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RESEARCH ARTICLE

EQUITY IMPLICATIONS OF FINANCING STUDENTS IN HIGHER EDUCATION THROUGH A STUDENT LOAN SCHEME: THE CASE OF THE KENYAN HIGHER EDUCATION LOANS BOARD

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ABSTRACT

The paper highlights the tremendous efforts that the Kenya Government has made in the provision of higher education opportunities. However, despite efforts to equalize opportunities at this level there is concern for disparities. Inequitable access and participation of the various socio-economic groups in education are considered the cause of such disparities. The quantitative expansion of higher education undertaken by the government since the 1960's appears to have negatively impacted on equity.The paper argues that higher education is biased for and against certain groups of people in society terms of the social class composition of students. This is a worldwide phenomenon and needs to be addressed using multi-prong approaches. In higher education however, the government can reasonably enhance equity and increase participation of students from poor family backgrounds by providing financial support to needy students. To equalize opportunities the financial assistance that is managed through Higher Education Loans Board (HELB) should be selective and repayable when students have graduated and are working - delayed payment programme.

INTRODUCTION

Kenya has made remarkable progress in the provision of higher education opportunities unparalleled elsewhere in the Eastern African region. This progress has been characterized by phenomenal quantitative expansion of public higher education system. At independence in 1963 there was only one public university and by 1995 the number had increased to five public universities. During the same period the number of polytechnics has also increased from one to four. Remarkable expansion has also taken place in other forms of non-university institutions. Notable progress has also been made in private provision of university education. In 1980, for example, there was only one private university; by 2008 this had increased to eighteen. However, despite government 'efforts to widen opportunities for students from all social economic background through quantitative expansion of the higher education sub-sector there is a growing concern for disparities in access to higher education (MOF, 1996). Recent enrolment figures have been a source of great concern to Kenyan educators and policy makers. There is evidence of a significant drop in enrolment at all levels of the education system. Transitional rates from Primary to secondary and secondary to university have been falling. According to recent government statistics, only 76 per cent of the primary school age population (6-13) in 1995 was enrolled in primary schools with 27 per cent of secondary school age population (14-17) in secondary education (GOK, 1997). University enrolments have also been low with only 7 per cent of those in secondary schools joining university. The challenge facing Kenya, in the light of resource constraint, is how to achieve social and educational objectives in higher education (equity, equality of educational opportunity). This scenario of unprecedented demand/supply-driven expansion has negatively impacted on equity, which was the objective of the expansion, as well as access, quality, effectiveness and efficiency of higher education. Efforts to democratise access fuelled by public subsidies do not seem to have had any significant effects on the participation rates of students from the lower end of the socio-economic scale in Kenya and other countries of Sub-Saharan Africa (Knight et al, 1990, Ziderman and Albrecht, 1995, Richardson, 1981).

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EQUITY AND ACCESS ISSUES IN HIGHER EDUCATION

Higher education is the ultimate aim of every parent who has a child in primary or secondary school in Kenya today. Apart from benefits higher education accrues to society in terms of creation of a pool of trained and skilled manpower essential for increased productivity and economic growth it has very real direct individual benefits. It confers social status, enhances quality of life, self-respect, individual dignity and individual freedom to control ones own life (World Bank, 1993). Individuals who gain access to higher education are better placed to secure well-paid jobs and have access to position of greater influence, wealth and power including controlling factors of production. Higher education, therefore, is arguably the best form of investment in the future. Provision of equitable opportunity to all citizens to pursue education at all levels irrespective of their gender, race, religion or socio-economic status is at the heart of Kenyan government education policy and is embedded in all our respective public universities Acts. However, higher education is biased for and against certain groups of people in terms of the social class composition of students and the social difference in educational attainment of school students (Williamson, 1981, Burgess, 1981). Studies done in both developing and developed countries indicate that higher education, as a whole is selective to at least some degree in favour of children of the more affluent as against poor families. Also in favour of children of the better against the least educated men ((Bowman, Millot and Schiefelbein, 1986).

