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Financing Higher Education: Old Challenges and New Messages

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Abstract

Two recently released documents—the World Bank's 2002 policy paper, *Constructing Knowledge Societies: New Challenges for Tertiary Education,* and the UK Government's 2003 White Paper, *The Future of Higher Education*—emphasize challenges facing higher education, including 'old' challenges of financing expansion while increasing equity, quality and sustainability in times of financial stringency. Both papers propose wider cost sharing to address these challenges. This article examines these proposals, noting some similarities in their messages. It summarizes international experience of tuition fees and financial support for students, including student loans, and describes current developments in Mozambique; it examines equity effects of cost sharing, and draws lessons for all higher education systems facing these old and new challenges.

Résumé

Deux documents publiés récemment—la politique de la Banque mondiale (2002) et le livre blanc du gouvernement du Royaume-Uni (2003) : il s'agit respectivement de *Constructing Knowledge Societies: New Challenges for Tertiary Education* et *The Future of Higher Education*—mettent l'accent sur les défis de l'enseignement supérieur. Ces deux publications rappellent en même temps les « anciens » défis de financement relatifs au développement de l'éducation en termes d'équité, de qualité, de planification et de rigueur. Les deux documents proposent un éventail de partage des charges pour faire face à tous ces défis. La présente communication étudie ces propositions et note plusieurs similitudes entre les deux documents. Elle offre une présentation succincte de l'expérience de prise en charge des étudiants au niveau international et décrit les développements en cours au Mozambique ainsi que l'extension des charges partagées et formule des recommandations pour tous les systèmes d'enseignement supérieur confrontés aux défis anciens et nouveaux en même temps.

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Financing Higher Education: Old Challenges and New Messages

Introduction: Old and New Challenges for Higher Education

In October 2002, the World Bank published a new policy paper on tertiary education: *Constructing Knowledge Societies: New Challenges for Tertiary Education* (World Bank, 2002). In January 2003, the British Government's Department for Education and Skills (DFES) published its long awaited White Paper entitled *The Future of Higher Education* (DFES, 2003), which proposes reforms for higher education in England.[2] The World Bank prefers the term 'tertiary', rather than 'higher' education, to emphasize the existence of institutional diversification. For consistency, this article, like the British White Paper, uses the term 'higher education,' but this in no way implies adherence to a model of traditional, undifferentiated higher education institutions (HEIs).

Both of these important papers present an analysis of how higher education can best respond to new challenges. For example, the World Bank believes that tertiary education is facing "unprecedented challenges, arising from the convergent impacts of globalization, the increasing importance of knowledge as a main driver of growth, and the information and communication revolution" (World Bank, 2002, p. 1). These challenges represent both opportunities and threats. On the one hand, improved communication technology "has all but removed the space and time barriers to information access and exchange;" on the other, "technological transformation carries the real danger of a growing digital divide between and within nations" (ibid., p. xvii). The World Bank policy paper provides information and insights about successful reforms and effective policy implementation. In addition, the paper seeks to engage client countries and the international community in a dialogue on the role of tertiary education, the justification for continuing public support and investment, the evolving relationship between tertiary education institutions, the market place and the state, and ways to design and implement reforms so that tertiary education can promote knowledge-driven economic growth (ibid., p. 3).

Similarly, the British White Paper argues that the "challenge from other countries is growing. Higher education is under pressure, and at risk of decline….tackling these challenges needs a long-term strategy for investment and reform" (DFES, 2003, p. 4–5). The White Paper lists a number of "challenges" including an "investment backlog in teaching and research facilities,

2 The DFES is responsible for higher education in England. Since devolution in 1999 significant differences have developed between England, Scotland, Wales and Northern Ireland in policies on the finance of higher education, particularly on tuition fees and student support. Some of the proposals in the White Paper will apply to England, but others will apply to the UK as a whole.

estimated at £8 billion", and the fact that "universities are struggling to employ the best academics" and that "many of our economic competitors invest more in higher education" (DFES, 2003, p. 4). The strategy for reforming higher education set out in the White Paper includes increased levels of public funding for higher education, a new approach to fees and student support and incentives both to strengthen links between higher education and business and to promote private financial contributions to higher education, including endowment funds. The aim of this White Paper is to "lay the foundation for the reforms which will transform the future of the sector" (ibid., p. 21).

There is a striking similarity of language in parts of these documents: both emphasize the 'challenges' facing higher (tertiary) education, while stressing the importance of 'knowledge' in a global economy. The World Bank report includes both words in its title, while the White Paper argues "The challenges are clear.…Our competitors see—as we should—that the developing knowledge economy means the need for more, better trained people in the workforce... higher education is becoming a global business" (DFES, 2003, p. 13), and sets out its vision of a sector which "recognises and values universities as creators of knowledge and understanding and as engines for applying that new knowledge for the benefit of all" (DFES, 2003, p. 21).

Both documents emphasize the 'new' challenges facing higher education and the need for comprehensive reforms to meet these challenges. Despite the emphasis on 'new' challenges, however, both devote considerable space to what the World Bank report calls 'Old Challenges': the need to expand tertiary education coverage in a sustainable way, persisting inequalities of access and outcomes, problems of quality and relevance, and change-resistant governance structures, and rigid management practices. Similarly, the White Paper has chapters devoted to expanding higher education to meet our needs, as well as to issues of fair access, academic freedoms, and funding. The underlying focus of both documents concerns how to expand access to higher (tertiary) education in order to meet rising economic demand for high level knowledge and skills while increasing equity and developing financial sustainability. These are the continuing, 'unresolved' challenges facing both developing and transition economies (the focus of the World Bank report) and industrialized countries (the British White Paper compares higher education in the UK with other OECD countries).

