effective system to monitor the outputs and outcomes of the higher education system in relation to the needs of the labour market and economy (Pillay 2006).

Remaining Challenges

In conclusion, the challenges for African policymakers with respect to higher education financing are numerous and can be captured in a series of questions:

1. How do Ministries of Education and higher education institutions make the best possible (most efficient) use of current, limited resources?
2. How can Ministries of Education develop a strong case to Ministries of Finance about the importance of higher education for economic and broader social development?
3. What alternative funding mechanisms (loans, cost sharing, etc.) are possible in poor African states?
4. If cost sharing is to be considered as a possible funding mechanism, how can it ensure greater equity?
5. With cost sharing, is it possible to re-direct current resources being expended in poor quality private systems towards expanding public sector capacity?
6. If a loan scheme is being planned, are necessary pre-conditions in place (e.g. effective tax administration system; ability of employers to play a role
in cost recovery; institutional infrastructure for means testing)?

7. Is a higher education planning and budgeting framework necessary to enhance the case for more funding and to promote more effective utilisation of current funding, and if so, what institutional arrangements are needed to promote systemic and institutional planning?

8. Can higher education financing be used to ‘steer’ the system to obtain governments’ objectives, e.g. in human resource development?