International Studies

According to Burgess (1981) higher education is exclusive. This exclusiveness is in its form, content, organisation, tradition and selection. Looking at the British education system in the 1980s Burgess observed that a greater number of eighteen -year-olds had effectively been excluded because they had been denied the chance and even the ambition to consider higher education by their previous education. These student had either not met the minimum qualifications or higher education places had been offered to better-qualified students. This could be said many times over for most education systems particularly in the developing countries. In fact, Richardson (1981) makes a damning remark about the Western systems of higher education in relation to social class. According to Richardson, the Western systems of higher education have failed to promote equality on four important criteria of equality identified by Levin (1976) as: the equality of educational access; the equality of educational participation; the equality of educational results and the equality of educational effects upon life chances. Higher education is considered to be exclusive by virtue of the idea of higher education itself. Although it is argued on purely objective academic grounds, the fact of the matter is that those in higher education do not display the same characteristics as the adult population. They are not only young but tend to be middle class in composition. In other words, the composition reveals an under-representation of some groups in society. These biases may be in form of age, class, disability, areas of origin, language, religion, race or sex (Burgess, 1981, Richardson, 1981). This image of higher education is recognizably similar throughout the world, both in the developed and developing countries. The disparities, however, may not be as pronounced or as sharp in the developed as in the developing countries.

Two OECD background studies, Nos. 4 and 10 prepared for the 1970 OECD conference on 'Policies for Growth' are worth a mention particularly in connection with social selection and class bias in higher education. The two studies focused on disparities and achievement of students by their socio-economic backgrounds. Data was compiled from national surveys and research findings in the OECD member countries. The two studies concluded that chances of being in school were distinctly superior for those with higher status origin, somewhat advantageous for those with middle class background and inferior for those from the lower strata or with agricultural backgrounds (OECD, 1971). Background Study No. 4, for example, showed that considerable selection took place below the university level, especially at secondary level. That social bias in selection at this level often against the working class intensified social class differential in higher education making children from upper class backgrounds highly over-represented in comparison with their proportion in the population. Background Study No. 10 likewise noted that the social disparities in participation rate at the university level in which the lower social strata were grossly under-represented was a natural result of the accumulation of social disparities in achievement and transfer rates at every level of the education system. The study found that below the university level the transfers and dropout rates were socially biased. The dropout rates in secondary schools, for example, were found to be higher among lower social classes than among the upper classes.

Kenyan studies

Relatively few academic studies on the crucial question of education and equity have been undertaken in Kenya. The use of large scale national surveys or data from official sources to study the phenomenon of social selection and class bias in higher education such as discussed above are far and between. In Kenya, only a handful of individual academic studies that relate school achievement of students with social background, as a form of social class bias in higher education, have been done. In one such study, Maundu (1988) found parental levels of education were found to be significantly different for students attending the extra-*provincial* (*national*), *provincial* and harambee (*district*) secondary schools. In terms of parental occupational status about 50 percent of fathers of students attending extra-*provincial* schools were either in managerial and professional positions or were employed in skilled occupations. This percentage, however, was correspondingly lower for fathers of students with similar occupations but with children attending *provincial* (33 percent) and harambee (28 percent). Students in either *provincial* or harambee schools had a higher proportion of fathers in unskilled occupations (60 percent) than those attending extra-*provincial* (40 percent). According to this study the combination of father's education and occupation appeared to be crucial in contributing to the high level of performance in KCPE and admission into extra-*provincial* schools. This depicts the social selection that goes on in Kenya's education system, which begins as early as the child enters the primary school.

A study by Boit (1998) on the socioeconomic origins of student enrolled in higher education in Kenya, found that the middle and upper income families whose children were more likely to complete secondary schooling and enrol in higher education, disproportionately enjoyed higher education subsidies. This was primarily attributed to inequality of access and low participation of children from low status backgrounds. The poor tend to be denied access much earlier in their lives by factors, which combine to work against their access to earlier education opportunities such as cultural attitudes, environmental factors and poverty. In another study titled; Education, Productivity, and Inequality, involving Kenya and Tanzania, Knight and Sabot (1990) found, using parental level of education as an equity dimension, that there was a strong correlation in both countries between the father's education and the level of education achieved by the employee. Put in another way, the percentage of employees attaining higher levels of education increased with parents' education. In Kenya, 36 percent of employees whose fathers had no formal education had secondary or higher education compared to 66 percent for those whose fathers' had primary education and 84 percent for those whose fathers' had secondary or higher education. According to Knight and Sabot, this is roughly an indication that children from well-educated family backgrounds tend to have a higher probability of getting secondary education. Children from family backgrounds where the fathers had less than secondary education, however, had a lower probability of getting secondary education. In terms of secondary school selection these children would effectively be left competing for secondary places that remain after the children of fathers with secondary education have claimed their places.

