proportion of beneficiaries from the wealthiest quintiles. Rigorous selection and screening criteria are needed to address targeting issues. In countries without reliable income tax data, SLIs have no choice but to use indirect parameters such as data on family assets and educational background, in order to screen applicants properly.

Overly stringent guarantee conditions can also eliminate applicants from the poorest families. In Poland, where in 1998 the government established a student loan scheme managed through commercial banks, many eligible students were turned down because they were unable to satisfy the guarantee conditions imposed by the banks. To address this issue, SLIs can establish a guarantee fund to help those students from the lower income groups that find it difficult to secure adequate collateral. Such a guarantee fund was built into the design of SOFES, the new student loan agency in Mexico set up by the Federation of Private Universities.

***Beyond their primary social role of providing financial aid, loan programs can also have a positive impact on the quality of higher education through the eligibility criteria imposed on both beneficiaries and participating institutions.***

Finally, it is worth underlining that SLIs are extremely sensitive to sudden shifts in economic conditions. The Mexican peso crisis in December 1994 forced the Sonora Institute to lower its interest rate to protect students from high inflation, which worked to the detriment of the Institute's financial viability. The Argentinean student loan body, INCE, went into bankruptcy in the late 1980s, a direct casualty of the hyperinflation period. The 1998 downturn in the Colombian economy, combined with ill-advised financial investments, has forced ICETEX to reduce its coverage, from 12 percent down to 8 percent of the student population.

*Conclusion*

By their very nature, SLIs face a perpetual dilemma. As instruments of equity promotion, they serve an important social purpose in providing funding to students from low income groups. As financial institutions, they must operate in a sustainable manner. These two inherently antagonistic objectives are difficult to reconcile.

Beyond their primary social role of providing financial aid, loan programs can also have a positive impact on the quality of higher education through the eligibility criteria imposed on both beneficiaries and participating institutions. Also, because they are more aware of the value of their education, student loan beneficiaries often achieve better academic results than their peers who have not received loans. ■

# Financing Higher Education: The Potential Contribution of Fees and Student Loans

**Maureen Woodhall**

*Maureen Woodhall is senior research fellow, Department of Education, University of Wales Aberystwyth, U.K., and author of several books and articles on higher education finance and student financial support, including Lending for Learning: Designing a Student Loan Programme for Developing Countries (London: Commonwealth Secretariat, 1987) and booklets on four International Forums on Student Loans organized by the International Institute for Educational Planning IIEP: <http://www.unesco.org/iiep>. E-mail: <mqw@aber.ac.uk>.*

Significant shifts have recently taken place in attitudes of governments, international agencies, and donors toward higher education. Optimism and growth in the 1960s and 1970s, when budget allocations for education tended to rise, driven both by rising social demand and by belief in the economic benefits of investment in human capital, gave way in the 1980s to stagnant or declining budgets, as governments in many parts of the world grappled with political and economic crises, structural adjustment, and widespread poverty and unemployment. At the same time, many donors switched priorities and emphasis away from higher to primary education, partly as a result of arguments that primary education was a more profitable social investment than higher education.

*Demands of the "Knowledge Economy"*

In the 1990s the balance again shifted, as increased emphasis on the "knowledge economy" and on the social and economic benefits of higher education led to reassessment of its role and to pressure for expansion, more equitable access, and improvements in quality of higher education. The recent report, published by the World Bank, *Higher Education in Developing Countries: Peril and Promise*, by the Task Force on Higher Education and Society, argued that "Higher education simultaneously improves individual lives and enriches the wider society, indicating a substantial overlap between private and public interests." At a time of severe financial constraints, however, the crucial question is how these "overlapping interests" should shape the financing of higher education, in particular what should be the

role of cost sharing. The fact that university graduates can expect better job opportunities and higher lifetime earnings than those with only primary or secondary schooling has been widely used by governments and international agencies to support greater cost sharing in higher education, through tuition fees and student loans, rather than grants or bursaries, to provide financial support for students.

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Higher education in many countries is still mainly concentrated in public universities and largely publicly financed, but the 1990s saw two significant changes in many industrialized and developing countries: first, the growth of private institutions and, second, financial diversification in public institutions, through introduction of or increases in tuition fees, and increased reliance on nongovernment sources of funding, including research and consultancy income and income generation.

*Privatization*

With increasing recognition that private institutions can play an important role in meeting excess demand for higher education many countries now permit or even encourage the growth of private universities, colleges, or other post-secondary institutions. New private universities have been established in several African countries, including Kenya, Mozambique, Uganda and Zimbabwe; in Asia, including China, Indonesia, Thailand and Vietnam: and in many European transition economies. In some cases the growth in private enrollments has been dramatic.

***Another common development has been the growth of cost recovery in public institutions.***

*Cost Recovery for Public Institutions*

Another common development has been the growth of cost recovery in public institutions. The Task Force report 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. Where previously the government covered all running costs, now more than 30 percent is internally generated," and concluded that this experience "puts to rest the notion that the state must be the sole provider of higher education in Africa." University tuition fees have become a contentious issue in recent years in countries as diverse as Hungary, India, Russia, South Africa, the United Kingdom, and Vietnam. So far, the overall contribution of cost recovery is relatively small in many of these countries, but as demand for higher education increases, the pressure to relieve financial burdens on government, by introducing or increasing tuition fees, is likely to grow.

