



Part 2: Common themes, good practices, possible lessons

Funding mechanisms are especially important in shaping higher education outcomes in areas such as quality, efficiency, equity and system responsiveness. A key question is why governments intervene in and subsidise tertiary education.

Economic theory provides widely accepted underlying principles to justify governmental intervention in (and public funding of) tertiary education. Concerns at two levels provide the rationale for government's involvement:

- 1 efficiency concerns, often called market failures; and
- 2 equity concerns, mostly related to providing equal educational opportunities to all.

The involvement of the government ranges from regulation through subsidisation to production of tertiary education services.

A case for governmental intervention occurs whenever a prerequisite for a perfectly competitive market is not met (an instance known as a market failure). In the area of tertiary education, the major established market failures are the 'externalities' generated by tertiary education activities, the imperfection of human capital markets and the incomplete information in the tertiary education sector.

Another rationale for government intervention relates to fairness. In fact, economic theory stipulates that an efficient allocation of resources is not necessarily fair in the sense that a given social welfare function (i.e. an arbitrary statement of how society's well-being relates to the well-being of its individual members) does not reach its optimal value. Hence, even if an efficient outcome is reached, a government intervention may be necessary to achieve a fair distribution of educational resources. In the area of tertiary education, this usually translates into two types of intervention by the government:

- 1 ensuring equal educational opportunities to individuals; and
- 2 using tertiary education as a vehicle for social mobility.

Government intervention in this domain is also likely to enhance social cohesion.

It is widely accepted that individuals with the aptitude and desire to benefit from tertiary education should not be denied opportunities as a result of a given disadvantage. The government can play a role in ensuring that educational opportunities are not a function of factors such as socio-economic status, region of residence, race, religion, ethnicity, disability or gender. This is achieved through programmes to promote access to and successful completion of tertiary education by groups identified as having a specific type of disadvantage.



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; and
 - 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.

- 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 report has attempted to assess the structure and pattern of higher education financing and the implications for access and equity in a comparative study of eleven SADC countries.

As stated earlier, 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 report. 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 SADC 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 among countries considered in this report. In the case of Lesotho, Mozambique, Namibia, South Africa and Swaziland, higher education spending is relatively high as a percentage of the education budget.

As reported earlier, where higher education expenditure is low, there are often several reasons for this. First, there may be inadequate expenditure on education generally, as a percentage of the



government's budget. Second, where education expenditure may be considered to be adequate or reasonable, there are considerable political pressures to ensure that the primary and secondary education sector gets the overwhelming share of the public sector's commitment to education. Third, in many developing countries, in a situation of serious resource constraints, there is often keen inter-sectoral competition for financial resources from health, housing, social welfare and other government functions. Finally, the case for increased higher education financing has not been helped by the low prioritisation of this sector by many African governments. The value of higher education for economic growth and broader social and sustainable development has not yet been fully recognised by African governments.

2.1 Some common themes

It is evident that higher education financing in the countries considered in this report is often *inadequate*, and it is *inequitable* and *inefficient* in almost every country.

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 cost sharing in the form of tuition fees in countries such as Namibia, Zimbabwe and Zambia. In some countries (Tanzania, Zambia and Zimbabwe for example), 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 education sector.

While the cost sharing and private sector strategies have enabled the government to address to some extent the issue of inadequate public sector funding of higher education, it has resulted in greater inequity almost everywhere. Unlike in Namibia and South Africa, where everyone pays tuition fees, cost sharing in Zambia and Zimbabwe, for instance, is only for those who cannot access government sponsorships. These government sponsorships invariably go to students from more affluent households who are able to access the best schools. However, both Zambia and Zimbabwe have adopted some measures to address these inequities through adopting quotas for the disadvantaged and Mozambique provides scholarships to students from rural areas.

Furthermore, many of the poor appear to be seeking access to private higher education in Africa; this situation is unlike that of the industrialised world. However, in several countries – especially Mozambique, Tanzania and Zambia – many of the private higher education institutions are of questionable quality. The situation is not helped by the absence of an effective regulatory framework for private higher education in most countries. In most SADC countries, unlike in the industrialised world, private higher education institutions are for-profit institutions.

A further dimension of the private sector expansion is the entry of international providers of higher education in several SADC countries (e.g. Zambia). 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 – Madagascar, Mozambique, Namibia, Tanzania, and Zambia, for instance – higher education financing is extremely inefficient. This is due, in part, because higher education financing is largely ad hoc and not based on sectoral planning. In some cases budgeting is done on a purely incremental basis and in 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 SADC countries there is an inability and/or unwillingness to motivate for more higher education funding; at a political level, primary and secondary education and other departments within the ministry often get preference.

There is moreover a widespread lack of planning and oversight capacity in these ministries. This sometimes results in universities spending more than they have been allocated or building up huge debt burdens (e.g. Zambia).

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 are study scholarships to be used at both local and foreign institutions, as no serious efforts (except until this year in Tanzania) 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 several 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 international 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.



Poor academic salaries lead to poor quality of education and/or poorly motivated staff, which in turn leads to low internal efficiency (as reflected in high drop-out and repetition rates and poor quality of outputs).

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

2.2 Good practices

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

Financing practices that address the inadequacy of public expenditure

- **Private-public partnerships:** To address the issue of scarce public resources, Botswana is establishing a new university on a private-public partnership basis. In this model, the state will provide substantial funding for capital expenditure while the private sector will be responsible for operational expenditure. A similar venture is being created in Zambia at the Mulungushi University.
- **The differentiated government funding model:** In Mauritius, public institutions are not all funded in the same way. Institutions yielding high private returns (e.g. the University of Technology), receive lower fund levels compared to institutions yielding greater social returns (such as teacher education).
- **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, Zimbabwe, Zambia 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 (e.g. Zambia, Tanzania and Zimbabwe).