Each document presents 'new' messages and approaches to address both 'old' and 'new' challenges. Recommendations in both papers cover research, teaching, and learning, as well as issues of institutional governance and management, structure, quality, relevance, and finance. This article cannot hope to cover all these important areas of concern for higher education. Instead, the main focus of the article will be to examine a crucial issue addressed by both the World Bank and the British White Paper: how higher education should be financed, in order to achieve expansion, equity, and sustainability. In particular, this paper will ask what the scope is for cost sharing and how this can be widened without jeopardizing equity. The need for a new system of financing higher education in Britain—with increased contributions from students, but with an improved system of student support—is one of the key messages of the White Paper. Finance issues do not feature quite so prominently in the World Bank's 2002 report as in its 1994 report, *Higher Education: Lessons of Experience,* but the need for financial reform and the importance of cost sharing are strong underlying themes throughout the most recent paper. The 2002 report refers to a "growing recognition that the cost of tertiary education must be shared in a more equitable way," stressing that "availability of financial aid for low-income, minority and other disadvantaged students is a determining factor in equity" (World Bank, 2002, p. 94).

Many governments are currently trying to meet the 'old' challenges of expansion, equity, and sustainability by introducing and strengthening strategies for cost sharing. Some of these strategies include: encouraging the growth of private institutions; introducing or increasing fees or user charges in public institutions; designing or improving systems of student support, including grants, scholarships, and student loans; seeking new sources of private funding, including contributions from business, commerce, and industry and donations or endowments from individuals or philanthropic foundations; and encouraging HEIs to be more 'entrepreneurial' in marketing and selling their services and seeking contracts for research and consultancy. Fierce debates have been and are still currently being waged on the extent and feasibility of cost sharing in many countries, including OECD countries such as Australia, New Zealand, the UK, and the USA; in transition economies such as Hungary and the Czech Republic; and in developing countries in Africa, Asia, and Latin America. In many countries, government and higher education leadership are increasingly emphasizing that wider cost sharing is inevitable. Bruce Johnstone (1986, 2002) has clearly demonstrated that the trend towards wider cost-sharing is a worldwide phenomenon and that the combined pressures of financial austerity and increasing private and social demand for access and equity mean that cost sharing has become a global imperative.

This paper will summarize recent international experiences with designing, implementing, and reforming systems of cost sharing. In particular, the focus will be on the role of tuition fees and student support and financial aid (particularly grants, scholarships, and student loans). This paper will also touch briefly on the role of financial incentives—including targeted funding of HEIs and competitive funds—to promote innovation, quality improvement, and/or more equitable access for disadvantaged groups. The main geographical focus is Africa, but this paper draws on world-wide experience from both developed countries, including Australia and the UK, and developing countries, including countries in Asia and Latin America, as well as Africa. The aim is to summarize lessons from this experience, to see what 'new' messages are emerging regarding the design and implementation of systems for financing HEIs and students, in order to address both the 'old' challenge of sharing costs efficiently and equitably while expanding access, maintaining or improving quality, and achieving financial sustainability.

The paper draws on a wide range of international research, studies, and experience, including a special issue of *The Welsh Journal of Education* published in July 2002, entitled *Paying for Learning: The Debate on Student Fees, Grants and Loans in International Perspective* (Woodhall, 2002). This special issue, edited by the author, sought to contribute an international perspective to the public debate on financing higher education in the UK, which culminated in the White Paper of 2003. It included a global analysis of the "challenges of financial austerity" (Johnstone, 2002), a survey of alternative objectives of national student loan schemes (Ziderman, 2002), and reviews of recent experience in Australia, South Africa, and the UK (including Wales and Scotland, as well as England).

In addition, this paper utilizes recent publications of the International Comparative Higher Education Finance and Accessibility Project,[3] directed by Professor Bruce Johnstone at the State University of New York at Buffalo, including papers presented at an international conference in Tanzania in 2002 on *Financing Higher Education in Eastern and Southern Africa: Diversifying Revenue and Expanding Accessibility.*[4] Also useful in the preparation of this paper were summaries of international experience prepared for a session of the World Bank's Human Development Week (Woodhall, 1997) and for the new book *African Higher Education: An International Reference Handbook* (Woodhall, 2003). In addition, a series of international fora on student loans organized by the International Institute for Educational Planning (IIEP) between 1990 and 1992 (Woodhall, 1990; 1991 a, b; 1994), and the author's

3 See http://www.gse.buffalo.edu/org/IntHigherEdFinance for details of this project, and a wealth of papers reporting its results.

4 The conference proceedings will be published in 2003. See also Johnstone, Bruce (2002) *Financing Higher Education in Eastern and Southern Africa: Diversifying Revenue and Expanding Accessibility, Conference Report* (available on the website of the International Comparative Higher Education Project; for details, see note 3).

experience as a consultant for the World Bank and for the Ministry of Higher Education, Science and Technology of Mozambique also underscored the preparation of this paper.

This article is in six parts. Following this introduction, part two highlights some interesting parallels and similarities between the recent World Bank report and the British White Paper, and summarizes some of their main messages and proposals for reform. Part three reviews experience in several countries which have introduced or increased tuition fees. Part four presents lessons and conclusions on student support. Part five looks at the practical implications of some of these messages in the context of recent experiences in Mozambique. The final section, part six, presents a brief summary of the 'new' messages on financing higher education that are emerging from international experiences.

