Financing Public Higher Education Expansion in Sub Saharan Africa: Towards Eclectic Business Models/Approaches

By
Johnson M Ishengoma (PhD)
University of Dar es Salaam
Department of Educational Foundations, Management and Life Long Learning
P.O. Box 35048
Dar es Salaam
E-mail: ishe2004@yahoo.com, jishengoma@edu.udsm.ac.tz

Paper presented at the Southern African Regional Universities Association (SARUA) Leadership Event on "Investment in Higher Education: New Directions" Dar es Salaam, August 5th 2010.

1.0 Introduction

- PR in HED in SSA is low than average for both developing and developed countries, e.g. the **TPR** for Sub Saharan African was **5%** in 2005; compared to **17%** for other developing countries and **66%** for developed countries(World Bank, Forthcoming)
- MPR in HED in SSA in 2005 was **2.5%**; compared to **13%** for other DCs and **58%** for industrialized countries.
- Low PRS and the increasing demand for higher education has exerted immense and unprecedented pressure on African public universities to expand student enrollments to widen access.

1.0. Introduction Cont……..

- Public financing of HED in SSA has been declining- manifested by declining HED budgetary allocations as % of national budgets and as % of GDP- leading to fiscal pressures & perpetual funding constraints, exacerbated by unpredictable government support; eventually shifting the some burden for financing HED to PUS.
- Against this background African PUS have adapted various financing models/approaches and innovations to expand higher education provision; and also simply to survive.
- Some of these innovations have worked; others have not.

1.0.Introduction Cont……..

- This paper **first,** reviews various financing models which have been adapted by African PUS pointing out some limitations and challenges inherent in some of these models; **secondly** the paper attempts to propose eclectic (business) models for financing public higher education expansion.
- The **thesis** of the paper is that conventional approaches/models of financing public higher education have so far not resulted into the desired expansion of the university sub sector in SSA to make these countries more **competitive** and self-sufficient in high-level human resource.
- New eclectic approaches and innovative models of financing PHE expansion, including establishing **Higher Education (Investment) Banks** (HEIB) to replace Students Loans Boards and Schemes in countries where they exist are long overdue.

1.0. Introduction Continued…….

- The paper is organized into three major sections: **section one** is an introduction; **section two** discusses dominant approaches and models of financing public higher education in Sub Saharan African countries, including challenges associated with these models which have to be addressed in the future; and **section three** introduces and proposes eclectic models for financing public higher education expansion which have been successful elsewhere but can also work in SSA PUS.
- Because this paper is work in progress, there are neither prescriptive conclusions nor recommendations.

Education in SSA

1. ***Full Government Funding Model:***

- Governments take full financial responsibility of PHE from construction of HED infrastructures to paying for student food and accommodation, HE allowances, tuition fees and staff salaries and other emoluments, staff training, research etc.

- This (populist) model popular at independence in many SSA has hitherto been abandoned, because of its un-sustainability;

- But it has **clandestinely** been reinstated in some countries through student loan schemes in which governments provide loans to cover almost every HED cost (direct & indirect) without recovering them; either because of lack of loan recovery mechanisms or political expediency or general lackadaisical attitudes towards loan schemes.

2. Cost Sharing Model:

- This model was adopted by the majority of African PUS in the late 1980's and early 1990's because of financial austerity.
- This model-essentially a business model-incorporates the establishment of student loan schemes and allows universities to undertake *revenue diversification* activities to generate extra income to mitigate declining government funding; & establishment of PRUS where they did not exist.
- Because of the component of RDV-which allows public universities to conduct businesses and behave as business entrepreneurships or business corporations – this model has the potentialities of transforming African PUS into financially autonomous institutions and significantly contribute to the expansion of the HED if extra income generated is invested infrastructure development; but unfortunately this is not happening.
- Remain unpopular model because of opposition from stakeholders.

3.0. Parallel Program/Dual Track Tuition or Privately Sponsored Students Program Model (Partial Privatization of Public Universities) Model

- A modified version of cost sharing model has been very successful in financing higher education expansion in Uganda (particularly at the Makerere University) and in Kenya (at the University of Nairobi) where it has been popular; but somehow not aggressively implemented in Tanzania's PUS.
- Governments sponsor a specific number of students in a public university on the basis of academic merit and pays full tuition.
- Other students seeking admission have to pay full costs.
- Universities charge different tuition fees for government-sponsored and PPS; usually charging high tuition fee for government-sponsored students.

