Research Note

Funding Higher Education in Rwanda through Loans or Grants: efficiency and equity arguments

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Contextualisation

This research note describes a proposed study which aims to examine the issue of how higher education in Rwanda might be funded. The amount the government spends on one student at university equals that of 150 students in a primary school. Research carried out in other countries suggests that loans are more effective, and equitable, as a form of financial aid. The implications of this, for the Rwandan context are discussed.

Abstract: *This research note describes the background to and plans for, a study to examine whether, in the context of higher education in Rwanda, the provision of loans, instead of grants/scholarships as a means of financial support to students in university, is likely to enhance equity and efficiency. It also aims to examine whether the current system is effective in meeting the manpower and employment needs of Rwanda. The participants of the proposed study include Rectors, Vice-Rectors, and student leaders in public and private universities: participant perceptions will be collected through questionnaires and interviews. Those interviewed will also include the Minister of Finance and Education. Quantitative methods will also be used to analyse the relative efficiency of loans compared to scholarships. It is hoped that the results of the study will indicate whether loans are a more efficient and equitable financing method compared to scholarships.*

Introduction

If rich nations are finding it difficult to support Higher education (HE) (Johnstone, 2004; Oketch, 2003), it is much more difficult for poor nations such as Rwanda. Education is one of many worthwhile investments in life. According to Human Capital Theory, higher education enhances productivity, raises the earnings of individuals and contributes to economic growth (Cohn and Geske, 1990).

The traditional aim of the HE sector, especially in developing countries such as Rwanda, has been to provide education to an elite group of students who would be needed by the economy. But times have changed; all governments want to support HE through schemes that will benefit student's access to HE, but in return, will require students to pay back the cost of their access after their course/ programme has finished (Woodhall, 1987). Since the numbers originally pursuing HE were limited, the overall public expenditure, or subsidy, was low. But with technological advances and economic, and cultural changes, the demand for graduates, in almost all disciplines, has increased tremendously (Boyle, Brock, Mace and Sibbons, 2002; Glennerster and Wilson, 1970). This is especially true in Rwanda, where education aims to meet the manpower needs of the country, after this problem was exacerbated by genocide, and the war of 1994. This destroyed people, the public sector and the countries' infrastructure. The demand for university education increased enormously after 1994 because there were many returnees to Rwanda. Many of these had been denied access to HE before, in the countries where they had been taken as refugees, both in Africa and overseas.

In the context of Rwanda, the war and genocide of 1994 killed nearly one million people, many of whom were educated; thereafter the government needed educated manpower urgently, so that the government, itself, could function effectively. Those that participated in the genocide were also highly educated. These people were then in prison or had fled their motherland and consequently the government had to train, in a short a time as possible, the necessary manpower to replace the expatriates who had taken over the public sector after 1994.

After the 1994 war, and genocide, the number of students enrolled for HE increased greatly, particularly among those citizens who were denied the chance to enter HE because they were Tutsis. This demanded a proportional increase in the number of teaching staff; replacing some, who had participated in the genocide and war, which had then gone into exile, either in the former Zaire, or to the rest of the world.

Before 1994, many people, but especially the Tutsis, were denied access to HE. They were regarded as 'third class' people who could not go to school; 1994 became a turning point in their lives. They were liberated from the bondage of not being able to attend school.

The National University, in Rwanda, has graduated less than 5000 graduates from its various faculties since its inception in 1963. Even before the war, education was regarded as an elite activity. It was a privilege to join the university, but it was also a necessity if the necessary educated manpower was to be developed. This meant that demand for university education, by individuals and the state, was accelerated as a result of the new political decision to democratise education. This led to a continuous, rapid expansion of the HE sector, both in terms of numbers of students and in the numbers of private and public institutions.

The democratisation of education in Rwanda, from 1994 onwards, led to a change from an elitist secondary education system to one being universal: a necessity for every Rwandese. As a result demand for HE increased greatly (Mazimpaka and Daniel, 2000). The government encouraged everybody - young and old, to enrol in the school level of their choice. Students, who had completed primary education before, could not, however, be allowed to continue to their secondary, and later, to higher education. Both secondary and higher education had been for the chosen few. However, as the HE policy shifted from supporting an elitist system to one of mass participation, the Government of Rwanda was facing budgetary constraints. These were exacerbated by acute economic crises and the structural adjustments to the economy required by the World Bank and International Monetary Fund (IMF).