The World Bank Report and the British White Paper: Some Common Themes and Messages

The introduction has already noted interesting similarities between the two reports, particularly in terms of language and purpose. In addition to their common insistence on the need for reform to meet old and new challenges, both stress the importance of higher education and the need for institutional diversity. As noted above, the World Bank prefers the term 'tertiary' rather than 'higher' education to emphasize its argument that traditional universities should be only one component of a "comprehensive, diversified and well-articulated tertiary education system" (World Bank, 2002, p. xxiv), with an increasing role for new types of institutions, including not only short-duration technical institutes, community colleges, polytechnics, distance education centers, and open universities; but even newer actors in the 'borderless' tertiary education market, including virtual, franchise, and corporate universities, media companies, libraries and museums, and 'education brokers' (ibid., p. 32–34).

The White Paper keeps the term 'higher education,' but also argues for increased diversity of mission. "There is already a great deal of diversity within the sector. But it needs to be acknowledged and celebrated, with institutions both openly identifying and playing to their strengths" (DFES, 2003, p. 20). Scarce resources must be allocated so as to "produce a focus on comparative advantage: individual institutions focus on what they do best, while the sector as a whole achieves…[a] much wider range of objectives" (ibid., p. 20). Later, it stresses "we do not believe that expansion should mean 'more of the same'… we do not favour expansion on the template of the traditional three years honours degree" (ibid., p. 60). It emphasizes the important role of non-university institutions (a sector known in the UK as 'further' rather than 'higher' education), recognizes that "different 'mixed economy' institutions and federal arrangements are developing, where the traditional boundaries are no longer relevant or desirable" (ibid., p.63) and proposes partnerships between different types of institutions; more opportunities for part-time and flexible study, including e-learning; and "a funding regime which enables each institution to choose its mission…to make sure that our system recognises and celebrates different missions properly" (ibid., p. 20).

Another striking similarity between the World Bank document and the White Paper is their desire to overcome what they acknowledge (if slightly half-heartedly) to be past mistakes. The World Bank admits "there is a perception that the Bank has not been fully responsive to the growing demand by clients for tertiary education interventions and that, especially in the poorest countries, lending for the sub-sector has not matched the importance of tertiary education systems for economic and social development. The Bank is commonly viewed as supporting only basic education; systematically advocating the reallocation of public expenditures from tertiary to basic education; promoting cost recovery and private sector expansion; and discouraging low-income countries from considering advanced human capital" (World Bank, 2002, p. xviii). To correct this perception, the World Bank's new document examines the contribution of tertiary education to economic and social development, concluding that tertiary education contributes to poverty reduction, through "knowledge-driven economic growth strategies," "redistribution and empowerment" by opening better employment and income opportunities to underprivileged students, and support for the rest of the education system (ibid., p. xx). Indeed, the report states, "It is doubtful that any developing country could make significant progress toward achieving the United Nations Millennium Development Goals…without a strong tertiary education system" (ibid., p. xx) and emphasizes a growing "recognition of the need for a balanced and comprehensive view of education as a holistic system that includes not only the human capital contribution of tertiary education but also its critical humanistic and social capital building dimensions and its roles as an important global public good" (ibid., p. xix).

Similarly, the British government is at pains to correct a perception that it has failed to recognize the importance of higher education. The White Paper admits that the government is "reversing years of underinvestment" (DFES, 2003, p. 5). On institutional diversity, it states, "the Government accepts that it has been partly responsible for the failure to have an honest recognition of universities' different roles" (ibid., p. 20). Like the World Bank document, the White Paper lists the benefits of higher education, not only in terms of equipping the labor force with appropriate and relevant skills, stimulating innovation and supporting productivity, but also acting as "the necessary storehouse of expertise in science and technology and the arts and humanities which defines our civilisation and culture" (ibid., p. 21).

Such statements in both documents reflect a welcome shift towards a greater recognition of the importance and value of higher education. The World Bank report builds on previous studies, including not only its own paper *Higher Education: Lessons of Experience* (World Bank, 1994), but also the report of the World Bank/UNESCO Task Force on Higher Education and Society: *Higher Education in Developing Countries: Peril and Promise* (World Bank, 2000), which declared that "as knowledge becomes more important, so does higher education" (Task Force on Higher Education and Society, 2000, p. 9). The Foreword to the World Bank's report on tertiary education, by Mamphele Ramphele, co-chair of the Task Force and now Managing Director (Human Development) at the World Bank, refers to the Task Force Report and defines tertiary education as "more than the capstone of the traditional education pyramid, it is a critical pillar of human development worldwide" (World Bank, 2002, p. ix).

The World Bank and the British government both use their recent publications to give a strong positive message about the value and benefits of higher education. Each report, however, tempers their enthusiasm with the equally powerful message that while systems and institutions are currently changing, they will need to change even more in the future, to cope with new challenges. The World Bank report's Overview and Summary even begins with a quotation from Charles Darwin: "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change" (World Bank, 2002, p. 1).

Both documents advocate a change in the role of the state, encouraging a shift towards greater use of incentives to guide institutions, rather than central control. The World Bank argues that "instead of relying on the traditional state control model to impose reforms, countries are increasingly choosing to bring about change by guiding and encouraging tertiary education institutions, whether public or private, in a non-controlling, flexible manner. This can be achieved in three complementary ways: by establishing a coherent policy framework; by creating an enabling regulatory environment; by offering appropriate financial incentives" (ibid., p. 83).