3.0. Parallel Program/PPS Cont……..

- The model has generated substantial additional revenue for Makerere & Nairobi universities to enable them finance infrastructure development projects and expand enrollments, for example from 3,361 (1993/94) to 14,239 (1999/2000) at MU.
- However findings by Mayanja (1998) & Ishengoma (2009) at MU & UDSM reveal that this model has the propensity of exacerbating in equities in access to HED because access in PPP is determined by SES, particularly high SES and regional origin.
- At the UDSM majority of participants were sons & daugters of business people.

4.0. Donor Contribution/Support Model

- Donor aid (bilateral and multilateral) to public higher education in Africa-despite of its unpredictability and precarious sustainability-constitutes a model of its own for financing higher education for expansion, mainly through the support of capital development budget, research and operating costs of the majority of public universities in Africa; albeit not acknowledged.
- The World Bank in particular has been the lead donor to African PUS through direct aid for multi-purposes, including limited financing higher education expansion. Table 1 shows World Bank's direct aid to higher education by African recipient SADC and EAC countries in US$ million from 2001-2006.

Table 1: Direct Aid to Higher Education by African Recipient, Commitments, 2001-2006, Annual Averages (US$ Million)

Recipient	Amount (Constant 2006 US$ Million)
South Africa	17.4
Mozambique	16.9
Tanzania	9.2
Kenya	5.5
Uganda	3.8
DR Congo	2.9
Zimbabwe	2.8
Rwanda	2.1
Madagascar	1.8
Angola	1.8
Lesotho	1.6
Namibia	1.4
Burundi	0.9
Malawi	0.5
Botswana	0.4
Mauritius	0.4
Swaziland	0.1

Source: Adapted from: World Bank (Forthcoming) *Financing Tertiary Education in Africa*.

Donor Aid Model Cont…..

- ✓ Donor aid although one of the dominant model for financing higher education (expansion) in SSA; it has limitations and challenges which limits its effectiveness in terms of impact on higher education expansion.
- ✓The first limitation emanates from aid modality. Available documentary evidence shows that **project/program aid** is the most preferred modality by bilateral, multilateral and private donors to SSA PUS including Tanzania since the 1960s delivered mainly as ***indirect aid*** vs. ***direct aid.***
- ✓**Indirect aid** comprises scholarships, fellowships and other imputed student costs paid to donor countries' universities and research universities and directly benefits these institutions; while direct aid refers to aid directly given to universities and research centers in recipient countries (World Bank, Forthcoming).

Donor Aid Model Cont…..

- One of the limitations of the donor-funded HED projects in Africa is that they are **fragmented** or **unsynchronized** to have any significant impact on higher education expansion **holistically.** At times donor compete to fund the same project.
- The World Bank (op cit.) notes and we concur that large projects supporting higher education sector as a whole in Africa are fairly rare.
- In some cases uncoordinated donor aid in HED has resulted into undue imbalances in aid inflows to PUS leading to uneven growth of the PUS sub sector creating “rich” and “poor” universities and “over-funded” and “under-funded” departments and disciplines in the same university.

Donor Aid Model Cont……...

The above the challenges of donor support model of financing HED expansion which have to be addressed in the future to make the model work through:

- Changing aid modality-give more direct aid
- Channeling aid to critical areas of higher education expansion, e.g. infrastructure development
- Synchronizing, harmonizing and coordinating aid in higher education; for example: adopting the current UN organizations model in Tanzania of ***Delivering as One*** through ***One Fund*** for the whole sector; and
- Adopting **Basket Funding Modality** for financing higher education expansion.

3. Towards New Innovative Models/Approaches for Financing Public Higher Education Expansion

- Against the above background of higher education financing models which seem not to effectively work to enable African universities expand at the desired pace this paper proposes the following models for financing higher education expansion while increasing equity, maintaining quality and sustainability in times of financial stringency & austerity:

BUSINESS MODEL OR MARKET MODEL

- This model-which has worked very at the University of Nairobi through the University of Nairobi Enterprises and Services Limited (UNES) and Makerere University (but yet to be adapted vigorously by other African universities-first of all assumes that a university through corresponding new organizational forms and institutional governance structures undergoes a significant transformation or evolution from a t**raditional** or **development** university to an "**entrepreneurial or corporate university**" without a radical shift from the conventional mission of the university.
- Transformation in institutional governance from a traditional development university to a corporate model of higher education governance is needed for optimum function of this model.

3 BUSINESS MODEL OR MARKET MODEL CONT.

- Business practices and principles are injected in the running of the university's income generating and revenue diversification activities through a limited liability company wholly by the respective university.
- The university acts as a "parent" or "holding" company with decentralized centers or organs acting as the entrepreneurial or cost or profit centers with the expectation that they will achieve self-sufficiency from a diversified funding base (Kiamba, 2005).

BUSINESS MODEL OR MARKET MODEL CONT.