To overcome financial constraints, where there were no additional allocations of resources available to them, or few new sources of finance, or both, universities, globally, have had to utilise existing resources more efficiently. The former option included an increase in the student to staff ratio, more efficient use of the infrastructure, and more time spent on research consultancies linked to the private sector. These consultancies did not benefit individual consultants but a big percentage of the value produced was taken by the university (although consultants also benefited). But such changes may have been at the expense of the quality of education in terms of the teaching style, method, number of students in class and quality of research. However, Williams and Furth (1990) argue that there is a worldwide consensus on the need to find new sources of funding in order to maintain the quality of education.

I believe that Rwanda should find ways of funding its HE system to meet this increasing demand, as it ensures quality, efficiency and equity. This is going to be the thrust of my research.

A number of countries have introduced, or reintroduced, tuition fees in public higher education; these include Australia, Austria, Brazil, China, Hungary, Kenya, New Zealand, Tanzania, and the United Kingdom (Johnstone and James, 2000; Oketch, 2000). Some governments have recently started allowing higher education institutions to enrol a particular proportion of students on a full fee-paying basis. This is particularly the case in Australia (since 1998), Russia (since 2000), China (since 1988) and Hungary (since 1997). In other countries - Australia, Canada, Mexico, the Netherlands, Portugal, and the United States, tuition fee levels have been increasing; often faster than the rate of inflation. India has experienced a slow shift in the direction of greater cost recovery, though at a very modest pace (Johnstone and James, 2000).

However, the use of differential tuition fee rates, are gaining ground, particularly in countries with an existing tuition fee tradition. Differential tuition fees have a long tradition in the United States, Canada, Korea, the Philippines, and Japan. But also other countries increasingly adhere to this opportunity, such as Australia (1997) and New Zealand. The most recent accepted plan – involving the introduction of top-up fees, has been in the United Kingdom.

Cost sharing has also been introduced, by means of student loans, in place of grants and scholarships. The growing importance of loans can be indicated by three major trends. First, in countries where student loans have a longstanding tradition, such as Australia, Canada, the United States, and several Asian countries, the proportion of loan support has been increasing more rapidly than other forms of aid as increases in tuition and living expenses are primarily compensated in the loan portion of national student aid systems. Although individual cases may differ, on average, students get a larger share of their student support by means of loans.

The second trend has arisen from limited public funds and a growing emphasis on private returns to higher education. Since the 1990s, there has been a trend towards the introduction of student loans in countries where they did not exist before. For example France (1991), Hong Kong (1998), Hungary (2001), Poland (1998), Slovenia (1999), India (2001), Egypt (2002), Kenya (1991), South Africa (1994), and the United Kingdom (1991) – all have introduced, or planned to introduce, student loan programs in recent years.

The third trend, apparent in some countries, such as Canada, the Netherlands, the United Kingdom, and to some extent the United States, has been the use of student loans to replace existing grants and scholarships. But regardless of the increased emphasis on student loans, there still seems to be a lot of resistance against borrowing from the students' side.

In many countries, cost sharing takes more indirect forms, in the sense that – increased study related costs are expected to be met by students and their families. Because student support budgets do not keep up with increased costs, students have to dig into their own resources or more strongly depend on their parents. Often, HE students are legally, or morally, considered to be dependent on their parents. For example, this applies in some Western European countries (eg, Austria, Belgium, Germany, Greece, France, Italy, Portugal, Spain and the United Kingdom); in most countries in Central and Eastern Europe; and in Africa, Asia, Latin America, Australia, Canada, and the United States. In many of these countries, parents receive indirect assistance toward educational costs in the form of family or tax allowances. One of the main criticisms of this way of supporting students is that students are financially dependent on their parents, who do not always pass on the family benefits to their children (Barr and Crawford, 2005). In addition, the arrangements are often complex and tax breaks often offer larger benefits to higher-income families.

A related tendency is for students to seek part-time work to help defray education costs and avoid student loans while affording a higher living standard. Not only are more students taking part-time jobs, they are also working more hours. This tendency is particularly apparent in countries where private and part-time higher education has grown rapidly (Woodhall, 1987a and b).