The World Bank document gives many examples of such mechanisms, including development of long-term strategic plans for the sub-sector, quality assurance systems, and financial incentives. Funding options discussed in the report include formula funding, the use of matching funds designed to encourage financial diversification, and competitive funds—awarded on the basis of proposals submitted by institutions and with transparent procedures and criteria—to support quality improvement or stimulate innovation. There is a strong emphasis on institutional autonomy. The World Bank believes that institutional autonomy is a “key element in the successful transformation of public tertiary institutions” (ibid., p. 89).

The British White Paper, which represents an attempt to provide an ‘enabling environment’ and ‘appropriate financial incentives,’ also gives strong emphasis to institutional autonomy. The chapter on financing is called “Freedoms and funding,” and argues that “higher education institutions need real freedom—including the freedom to raise their own funding, independent of government—if they are to flourish. They are already free and autonomous institutions…but they do not always use the freedoms they have to the full; as well as giving the sector new freedoms… we want to empower them to use the ones they have to their fullest potential, so that they can be dynamic and self-determining institutions” (DFES, 2003, p. 77). Its proposals include reducing bureaucracy and burdens on universities, increasing university endowments as the route to real funding freedom in the long term, supporting institutions that wish to build endowments, and giving universities the freedom to set their own tuition fee, between £0 and £3,000 a year (ibid., p. 76).

The White Paper also proposes extending the use of targeted funding to institutions, as a way of supporting policy reform through financial incentives. A financial incentive to HEIs to increase the participation rates of disadvantaged students was introduced a few years ago and will now be extended. The funding formulae used by the Higher Education Funding Councils (there are separate councils for England, Scotland, and Wales) gives additional funding to universities taking a high proportion of students from disadvantaged homes. This is officially called a ‘widening participation allocation’ but is widely known as the ‘postcode premium,’ because postcodes, which are part of every postal address in the UK, are used to identify students coming from disadvantaged areas. The White Paper explains the justification for this policy: “There is a cost to reaching out to students from less traditional backgrounds and offering them additional support once they are studying to make sure they fulfil their potential” (DFES, 2003, p. 74), and the extra funding is intended to compensate institutions for these extra costs. The White Paper admits, however, that postcode analysis is a crude measure of disadvantage and proposes reforming the financial premium so that it reflects factors such as family income, parental levels of education, and average results of the school attended by a student. The value of the premium will also be increased, starting in 2003–4, from about 5% to about 20% additional funding for each student from a disadvantaged background. It remains to be seen exactly how the premium will be calculated and what its effects will be. ‘Positive discrimination,’ or ‘affirmative action’ as it is called in the US, is still very controversial in the UK, as in other countries. Critics argue that it will encourage negative discrimination against pupils from private schools, rather than genuinely encouraging widening participation, but it will certainly represent a powerful financial incentive to universities to increase participation of disadvantaged students.

Several of the changes proposed in both documents involve increased cost sharing, but with a strong system of student support to promote equity and guarantee access for the underprivileged. The World Bank emphasizes the importance of cost sharing, both as a way of financing expansion that is sustainable and to avoid a regressive system of finance that benefits the privileged. It recognizes, however, that "Countries that have introduced or raised user fees at the tertiary level are at risk of experiencing an increase in access disparities in the absence of effective and well targeted financial aid mechanisms" (World Bank, 2002, p. 56). Its new message, therefore, is: "Increased cost-sharing in public universities and further expansion of private tertiary education cannot be implemented equitably without the parallel development of scholarship and loan programs that can guarantee the necessary financial support to deserving low income students" (ibid., p. 94).

Similarly, the UK government introduced means-tested tuition fees of £1,000 a year in 1997, exempting students from low-income families. At the same time, they also abolished grants for student maintenance (living expenses), making students entirely dependent on repayable loans. Now, however, the White Paper proposes the reintroduction of maintenance grants of up to £1,000 a year for students from low-income families, together with increased cost recovery through tuition and fees, with universities able to charge up to £3,000 a year, (variable between courses) on the grounds that "graduates on average earn much more than those without degrees, and are far more likely to be in employment" (DFES, 2003, p. 9). But, the White Paper adds: "We will not compromise on fair access and will take steps to ensure young people are not deterred by up-front fees" (ibid., p. 9). Payment will, therefore, be through a new Graduate Contribution Scheme, to be introduced on an income-contingent repayment basis (with payments through the income tax system) in 2006. Furthermore, universities will not be allowed to charge higher fees (known popularly as 'top-up fees', because they supplement public funding) unless they have already developed 'Access Agreements' or action plans to safeguard and promote equitable access. These agreements will be monitored by an independent Access Regulator, whose task will be to ensure that the Access Agreements are "robust and challenging" (ibid., p. 75).

The strong emphasis on equity in both documents means that there is now a very powerful message about the importance of financial aid and student support. This cannot be described as a 'new' message, however. Many earlier World

Bank reports (1986 and 1994, for example) stressed the need for financial aid to ensure that low-income students are not denied access to higher education. The White Paper argues that in the UK "our access difficulties occur despite having a level of public spending on financial aid to students (including student loans) as a percentage of total public expenditure on higher education that is the highest in the OECD" (DFES, 2003, p. 18). What is 'new' about the message on student aid in these documents is partly a matter of emphasis—insistence on the need for targeted financial aid to ensure equitable access is explicit and frequently emphasized—and partly a recognition of the need for targeted scholarships or grants awarded to low-income students, as well as loans, in a well designed system of student support.