- While the business or market model of financing higher education has been criticized and branded as **academic capitalism** driving universities into entrepreneurial competition (Levidow, 1998); but
- The model if cautiously adapted and implemented in PUS can turn around the finances of government and donor-dependent public universities and enable them to expand at their own pace.

BOND ISSUES

- Universities, particularly large universities with stable tuition cash flows and strong experience and track record of sound governance and management can issue or float bonds in the market which can strengthen the market awareness of the institution as a worthy for future investment by different investors.
- Bond proceeds can be used to finance the university's expansion and modernization, e.g. the University (Universidad) of Diego Portales (UDP) in Santiago, Chile with a partial guarantee of US$ 7m from International Finance Corporation (IFC) launched in 2003 a local 8 year Chilean bond with a face value of **US$ 23m;** obtained proceeds which enabled it to construct three new buildings and refurbish six other buildings and consequently increased student enrollment from **9,300** to **14,000** in 2010 (Perkinson, 2006).

Higher Education-Specific Financing Facilities

- Establishment of HED specific financing facility is another innovative approach to financing higher education expansion.
- This special facility can provide **specific capital loans** to HED to cover, e.g. purchase of new technologies, R & D projects, computer equipment and software, capital purchases of small plant and machinery, lab equipment and construction of new campuses.
- This innovation has been successful in Mexico where through IFC support the facility enabled many higher education institutions to access to capital for their necessary expansion (Perkinson, op.cit).

Credit/Unit Based Tuition Fee Financing

- Charging tuition fee on credit or unit basis allows payments in smaller amounts to improve **affordability** of higher education programs for the many students from poor families who may not have enough cash or access to funds to pay full tuition costs at local universities.
- This approach apart from increasing access, it creates greater **affordability** and **flexibility** by allowing many students to study at their own pace and accumulate higher education credits and work.
- The innovation has been successful in Vietnam where in 2005, the Ministry of Education introduced credit based education and training providing flexibility for students to earn credits towards their degrees at their own pace and phasing tuition fee payments in small amounts (Perkinson, op.cit).

ESTABLISHING HIGHER EDUCATION INVESTMENT BANKS (HEIB)OR HIGHER EDUCATION DEVELOPMENT BANK

- We propose the establishment Higher Education Investment Bank by private investors (local and international) or other non-state actors to partner with the Governments under PPP arrangement to replace Student Loans Boards & Schemes.
- This proposed multi-purpose bank should give loans to individual students, parents and higher education institutions for capital development charging **market rate interest**. If feasible, all SSA governments can be members of this bank modeled along African Development Bank structures.
- Currently, in Tanzania there is one private commercial bank (Azania) which provides limited educational loans payable within twelve months.

ESTABLISHING HEIB Cont

- The concept of an education bank worked very well once in Nigeria and could be replicated in other African countries.
- The Nigerian Education Bank (now defunct) was established in 1993 after the Nigerian Student Loans Board was dissolved due its gross failure to recover student loans amounting to NGN 400 m (US$ 3.34 m) by the time it was dissolved (Ishengoma, 2002).

ESTABLISHING HEIB Cont……..

- The roles of the Nigerian Education Bank were:
- 1. To serve as intermediary in Nigeria's credit market;
- 2. Harness private sector resources for the funding of education; and
- 3.Take over part of the government's educational funding responsibilities.
- The bank performed the following functions: student lending; lending for publishing books; project funding; fund mobilization; provision of advisory services for educational purposes; and provision of loans to university faculty for sabbatical leaves and attendance at conferences abroad and for book publishing.
- The bank was fully subscribed by the Federal Government of Nigeria.

Table 2: Innovative Eclectic Model for Financing HED

Stakeholder	Financing Mode	Cost/Budget Item	Level of Financing (% Annually)
Universities/HEI	Adopt business/market model through RVD activities, privatization of services, contracted research & cons. maximize enrollment of privately students; bond issues	1, 3, & 4	1=100% 3=5% 5=100
Students & Parents	Cost sharing, bank borrowing to pay for tuition fee & welfare costs	4	100%
Government	Direct subventions to universities; HE levy; Higher Education Bank	1, 2,5	Variable
Private Sector & Other non-state actors	Direct donations to universities; contribution of HEB; subscription of bond issues by universities	1, 3, 4	Variable
Financial Institutions & Banks	Provision of market-interest loans to universities for capital development; individuals & others; investing in HEB	Variable	Variable
External Donors	Direct grant and aid to universities	1,3	Variable
Alumni	Direct donations to institutions; establishment of endowments and trust funds/foundations	Variable	Variable

KEY: 1=Capital Development; 2=Recurrent Expenditure; 3=Direct Staff Training Costs; 4=Student Direct Costs; 5=Other Administrative and Personnel Emoluments