One of the ways to meet the growing demand for higher education services, while public budgets do not allow expansion of the public higher education system, is the increase of (paid-for) part time and private higher education. Part-time higher education more often becomes a route through which regular education services can be offered to students who were not admitted to publicly funded, full-time study, but are willing to pay for their education. This tendency has grown in Central and Eastern Europe, Latin America, and Africa especially at Makerere University. Poland is an extreme case, where more than 50% of its students are enrolled in part-time higher education (Johnstone and James, 2000). In quite a number of cases, professors who teach in public full-time higher education also teach in part-time higher education. The same type of growth is visible in many countries in the private higher education sector.

In most cases, private institutions require students to pay cost-covering or even commercial (profit-making), tuition rates. Hence, students and their parents are bearing a greater portion of higher education costs. This is particularly true in programs with high expectations of private, monetary, returns. Private institutions traditionally absorb a considerable part of the HE sector in most Asian countries, Canada, and the United States. In most of these countries, the private-school sectors are still expanding. In many Western European countries the private higher education sector is traditionally small. In Africa, and Central and Eastern Europe, private higher education sectors have only recently been established.

Many countries (USA, Australia, Sweden, UK and Kenya) have introduced cost-recovery methods such as loan schemes to raise funds for participating students and increased resources to support HE. Various types of loan programmes have been implemented (Barr, 1989; Woodhall and Barr, 1989). One is mortgage-type loans, whereby repayment, is made over a specified period, usually with fixed monthly payments; interest rates and the maximum length of repayments are used to calculate the fixed periodic payments. Interest rates may be partly, or fully, subsidised by governments or not at all. The level of subsidy will be a matter of judgement dependent on the governments' objectives with respect to HE.

An alternative type of loan is the income-contingent loan in which loans are repaid as a proportion of a graduates' income each year, usually organised either through income tax, national insurance contributions, or through the banking system. This means HE institutions may regard students as customers, while students see university education as an investment, rewarded with future high monetary and non-monetary benefits (Barr, 1989; Woodhall and Barr, 1989).

But the idea of borrowing for learning, contrasts with the traditional system of grants and scholarships and has ignited a heated argument among economists of education (Woodhall, 1987a and b; Woodhall and Barr, 1989). Barr and Crawford (2005) for instance argue that the provision of student loans to eventually replace a grant scheme is better than the existing grant system in terms of equity and efficiency. The whole debate raises the question of who should benefit, who should pay and how they should pay for HE. In the UK, or the developed countries, with developed economies, students usually get jobs after graduating. In Rwanda, where many students are employed by government, pay can be less than £80 per month. Some argue that "…he who benefits from education should pay for it…", because of the wider benefits associated with education. Others propose that the state should pay, since education may be regarded as a public good (Barr and Crawford, 2005; Woodhall, 1987a and b). Society and the taxpayer should also contribute since HE benefits both individuals, and society, as a whole. This will be explored further later. I next examine different forms of subsidies to HE and private finance.

Forms of Subsidies

If a government decides that there is a need to subsidise HE, the major question is whether to subsidise institutions, or students, as well as how much subsidy should be given. Though the real market may not be working in HE, the way in which governments provide subsidies may generate competitive market mechanisms. Therefore governments can subsidise HE by providing direct grants to institutions using different funding models, such as through a bureaucratic, collegial or market approach, or directly to students so as to enable them to enter the market (Mace, 1992; Williams, 1987).

Because of the weaknesses of institutional funding models, it would be more efficient and equitable for governments to subsidise students directly rather than through institutions (Albrecht and Ziderman, 1991; Blaug and Shaw, 1991; Woodhall and Barr, 1989). Should students be expected to pay the full cost of attending university with direct financial support to be provided by the government? Perhaps, students should pay the money they receive as living allowances? This would enable more people to benefit from HE than would otherwise be the case, even though it is inequitable to those taxpayers who do not attend university education (Woodhall and Barr, 1989). The benefits of education are enjoyed by a wide range of people both in private or public and in government. Education increases the tax compliance rate, reduces the crime rate, and the public is made aware of their rights and responsibilities as well as their obligations (Becker and Lewis, 1993; McMahon, 1999).

Governments may subsidise education on external efficiency grounds and to assess its benefits, private rates of return may be modified into social rates (Belfield, 2000). Government may subsidise education in a variety of ways, such as through direct payments to institutions to cover costs; unconditional grants; ability-tested scholarships, means tested scholarships, repayable loans (at subsidised interest rate), employer subsidies for education release; or tax concessions either to students or parents (Woodhall,1991; Belfield, 2000).