The next sections of this article summarize the international experience with tuition fees and student aid—advocated in both the World Bank report and the British White Paper—to see how far the messages put forward in these documents are already being put into practice and what lessons can be drawn on their feasibility.

Tuition Fees

Tuition fees or other charges (including for registration, examinations, food and accommodation, etc.) are the main source of income for private institutions. The widespread growth of private HEIs in Africa, Asia, and Latin America, as well as in many transition economies in Eastern and Central Europe and the former Soviet Union, inevitably means increased reliance on fees as a means of financing HEIs. In addition, many countries have recently introduced or increased tuition fees in public universities. They may not always be called tuition fees, however. In the UK, the introduction of tuition fees in 1998 provoked bitter controversy, and in Scotland, one of the first acts of the newly devolved Scottish Parliament was to abolish 'up-front' fees (payable by students in higher education) and introduce a Graduate Endowment Fund, to which all graduates must pay a contribution after completing a course of higher education.

The use of the term 'contribution' was thought to be more politically acceptable than 'tuition fee' and follows the example of Australia, which introduced the Higher Education Contribution Scheme (HECS), in 1989. The Australian HECS, an annual charge that can be paid either as an 'up-front' fee, or deferred until after graduation, is discussed in more detail below. Although some critics believe that contributions to a graduate endowment fund or HECS are just tuition fees masquerading under another name, the British White Paper follows the examples of Australia and the Scottish Parliament and proposes, from 2006, to abolish 'up-front' fees in England and introduce a Graduate

Contribution Scheme, to which graduate*s* (not students) will contribute—through the income tax system, on an income-contingent basis—up to £3,000 per year of their higher education course. These contributions, to be set by universities, will vary between courses and are often described as 'top-up' fees. To counter any objection that such contributions will discriminate against those starting higher education after 2006, the White Paper suggests that those graduates "who had their higher education free, and have reaped enormous benefits from it" should be asked to "give something back" by contributing to HEIs on a voluntary basis (DFES, 2003, p. 81) and that such contributions will benefit from tax concessions.

At the time this article was written, legislation to enact the proposed changes to higher education funding in Britain, including 'top-up' fees, had not yet been introduced or debated in Parliament. When the debate does take place (scheduled for Autumn 2003) there is likely to be strong opposition. Such a scheme, with variable fees that are paid as an income-contingent graduate contribution rather than as an 'up-front' payment, has long been advocated by many economists in the UK, however (see Barr, 2001, who pointed to the success of the Australian model). When HECS was first introduced in Australia, students had to pay a contribution equal to about 20% of the average costs of tuition, which could either be paid as an 'up-front' fee, with a discount of 25%, or be deferred until after graduation, when it is collected through the income tax system. This is, in effect, an income-contingent student loan, with repayments collected by means of a supplement to income tax (initially 2–4% of income, now 3–6% of income), rather than a true 'graduate tax.' Although there was initially some opposition, HECS was very quickly accepted in Australia as a fair way of increasing private contributions to the costs of higher education.

A recent analysis of HECS by Chapman and Ryan (2002) describes its history and provides important new evidence on the effects of HECS. Chapman was one of the original architects of the scheme, so the article draws on extensive knowledge of the political background and theoretical underpinnings of HECS and provides an analysis of new data on the effects of HECS on participation in Australian higher education. The conclusions are very positive: "First, HECS has raised and continues to raise considerable revenue. This has been used to help finance a large expansion in Australian higher education. Second, there have apparently been no adverse consequences for the participation of relatively disadvantaged prospective students. Indeed, the participation of young people has expanded for members of all socio-economic groups" (Chapman and Ryan, 2002, p. 78).

The authors are so enthusiastic about income-contingent loans in general, and HECS in particular, that they believe their findings "strongly promote the case for other countries to adopt similar arrangements" (ibid., p. 78.) They mention several African countries (including Ghana, Namibia, Ethiopia, and Rwanda) that are actively considering such plans and conclude that "Income contingency seems to be here to stay" (ibid., p. 78). There is, however, an important caveat to Chapman and Ryan's argument about income-contingent payment of contributions or loans. They emphasize that the income-contingent loan approach requires that a government is able to do at least two things efficiently: (i) record graduate incomes accurately over time, and (ii) collect income taxes efficiently. Many developing countries would not meet these requirements, and a paper by Johnstone and Silassie (2001) questions whether income-contingent loans and collection of graduate contributions, in place of tuition fees, is really feasible in developing countries such as Ethiopia.

Apart from the possibility that the word 'contribution' is more popular than 'fees' and the way the contributions are collected, there are other interesting lessons from the Australian experience of introducing HECS. First, the Australian government devoted considerable efforts to explaining the new system, how it works, and its justification. This seems to be have been successful in reducing opposition, both from students and from the general public. Secondly, the money generated by 'up-front' fees and graduate contributions was earmarked for expansion of higher education. In many countries, students and HEIs fear that if tuition fees are introduced or increased, the money generated will replace, rather than supplement, public contributions, resulting in no increase in resources for higher education. The British government seems to have learned this lesson. The White Paper declares that "Students paying larger contributions will expect to see the income generated going into improved teaching and facilities. Universities will only be able to do this if they have available to them the extra cash from the contributions they set. The Government will, therefore, provide income to universities equal to the contributions they have set. The Government will then receive the payment back from students over time" (DFES, 2003, p. 87). As noted above, these proposals have not yet received legislative backing, and the precise details of the new British system have not yet been decided. Many other countries have introduced tuition fees or other charges for public higher education, including Chile, Mexico, China, Mongolia, and Nepal. Tuition fees have had a mixed record in Africa, with several countries, including Malawi, introducing fees but later abolishing them. In other cases collecting tuition fees has been successful. The *Task Force on Higher Education and Society* describes how the University of Makerere in Uganda "moved from a situation where none of its students paid fees to one where more than 70 percent do" (Task Force, 2000, p. 54). Russia and many countries in Eastern and Central Europe have a so-called 'dual track' system, under which students who pass university entrance examinations with high marks receive free or highly subsidized higher education (these are sometimes described as 'quota' students), while those with lower marks can enter as 'non-quota' students and pay fees.