These conclusions are similar to those arrived at in the OECD studies discussed above regarding the effects of policies aimed at democratising educational access through quantitative expansion. Both studies confirmed that the children from more privileged backgrounds tend to remain one step a head in educational attainment. Wolfe and Zuvekas (1997), on their study of 'nonmarket outcomes of schooling', arrive at similar conclusions to those of Knight and Sabot. From a summary of existing research on the benefits of education, in which race, age and income are controlled, they demonstrate that the level of education of the next generation is definitely tied to the level of education of the parents. Children of parents with high school education were far more likely themselves to graduate from high school than are children of less educated parents. Further schooling of parents increases this probability. They also showed that children with better-schooled parents appear to have a higher level of cognitive development as well as having higher future earnings. These researches also established that wife's schooling and her husband's earnings were positively related. Equalisation of opportunities at the lower secondary level through quantitative expansion does not therefore necessarily equalise opportunities at the next level. Proportionately, fewer children from less privileged backgrounds tend to get promoted into the tertiary system. This has the effect of increasing inequality in the distribution of places at the tertiary level and disproportionately benefiting children from the more privileged background. Consequently intergenerational mobility gains achieved in a democratised secondary school system are neutralised and even reversed at the tertiary level (Knight and Sabot, 1990).

Equalising opportunities in higher education

From the foregoing it is argued that without government intervention in education only individuals who could afford to pay tuition fees could enrol (Psacharopoulos and Woodhall, 1985, Crew and Young, 1977). The consequence being that students from wealthier family backgrounds will have better chance of access to higher education than students from less well to do families. Even if it was assumed, for example, that all individuals wishing to pursue higher education had access to private capital markets it would only be those individuals who could provide adequate securities, in form of say title deeds, that would secure loans to finance their education. Generally banks cannot accept students to borrow money to finance their university education against their expected future income because it is not a tangible and secure security (Barness and Barr, 1988). For this reason capital markets cannot be relied upon to provide finances for higher education because they are imperfect. Very few students have the kind of security that is required by the banks. The requirement of security to secure loans will limit access, particularly, of poor students to the capital markets. Even if students could secure loans on the basis of future income, that is pegging loans on expected incomes, it is still very risky in a number of ways. One, there is no guarantee that a student will complete his/her course successfully and even if he/she did the future demand for his/her skills in a labour market that is susceptible to rapid changes in technology is difficult to predict. To predict expected future income from which loan repayments would be made is also another precarious exercise. Taking out insurance against failure in examination or against failure to secure a highly paid job in the future is also complex and fraught with problems (Eicher and Chevaillier, 1993). Besides there are also students who are averse to taking risks and would, therefore, not borrow loans to finance their education.

Education is, therefore, a risky business full of uncertainties to be entirely left to be privately financed through bank loans like say in the purchase of a house. In a mortgage, the house could be sold to recoup all or part of the outstanding loan in the event of a borrower defaulting which is not possible with a loan borrowed to finance investment in education using future income as collateral. In capital investment, as in the example of the purchase of a house, the house forms part of the collateral while in investment in education the security to a large extent is the student himself/herself (Ziderman and Albrecht, 1995). Crew and Young (1977) illustrate the dilemma that a bank would likely find itself if it was faced with a situation where a student who had taken a loan, against his/her future income, to finance education defaulted. They humorously remark:

> "This recourse is not open with loans given to students whether to finance their fees or to finance their consumption while they are unable to earn: in a society where slavery is illegal the lender would not be able to get his money back by selling a defaulting student."(Crew and Young, 1977, p. 20)

On account of imperfect financial and labour markets, as demonstrated above, and for the fact that in many developing countries financial markets are not well developed, government intervention in higher education becomes necessary. This is not only so as to avoid under-investment in human capital but also for equity, access and efficiency concerns. Without some form of government intervention students from poor socio-economic groups will be at greater risks of not going into higher education. It is worth noting that even in countries with developed financial markets bank loans borrowed to finance higher education are still difficult to come by and have to be guaranteed by government as the case is in the USA. Recent attempts by the United Kingdom to privatise student loan scheme and to persuade commercial banks to participate in the administration and disbursement of loans to students in higher education were unsuccessful (Higher Education Supplement, November 17 1995). It is precisely for these reasons and against this backdrop that the government of

Kenya through the Kenya Gazette Supplement Acts 1995 established the Higher education loans Board to grant loans to assist Kenyan students to obtain higher education at recognized institutions (GOK, 1995)

