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# Student Loans in Kenya: Past Experiences, Current Hurdles, and Opportunities for the Future

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## Abstract

Kenya has a long history of lending to students; but in the 1980s, the program was criticized for its poor administration, high costs, and low recovery rates. The establishment of the Higher Education Loans Board in 1995 ushered in reforms that have broadened the program beyond the public universities to other postsecondary institutions and to some students in Kenya's growing private sector and improved loan recoveries. This article describes these efforts to improve recoveries and makes a number of recommendations, including more realistic (i.e., higher) interest rates, more aggressive enforcement of loan recoveries, more effective targeting (i.e., means testing), and greater use of banks and other private capital sources. The use of student loans is an effective tool for increasing participation and equity, although the government must do more to improve the accessibility of secondary education, which is where much of the inequity currently resides.

## Resume

Le Kenya a une longue tradition de prêt aux étudiants. Cependant, dans les années 80, ce programme avait été critiqué pour sa mauvaise administration, ses coûts élevés et son faible taux de recouvrement. La mise en place de la Commission des prêts pour l'enseignement supérieur en 1995 a entraîné des réformes qui ont élargi ce programme aux autres institutions post-secondaires, ainsi qu'à certains étudiants du secteur privé kenyan en pleine expansion, améliorant ainsi le recouvrement des prêts. Cet article décrit les efforts fournis en matière d'amélioration du recouvrement des prêts et fait un certain nombre de recommandations, parmi lesquelles l'application de taux d'intérêt plus réalistes (c'est-à-dire plus élevés), un système


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de recouvrement de prêts plus agressif, un ciblage plus effectif (justification des ressources), ainsi qu'un recours plus fréquent aux banques et autres sources de capital privé. L'utilisation des prêts pour étudiants est un moyen efficace pour améliorer la participation et l'équité, même si le gouvernement doit en faire davantage pour faciliter l'accès à l'enseignement secondaire, domaine où règne actuellement la plus grande inégalité.

## Introduction

The genesis of student loans in Kenya dates back to 1952, when the government, then British colonial, set up the Higher Education Loans Fund (HELF) to assist those pursuing university education outside East Africa—mainly in Great Britain, the USA, India, the USSR, and South Africa. On attaining independence, the African government more or less suspended the scheme and opted to directly meet the costs of higher education. This policy was in line with the recommendation of the Kenya Education Commission to train highly skilled African personnel to take over the running of the government from the departing Europeans (Republic of Kenya, 1964). Subsequent policy documents such as Sessional Paper No. 10 of 1965 on "African Socialism and Its Application to Planning in Kenya" (Republic of Kenya, 1965a), the first Development Plan, 1965–1970 (Republic of Kenya, 1965b) as well as the report on "High Level Manpower Requirements and Resources in Kenya, 1964–1970" (Republic of Kenya, 1964) all stressed that high- and middle-level human resources are a critical resource in achieving rapid economic growth and that the production of high-level human resources is one of the goals of university education. The government used these arguments as the basis for expanding and subsidizing higher education. University education as such became virtually free to students, as the government bore most of the direct costs.

The increased enrollments in university education coupled with dismal economic performance mainly occasioned by the oil shocks of 1970s forced the government to rethink its policies on financing university education. As a result, it "introduced" a loan program in the 1973–1974 financial year. In reality, it was simply a reactivation of the 1952 program, which had never been formally discontinued; the government had merely stopped funding it. The program was reintroduced as the University Students' Loan Scheme. The 1973 program was not administered by an autonomous body but by the Loan Disbursement and Recovery Unit in the Ministry of Education. The government did not articulate policies to guide this unit's operations but gave it seven goals:

1. To ensure that the beneficiaries of higher education and training meet part of their education.

2. To promote equality of opportunity to qualified students irrespective of their background circumstances.
3. To provide a continuous source of finance, through a fund that becomes self-perpetuating.
4. To reduce dropout rates by giving students an added incentive through economic commitments to complete their studies.
5. To encourage students to make right choices for their career based on labor market opportunities.
6. To complement the government's financial commitment to university education and thereby increase the number of students.
7. To contribute to national development by encouraging investment in education to meet human resource requirements.