Several problems can be identified on the basis of these experiences. First, there may be strong resentment among students when students pay different fees for the same course or program. There are several instances where foreign (overseas) students pay much higher fees than home students (as in Australia and the UK) or where students from outside a state pay higher fees than state residents (as in public state universities in the US). The logic of such differentials is clear, even if their acceptability is sometimes questioned. It may be much more difficult to justify the charging of very different fee levels to two categories of domestic student, as in the case of 'quota' and 'non-quota' students in China and Russia. It was this difficulty that led the Vietnamese government to abandon the charging of higher fees for 'non-quota' students in the 1990s, although students who are sponsored by their employers can still be admitted as 'non-quota' students and pay higher fees.

Another problem concerns equity. Those who gain higher marks in university entrance examinations tend to be those who went to the most privileged secondary schools, who often come from high income families. Inequitable distribution of secondary school opportunities is compounded if these students receive free higher education or pay very low fees, while those who were disadvantaged at the secondary school level must pay higher fees. The World Bank's recent report notes that "in several formerly socialist countries in Eastern Europe, including Russia, the introduction of tuition fees without accompanying student financial aid mechanisms has had a negative effect on equity" (World Bank, 2002, p. 73). Such experiences, replicated in other countries, show that the introduction or increase in fees or other cost recovery mechanisms must be linked with effective student support. This is the subject of the next section.

Student Support

In recent years there has been huge interest in different forms of financial support for students, with fierce debates about the relative merits of grants, scholarships, or bursaries (awarded on grounds of academic merit or financial need) and loans, and equally fierce arguments about income-contingent loans (repaid as a fixed percentage of a graduate's income) versus 'mortgage-type' loans (repaid over a fixed period of time). Much of the early debate was based on assertion and prejudice rather than research, but in recent years there has been considerable research on the effects of different types of student support (Barr, 2001; Chapman and Ryan, 2002; Woodhall, 1992 and 1997; Ziderman and Albrecht, 1995; Ziderman, 2002).

There has been particular interest in, and a growing willingness to introduce, student loans. There are many reasons for this. Rising enrolments, combined with financial stringency, convinced many governments that student support based entirely on grants was proving increasingly costly to the taxpayer, and ultimately unsustainable. This was one argument used by the British government to justify the introduction in 1990 of the first student loans in the UK. It also argued, however, that higher education is a profitable investment for the individual, offering private rates of return that are often well in excess of the social rate of return. The recent White Paper provides further evidence of the private returns to higher education: "Graduates…earn, on average, around 50 percent more than non-graduates…are half as likely to be unemployed… even though the number of graduates has risen significantly over the last twenty years, the gap between graduate and average earnings hasn't narrowed at all. If anything, it has increased" (DFES, 2003, p. 59). On grounds of equity, therefore, as well as efficiency and financial sustainability, governments in countries including Thailand and South Africa, as well as Australia and Britain, argued that repayable loans are fair, since graduates who enjoy better job prospects and higher lifetime incomes as a result of higher education should not be subsidized by less fortunate taxpayers.

Student loan schemes now exist in about sixty countries. Although many have faced serious problems of inefficient recovery and default, others have proved more successful, and several countries, including Jamaica, Kenya, and Venezuela, have reformed their loan systems under World Bank projects, making them more efficient. Reforms have included:

- Increasing interest rates, so that graduates pay a positive real interest rate, rather than a rate below inflation or even zero interest, as in some countries;
- Improving criteria for selection of loan recipients and for targeting subsidies, through the development of simple but effective tests of family income, to identify the most needy students;
- Improving mechanisms for storing and processing data, including installation of computerized systems with specially developed software;
- Privatizing collection of loan repayments and improving collection mechanisms.

The International Institute for Educational Planning (IIEP) organized a series of international forums to review experience with student loans (Woodhall, 1990, 1991a and b, 1992, 1993). These showed that there are at least six requirements for effective design and management of a student loan scheme:

- Efficient institutional management, including adequate systems for selection of borrowers, disbursement of loans, record-keeping, data storage and processing;
- Sound financial management, including setting appropriate interest rates to maintain the capital value of the loan fund, and cover administrative costs;
- Effective and transparent criteria and mechanisms for determining eligibility for loans, for targeting of subsidies and deferral or forgiveness of loan repayments;
- Adequate legal frameworks to ensure that loan recovery is legally enforceable;
- Effective loan collection machinery, using either commercial banks, the income tax system (as in Australia and the UK), national insurance mechanisms (as in Ghana and Singapore), or collection by employers (as in South Africa) to ensure high rates of repayment and minimize default;
- Widespread information and publicity campaigns to ensure understanding and acceptance of the terms for borrowing and repayment of loans.