EQUITY IMPLICATIONS FOR HELB

Public subsidisation of higher education is often regressive (going to those who need it least) since students in higher education are often disproportionately from the wealthy families. Higher education subsidies tend, therefore, to increase inequalities particularly of students future earnings. Cost-recovery measures however, reduce regressive tendencies in public financing of higher education and thus improve equity in the distribution of public resources. According to the Chambers English Dictionary, "equity" means fairness or impartiality. This concept, therefore, carries the notion of justice. In discussing the distribution of educational resources equity refers to equal treatment of equals or unequal treatment of unequals and ensuring that inequalities are not transferred from one generation to the next in perpetuity. "He who benefits should pay" and "Ability to pay criteria" underpin the usage of the concept (Ziderman and Albrecht, 1995, Psacharopoulos and Woodhall, 1985). In view of the above HELB can enhance equity and access to public universities by observing the following:

Targeting loan support and complementary bursary

HELB should continue the current practice and policy of targeting selective subsidies to the financially needy students and awarding them varying amounts to fill the financial gap between what the family can contribute and the actual cost of study. The financial need criteria rations subsidised loan funds particularly at this time of economic difficulty and rising student numbers. This option will also increase the participation of students from poor family backgrounds who otherwise would have been discouraged from enrolling in higher education. Furthermore targeting support will enable the government to achieve cost-sharing policy objectives at this level of the education sector, consequently reducing pressure exerted on the exchequer.

Financial support for Self-Sponsored students

HELB should extend financial support to students in other forms of higher education provision particularly in parallel degree programmes, private universities and polytechnics. These students are also associated with positive externalities, that is, with benefits that accrue to society as a whole. This intervention by HELB ensures that marginal social benefits are not lost, because of inability of individuals to pay for their education, but continue to be available for the common good of society. Other social benefits that a society captures from these students include crime reduction, informed electorate, social cohesion, technological innovation and intergenerational benefits amongst others. Moreover since higher education is often regarded as service institutions provided by the community for its own good it is justifiable on that account to provide financial assistance to financially needy self-sponsoring students. Funds can be sourced from offshore financial institutions and lent to these students at subsidized interest rates that are marginally higher that the rates on current HELB loans but far below the current prohibitive capital market rates. But if HELB or the Government for that matter thinks that it is expensive to finance the education of our students struggling to sponsor themselves in parallel/module two programmes and in our private universities then I beg to retreat the old adage. *IF YOU THINK EDUCATION IS EXPENSIVE TRY IGNORANCE*. No country however small or big has ever tried it and I don't think Kenya in all its wisdom is about to do it!

Loan awards pegged on curriculum costs

To enhance equity, students should not be allowed to carry equal loan burden across faculties, schools and programmes. It is necessary therefore to differentiate curriculum in terms of unit costs so that those who benefit the most are made to pay proportionately more. Engineering and medicine related courses where the children of well to do will anyway be more likely to enroll and which require huge capital outlay are a case in point. These programmes should charge substantially higher partial and direct tuition charges. This will increase income from tuition and enable university to effectively support functions and activities, which currently may be under-funded. HELB should therefore take into account curriculum costs, as an equity measure, when it awarding loans to students.

Mode of Loan Repayment

To equalise opportunities in higher education, HELB ought to ensure that student loan repayments are income-contingent as opposed to traditional mortgage-type. An income-contingent loan is believed to be more favourable particularly to low-income students. Such a system of loan repayment reduces the risk of excessive debt burden should future earnings fail to meet expectations. Moreover, since job and earning opportunities are likely to be less favourable for students particularly from poor family backgrounds income contingent-loan becomes, therefore, the most preferred loan repayment mechanism. With an income-contingent loan, low earners are able to pay slowly with the net effect that they ultimately receive greater subsidies. High wage earners, in contrast, benefit less from any subsidies since they pay quickly. From an equity point of view an income-contingent loan is, therefore, more likely to encourage participation in higher education of students from poor backgrounds who often tend to be risk averse and likely to be discouraged from borrowing.

CONCLUSION

It is acknowledged that a careful combination of efficiency and cost shifting strategies (i.e. through targeting support to poor and needy students and deferred loan programme) can achieve reasonable equality of educational opportunity. However, it is worth noting that the objectives of increasing equality of opportunity in higher education cannot be achieved by educational policies alone. It is a much a wider problem that goes beyond the boundaries of higher education. It is a problem of the whole society that will require a multi-disciplinary and multi-policy approach.

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