Financing policies that address equity

- **Provincial scholarships:** Mozambique provides scholarships to poor students from rural areas.
- **Loans to students in private higher education institutions:** Botswana and Tanzania (until this year) effectively saw these as grants. These grants enhance equity as students from lower socio-economic groups tend to attend private higher education institutions.
- **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 'disadvantaged' 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.



Financing policies that address efficiency

- **Linking higher education planning to budgeting:** In South Africa, there is a close link between planning (at both 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.
- **Funding to improve quality of education 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.

2.3 Some possible lessons

It is inevitable, given serious public resource constraints, that the higher education sector must look at alternative mechanisms to generate funds to enhance access and equity. Among the funding mechanisms that need to be considered are cost sharing and 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 resources 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); and
- 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 numerous rationales for students and families to share the costs of tertiary education with taxpayers. 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.

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

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; and
- in a number of countries, the absence of a sufficiently affluent middle class that can afford tuition fees.

This requires 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 fees).

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 regards to designing and implementing an effective student loan scheme. It is encouraging to see Namibia moving towards developing a loan scheme, but there are no such signs elsewhere in SADC. The South African and Kenyan schemes are specifically designed to address issues of equity, even though there is criticism of the Kenyan scheme because it does not provide adequate loans to poor students in the private higher education institutions.

Utilising financial resources effectively to attain higher education objectives

The funding framework developed in South Africa in the post-apartheid era reconceptualised the relationship between institutional costs of 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 and these are, briefly (see Section 1.7 for detail):

- ensuring predictability through a formula-driven approach;
- driving higher education funding frameworks by the availability of public resources for higher education rather than by the costs of provision; and
- promoting institutional autonomy and equity by using block and earmarked grants to incentivise efficiency e.g. by rewarding research outcomes, rewarding the output of certain categories of graduates and so stimulating the development of scarce skills, earmarking funding for research capacity building and development, and redressing disadvantage by institutional factoring for students and small, rural, institutions.

Given the South African experience, key practical actions that other SADC 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 possible section 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 the economy.

The challenges for policy makers with respect to higher education financing are numerous and can be captured in a series of questions:

- How do ministries of education and higher education institutions make the best possible (most efficient) use of current, limited resources?
- 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?
- What alternative funding mechanisms (loans, cost sharing, etc.) are possible in poorer SADC member states?
- If cost sharing is to be considered as a possible funding mechanism, how can greater equity be ensured?
- In cost sharing systems, is it possible to re-direct current resources being expended in poor quality private systems towards expanding public sector capacity?
- If a loan scheme is being planned, are the necessary pre-conditions in place? For instance, is there an effective tax administration system? What role can employers play in cost recovery? Is there institutional infrastructure for means testing?
- 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?
- Can higher education financing be used to 'steer' the system to obtain governments' objectives, e.g. in human resources development?



References

- Adongo J (2008) Access and Equity in Higher Education – Assessing Financing Policies in Namibia, unpublished.
- Bloom D, Canning D and Chan K (2005) *Higher Education and Economic Development in Africa*, Washington, DC: World Bank.
- Botswana Central Statistics Office (CSO) (2008) *Botswana Statistical Yearbook - 2006*, Gaborone: Government Printer.
- Botswana Ministry of Education, Department of Student Placement and Welfare (1995) *The Grant Loan Scheme*, Gaborone: Botswana Ministry of Education.
- Botswana Tertiary Education Council (2006) *Towards a Knowledge Society: A Proposal for a Tertiary Education Policy for Botswana*, Gaborone: Botswana Tertiary Education Council.
- Chilundo A (2008) Access and Equity in Higher Education – Assessing Financing Policies in Mozambique, unpublished.
- Department of Education, South Africa (2007) *Information on the State Budget of Higher Education*, Pretoria: Department of Education.
- Government of Botswana (2008) *Statistical Yearbook 2008*, Gaborone: Government of Botswana.
- Government of Lesotho (2004) Higher Education Act, 2004, *Government Gazette*, 27 January 2004.
- Ishengoma, J (2008) Higher Education Financing in Tanzania, unpublished.
- Kapur D and Crowley M (2008) *Beyond the ABCs: Higher Education and Developing Countries*, Working Paper No. 139, Washington, DC: Center for Global Development.
- Lesotho Ministry of Education and Training (2005) *Lesotho Education Sector Strategic Plan 2005-2015*, Maseru: Ministry of Education and Training.
- Lesotho Central Bank (2006) *Annual Report*, Maseru: Lesotho Central Bank.
- Lesotho Central Bank (2002) *Annual Report*, Maseru: Lesotho Central Bank.
- Lester R (2006) *Universities, Innovation and Competitiveness of Local Economies – A Summary Report from the Local Innovation Systems Project, Phase 1*, Boston: Massachusetts Institute of Technology.
- Makhurane P (2008) *Higher Education Financing in Zimbabwe*, Southern African Regional Universities Association commissioned paper, Johannesburg: SARUA.
- Marope MT (2005) *Namibia: Human Capital and Knowledge Development for Economic Growth with Equity*, Africa Region Human Development Working Paper 84, Washington, DC: World Bank.
- Mohadeb P (2008) Higher Education Financing in Mauritius, unpublished.
- Organisation for Economic Cooperation and Development (OECD) (2006) *African Outlook 2005-2006*, Paris: OECD.
- OECD (2008) *Tertiary Education for the Knowledge Society - Thematic Review of Tertiary Education*, Paris: OECD.
- Pillay P (2008) Access and Equity in Higher Education – Assessing Financing Policies in South Africa, unpublished.