The last point is often neglected. As noted earlier, one of the reasons for the success of HECS in Australia, according to Chapman and Ryan (2002), was strong political will on the part of government, accompanied by effective publicity campaigns to explain to students and the wider public the principles and justification of charges. Both these factors are also cited by R. Jackson (2002) Chief Executive Officer of South Africa's National Student Financial Assistance Scheme (NSFAS), to explain the success of NSFAS, which provides a combination of loans and bursaries for disadvantaged students.

NSFAS was first established in 1991 as a small scheme to assist black disadvantaged students in Apartheid South Africa. Since the democratic election of a government committed to political, social, and educational transformation and the eradication of racial, class, and gender imbalances and inequities, NSFAS has grown into a national scheme which has helped over 600,000 black students of academic ability but poor family background finance their tertiary education. NSFAS is funded mainly by government contributions and donors, but an increasing share of its financing comes from loan repayments by former students, now graduates, able to repay their loans. Students from poor families still face severe financial and educational barriers to entry and successful progression through higher education in South Africa, but NSFAS is helping to overcome these barriers for some of the most disadvantaged students. Jackson argues that "NSFAS must become sustainable so that future generations of students can gain the same benefits from the scheme as current and previous borrowers. There are three keys to NSFAS being and remaining sustainable: firstly, the ongoing capitalization of the scheme; secondly, innovative, efficient and resilient administrative systems; and, thirdly, the recovery of the loan portion of the award from students and the recycling of these funds back into the scheme in order to assist future generations of students" (Jackson, 2002, p. 92)

Although the South African loan scheme works well, there are skeptics who doubt whether it could be replicated elsewhere in Africa. Nevertheless, there was great interest in student loans in the Conference on Cost sharing in Eastern and Southern Africa organized jointly in March 2002 by the University of Dar es Salaam and the International Comparative Higher Education Finance and Accessibility Project.[5] As a follow-up to that conference, the International Project hopes to work with the Scholarships and Training Awards Committee of the Southern African Development Community (SADC) to identify minimum criteria for successful loan programs in the African context and to undertake further technical analysis on the design of loan program components.

Despite the growth of student loan programs, there is mounting evidence that loans are not sufficient, by themselves, to ensure equitable access. In the UK, where grants were abolished in 1998, independent committees in Scotland and Wales[6] found evidence that some potential students from disadvantaged backgrounds were discouraged from enrolling in higher education by the fear of debt. Both the Scottish Executive and the National Assembly of Wales responded by introducing means-tested grants for students from the poorest families studying in Scotland or Wales (Richards, 2002; Rees, 2002). The fact that the British Government now intends to reintroduce means-tested grants for students from low-income families in English universities, starting in 2004, shows that this lesson has had a clear impact on UK government policy.

The fact is that student financial aid has many different objectives, including equity (encouraging access for poor students) and efficiency (increasing the feasibility of cost recovery). Policy makers need to be clear about their priorities and objectives when designing student aid programs. Ziderman (2002)

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5 See Note 4.

6 See Independent Committee of Inquiry into Student Finance (2000) and Independent Investigation Group on Student Hardship and Funding in Wales (IGSHFW) (2001).

analyzes alternative objectives of student loan schemes. Such an analysis could usefully be extended to other types of student aid, including scholarships, bursaries (awarded on the basis of academic merit or financial need), indirect aid, in the form of subsidized food or accommodation, and subsidized employment opportunities for students, such as ‘work-study’ in the USA. More evidence is needed on the effects of alternative systems, but a clear lesson that is emerging from several countries is that mixed systems are often more flexible and effective than a system relying solely on grants or loans.

Putting the Messages into Practice: The Example of Mozambique

One country that is putting into practice many of the lessons and messages summarized in this article is Mozambique. The World Bank report argues for a strategic approach to tertiary education reform, based on a coherent policy framework, a comprehensive and system-wide development approach, and a long-term vision for the development of tertiary education. The Minister of Education in Mozambique appointed a Task Force in 1999 to prepare a Strategic Plan for Higher Education. A new Ministry of Higher Education, Science and Technology was created in 2000, and, after an extensive process of national and provincial consultations, including debates with stakeholders, including employers, academic staff, students, and representatives of civil society, as well as politicians and policy makers, a Strategic Plan for Higher Education in Mozambique, 2000–2010 was approved by Parliament (Ministry of Higher Education, Science and Technology, Mozambique, 2000).

This Strategic Plan, based on statements of mission, vision, and guiding principles that stressed equitable access, quality and relevance, responsiveness, sustainability, efficiency, and institutional autonomy combined with accountability, covers all HEIs in the country (including five public and five private HEIs). It aims to develop and support a diversified, flexible, integrated, and cost effective higher education system, to meet high level labor force needs for the socio-economic development of the country.[7] Following approval of the Strategic Plan and using it as the guiding framework, the Government of Mozambique has recently started to implement a World Bank Higher Education Project, designed to enhance internal efficiency and expand the output of graduates, improve equitable access (based on gender, location, and socio-economic factors), and improve the quality and relevance of higher education.