Subsidies for HE are typically grounded in the idea that it has external benefits as some of the returns from schooling are realised by society, as a whole, rather than an individual. This is the principle reason used to justify subsidies for tuition fees that do not cover the full costs of HE in developed countries (Barr, 1993). Subsidies may be given to cover the repayment period of loans. It may be given in the form of assistance for students experiencing difficulties with their loan payments, not only of direct benefit to those actually facing the hardship, but to all borrowers, including those who never use the assistance. The benefit of this subsidy approach is that it reduces the risk to individuals who might otherwise hesitate to take out a loan to finance the investment because they would face significant hardships were they to have lower than expected earnings. They would be willing to do so, however, in the presence of such an implicit insurance scheme. This will increase the potential of the student loan system to perform its fundamental function of helping individuals overcome liquidity constraints, which stand in their way of their pursuit of HE.

Subsidy might be necessary when the potential borrowers are ‘debt averse’. This may reflect a situation where individuals are unwilling to take up loans to finance their HE, even though they know it represents a good investment, and a loan could facilitate that undertaking. This debt aversion may take various forms, including being risk-based, value-based and sticker price. Risk-based debt-aversion is associated with returns to the schooling investment and this can be treated more effectively by providing insurance against excessive debt burden, either with interest relief and a debt reduction program, or with income contingent repayment. Value-based debt-aversion occurs as a result of people who are unwilling to borrow, perhaps for religious or other cultural related reasons. This can be overcome by providing grants, or by providing true information about costs and benefits to investment, and overcome entrenched attitudes (Johnstone and James, 2000). ‘Sticker price debt-aversion’ occurs when potential students are deterred from borrowing, because the total debt expected to be accumulated over the period of HE seems to them excessive. This may be related to lack of information, or misinformation, over debt accumulation.

The trend at present is towards cost sharing with governments providing subsidies to students. Besides that, students in some countries benefit from a situation of no, or low, tuition fees and many governments make financial support available for students. International practice shows a wide range of ways in which governments help students meet their HE costs, including tuition fees, other mandatory charges, study materials, living expenses and room and board.

In examining the scholarship/grants currently in existence, and possible loans to be introduced in Rwanda, I will ask whether "optimal subsidy can be achieved". Higher education should be expanded up to the point where its marginal social cost equates to marginal social benefit (Belfield, 2000) and society has an optimal number of students (Mace 1987). Since the genocide, and war, of 1994 we have seen a big increase in the number of students seeking HE in Rwanda; general enrolment of students in high school has increased.

The channelling of government subsidies, through students, will generate competition at the HE level (Albrecht and Ziderman, 1992).This competition could be promoted on two levels; namely, students would compete for support and higher education institutions would compete for students. Hence, direct subsidies for students would be expected to stimulate efficiency and quality. Therefore, governments can finance HE by subsidising students through grants, fees and quasi-market provision. Governments can give grants to students directly according to their financial needs and academic merits (Woodhall, 1987a and b) and even pay, or subsidise, the tuition fees on behalf of students. Under a quasi-market provision, loans guaranteed by government, or vouchers, are given to students. Contracting-out is often understood as outsourcing from the public provider: in a broader sense quasi-market means that the former public sector function is subject to private Sector competition, where the public provider can continue to act as one of the competing actors.

There is evident disagreement over whether students should be subsidised through loans, grants or scholarships, or even whether they should be subsidised at all. This study will examine these issues, considering the efficiency and equity aspects, in the case of Rwanda, and will conclude by proposing a modified financial support scheme for HE. The study will be informed by the following research questions and research methods:

> 'How efficient and equitable is the current system of funding Higher Education in Rwanda?'

and;

> 'To what extent can a loans scheme be designed to enhance equity and efficiency in Higher Education provision?'

The methodology for this research will combine a variety of qualitative and quantitative techniques. Respondents to the study will include the Minister of Education and Ministry of Education officials, selected administrators and senior staff in the university system, and university student leaders and undergraduates.

The next stage

The next stage will involve data collection. I will start with a pilot of the questionnaires and interviews, and after refining the research instruments, will gather data using questionnaires, interviews and documentary analysis.

In light of the discussion to date, and my literature review, it is clear that HE financing in Rwanda and elsewhere has entered an era of public financial constraint. The extent of the budgetary constraints will be explored in the fieldwork as will the possibility of accessing supplementary sources of finance. I will be particularly concerned with exploring the development of a loans scheme that will serve both efficiency and equity purposes.

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