***Attempts to shift part of the costs of higher education from the state to students or parents has reemphasized the crucial role of financial support for students, and there has been growing interest in student loans to supplement or replace grants.***

Attempts to shift part of the costs of higher education from the state to students or parents has reemphasized the crucial role of financial support for students, and there has been growing interest in student loans to supplement or replace grants. The World Bank's report, *Higher Education: The Lessons of Experience*, argued that "cost sharing cannot be implemented equitably without a functioning student loan program to assist students who need to borrow for their education." Student loan programs now exist in over 50 countries, including Canada, the United States, several European countries, much of Latin America and the Caribbean, and in increasing numbers of countries in Africa and Asia. The Australian Higher Education Contribution Scheme (HECS) has attracted particular interest, since it uses the tax system to collect repayments on an income-contingent basis. In many developing countries, however, student loans have been beset by problems, particularly administrative failures and high rates of default. A 1995 study by Ziderman and Albrecht, *Financing Universities in Developing Countries*, found that average rates of loan recovery varied from 67 percent in Sweden and Barbados to virtually zero in Kenya and Venezuela (although both countries have since then introduced significant reforms to boost loan recovery).

*Designing Student Loan Programs*

The International Institute for Educational Planning (IIEP) organized four international forums on experience with

student loans in Europe and the United States, Asia, English-speaking Africa, and Latin America. Their overall conclusion was that student loans can help facilitate cost recovery and improve equity, but only if they are well designed and efficiently administered. Ideally, loans should be regarded as one element of student financial aid policy—supplementing rather than replacing targeted scholarships for the most financially needy students. International experience suggests that to make an effective contribution to cost recovery, while ensuring equitable access to higher education, a student loan program should meet at least six criteria for effective design and management: (1) efficient institutional management, including adequate systems for selection of borrowers, disbursement of loans, record-keeping, data storage and processing; (2) sound financial management, including setting appropriate interest rates to reflect inflation and maintain the capital value of the loan fund, and cover administrative costs; (3) effective criteria and mechanisms for determining eligibility for loans, targeting interest subsidies and deferral or forgiveness of loan repayments; (4) adequate legal frameworks to ensure that loan recovery is legally enforceable; (5) effective loan collection, using either commercial banks, the income tax system (as in Australia and the United Kingdom), national insurance mechanisms (as in Ghana and Singapore), or employers (as in China and Kenya) to ensure high rates of repayment and minimize default; and (6) information and publicity to ensure understanding and acceptance of the terms for borrowing and repayment of loans.

In the past, many student loan programs failed to meet these criteria, but a number of recently introduced reforms in several countries, including Kenya, have improved the performance of management and loan recovery. A new student loan scheme has been established in China, and several countries—including Hungary, Mozambique, and the Philippines—are currently considering introducing student loans and hope to profit from international experience in designing and implementing an effective and equitable student loan program. As demand for higher education continues to grow—both from individuals and from the labor market—tuition fees and student loans are likely to remain firmly on the international higher education agenda. ■

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# Structuring for Success: Planning for an Effective Student Loan Scheme

**Robert Fomer**

*Robert Fomer is director of the Colorado Student Loan Program. Address: Denver Place 999 18th Street, Suite 425, Denver, Colorado 80202-2471. E-mail: <Bfomer@cslp.org>.*

Student loan policy goals and the social, political, and economic conditions that drive them certainly vary from country to country. Even within a country, conditions change, and their ebb and flow play a significant role in a loan scheme's success. With 20 years of experience in managing (what I believe to be) a very successful state student-loan agency within the Federal Family Education Loan Program (the largest single source of financial assistance for American students), I offer a few observations on the essential components of an effective student loan scheme.

First, the need for sustained commitment by government to the goal of expanding access to tertiary education for all its citizens is essential. Government does not have to operate a student loan scheme directly, but government must play an essential role in at least overseeing it. Government is in the best position to identify and target its nation's educational needs, for it can mandate eligibility criteria to promote equity in educational opportunity and, if necessary, devote resources to targeted subsidies and other interventions promoting awareness and access among its nation's poorest citizens. In its oversight capacity, government can monitor the scheme's effectiveness, administrative integrity, and financial viability.

Clearly, no one single blueprint for a student loan scheme would work in every country or region. However, there are certain characteristics and requirements common to any sustainable system of credit. Under the aegis of reliable, long-term government support and oversight, these factors can be accounted for in the context of student loans by a broad template consisting of "the five *M*'s" of student loan fundamentals.

1. *Mission*. The program's mission is its roadmap, to be used for decision making at all levels. The various stakeholders in the program need to be considered. For example, it is not really enough simply to state that you want to provide educational opportunity for your citizens. Government and lenders require accountability; citizens are entitled to reliable information and responsive, equitable service; schools expect efficient delivery of funds, and so on. The program's scope and specific operational functions should be specified early on as well, along with its short- and long-term objectives.

2. *Money*. How will you finance the program? Will government fund the program directly, or are commercial capital sources available, perhaps backed by a government-subsidized reserve fund as a backstop guarantee against defaults? Once funding is secured, how will loans