The project includes system-wide capacity building, to assist the Ministry of Higher Education, Science and Technology in developing regulatory, man-

7 For an analysis of the historical development and current situation of higher education in Mozambique see Mario, Fry, Levey and Chilundo (2003).

agement, and co-ordination capacity. These improvements will provide the kind of 'enabling environment' which the 2002 World Bank report recommends. In addition to strengthening the existing public universities and the support for new types of HEIs or programs, including distance education, the project will support two new activities that will put into practice some of the messages described in this article. One is a National Scholarship Fund, which will design, introduce, and operate, on a pilot basis, a publicly financed scholarship scheme to provide financial assistance and advisory services to students from three Mozambique provinces previously under-represented in higher education. The program will cover costs of tuition (including fees and books), travel, subsistence, and lodging for students from disadvantaged groups, and students attending both public and private HEIs will be eligible. Design and operation of the Scholarship Fund will draw on the experience of an existing small scale program in one province, the Nisomé Scholarship Fund (Nisomé means 'let's study' in the local language). Experience from this program showed that:

- A scholarship program that aims to increase access for students in under-represented provinces should be administered at provincial, rather than central level, to ensure that it responds to local needs;
- Providing funds directly to students, to cover fees and living expenses for their chosen course, may be more effective, in promoting responsiveness to labor market and social demand, than allocating the money to HEIs;
- Academic support and guidance for students, as well as money, is needed to improve student access and performance and prevent drop-out;
- Governance mechanisms and structures must be designed to promote accountability and responsiveness to provincial priorities;
- Well trained, committed and experienced staff are essential for the success of the program.

Another interesting component of the project is the Capacity Building and Innovation Fund, which supports innovation in both public and private HEIs through a competitive fund. HEIs will submit proposals for activities designed to improve access and quality; these proposals will be evaluated by a national committee, on the basis of well-defined and transparent criteria. There are several examples of competitive funds supported by other World Bank projects in Argentina, Chile, Indonesia, and Vietnam. Such funds provide financial incentives to HEIs to develop innovative proposals to improve quality, responsiveness, or access, by investing in staff training or equipment to support curriculum reform, for example, or by developing new courses to respond to labor market needs or remedial programs to reduce drop-out rates. A "demand-driven" competitive fund increases institutional autonomy, by allocating funds in response to institutional proposals, rather than on the basis of governmental funding formulae, while stringent monitoring, on the basis of agreed performance indicators, ensures accountability.

An interesting feature of the Mozambique program is that it is open to private, as well as public HEIs. Private HEIs will be required to repay, on favorable terms, money allocated under the Innovation Fund. These funds will, in turn, be allocated to the National Scholarship Fund, thus helping to improve its sustainability.

The experience of Mozambique is just one example of a number of innovative approaches, in Africa and other regions, designed to help meet the challenges of expanding access, improving equity, ensuring financial sustainability, and promoting institutional autonomy and accountability. It is too soon to evaluate the effects, as the project started only in 2002. It is presented here as one example of the myriad attempts to put into practice the messages summarized in this article and to apply lessons from international experience.

Conclusions

The 'new' messages outlined in this document include several that are actually far from new. For many years, researchers and policy analysts have emphasized the important contribution of higher education to economic and social development. They have also recommended strategic and comprehensive planning, institutional diversity, autonomy and accountability, and financially sustainable financing of higher education, including well-designed systems of student support and financial aid to increase access and improve equity. What is 'new' in the documents reviewed in this article, is, first, an increased emphasis on messages such as the need to combine strategies on cost recovery with student aid and the value of targeted scholarships or grants to supplement student loans. Secondly, there is concern about practical implementation issues as well as theoretical justifications for cost recovery or other so-called 'solutions'. Finally, there is recognition that policies on cost sharing, including fees and student support, should be part of a long-term strategic planning approach to higher education, rather than piecemeal responses to financial austerity.

Several lessons and messages emerge, both from the documents reviewed in part two and in the international experience summarized in parts three to five. These include:

- Higher (tertiary education) is vital for economic and social development and contributes to economic growth through creation and transmission of knowledge and building of human and social capital;
- Governments and higher education institutions need to adopt a long-term strategic planning approach for tertiary education, based on a clear vision and diversity of institutional mission, programs, and modes of delivery;
- Higher education needs secure and sustainable financing to meet economic and social demand for expansion while preserving or enhancing quality. This requires some form of cost-sharing, since governments cannot do it alone, and those who benefit from higher incomes and better job opportunities, as a result of higher education, should contribute to its cost;
- Policies on cost recovery, including tuition fees, other charges, and deferred payment schemes all need to be developed in conjunction with well-designed programs of student support and financial aid;
- Introduction or increases in fees and student charges need to be carefully monitored, to assess their impact on access and equity;
- Student loans have a positive role to play in systems of student support, but they need to be well-designed and administered, and should be combined with well-targeted grants, scholarships, and other subsidies to ensure that the most disadvantaged potential students are not discouraged by fear of debt. Income contingent repayment of loans has advantages over 'mortgage-type' loans but requires accurate measurement of graduates' income and efficient recovery mechanisms;
- There is a world-wide trend towards greater institutional autonomy for higher education institutions, rather than detailed government control. Using financial incentives in the funding of institutions can encourage diversity, flexibility, responsiveness, and innovation but must be combined with careful monitoring to ensure accountability and consistency with national policy priorities.

The reports reviewed above argue that higher education faces numerous challenges—both old and new—but the international experiences described here show that there is a wealth of ideas for tackling these challenges and that governments and institutions are ready to innovate and introduce reforms. The fact that this new journal, devoted to higher education in Africa, has just been launched is another, very welcome, indication of the eagerness of the higher education community to respond to these challenges. Ideally, this summary of lessons and messages from international experience will also contribute to the search for effective solutions to problems of cost sharing.

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