The goals and aims of the scheme as spelled out by the government were indeed noble. What is amazing is that nothing of a practical nature was done to ensure that they were achieved. The money was literally dished out to students with no serious attempts to recover it. Perhaps the government was blinded by the small university population, which meant that the proportion of budgetary allocation to the scheme was manageable. In the subsequent years, however, budget allocations to the Ministry of Education comprising the loan scheme increased steadily from 3.1% in 1974–1975 fiscal year to 6.1% in 1992–1993 (Republic of Kenya, 1975/1976-1992/1993). It was the fastest growing component of university education (Mungai, 1989), even though the government acknowledged that it was poorly administered (Republic of Kenya, 1988) and that recoveries were low.

Several factors undermined the program's successful operation. First, the ad hoc manner in which it began meant that no precautionary measures were taken to guard against default. Second, its staff lacked requisite skills in debt recovery. By all accounts, it was grossly ill equipped to handle the challenges of running a loan program. Its personnel were drawn from other ministry departments, even though the government could have done better by seconding people with skills and experience in debt management from state-owned commercial banks, the national treasury, or even the Central Bank. Third, the beneficiaries were not educated on both their obligations and the benefits resulting from repayment. Indeed, when the program was introduced in 1974, students protested and rioted against its implementation, arguing that they were being forced to incur debts. Ironically, when changes were made in the 1990s to reduce the amount of loans, students again protested—this time that they were being "impoverished." The government had not anticipated such a backlash. Fourth, as a result of the hurried implementation, the scheme had no legal

basis. It became difficult to enforce recoveries from past students. Other legal obstacles also stood in the way of recovery, such as the Limitations of Actions Act which renders unrecoverable any debt not claimed within six years from the time it is due. The HELB Act of 1995 has since exempted the program from this law.

The government undertook piecemeal reforms including requiring students to apply for and get the loans from their home districts (rather than from their campuses); having the loan application forms endorsed by the chiefs/local administrators; introducing meal cards and then what became known as PAYE (Pay-as-you-eat) instead of free meals; and abolishing "boom," an unrestricted stipend of Kenya shillings (Ksh) 5,000 (US$64) per semester. This stipend was designed as pocket money. Students mainly spent it on buying music systems, cinema, other forms of entertainment, and transport.

These reform measures, however, proved ineffective in improving the program since they did not address some of its fundamental shortcomings. It was the need to overcome such hurdles, coupled with pressure from the World Bank and the International Monetary Fund that made the government embark on thorough reforms to the loan program. The two institutions were dissatisfied with the program's piecemeal reforms and pushed for more comprehensive restructuring within the broader framework of the structural adjustment programs they had been sponsoring since the late 1980s.

More comprehensive reforms were realized in 1995, when the government set up the Higher Education Loans Board (HELB) through an Act of Parliament. The board was charged with five responsibilities:

1. To facilitate the disbursement of loans, scholarships and bursaries to needy Kenyan students.
2. To recover all outstanding loans given to former university students since 1952 through the Higher Education Loans Fund (HELF).
3. To establish a revolving fund from which funds could be drawn and lent to needy Kenyans pursuing higher education. The government anticipated that this revolving fund would ease national education expenditures, which had been close to 40% of the national budget.
4. To invest surplus funds in any investments authorized by law.
5. To seek additional funding from other organizations (the private sector, philanthropic organizations, foundations etc).

## Performance Review and Hurdles Ahead

Eight years after the board was set up, a performance review shows that the board had tried to overcome some of the difficulties experienced by the previous

**Table 1:** Loan Disbursement by University Type and Amount for Academic Year 2002–2003

| University | | Applicants | | | Loan Amount | | % of All |
|---|---|---|---|---|---|---|---|
| | | All | Awarded | % Awarded | Ksh* | US$ | Recipients Covered |
| P | | | | | | | |
| R | UEAB | 416 | 332 | 79.81 | 10,462,000 | 454,870 | 25.4 |
| I | CUEA | 354 | 303 | 85.59 | 9,525,000 | 414,130 | 20.5 |
| V | USIU | 106 | 74 | 69.81 | 2,377,000 | 103,348 | 3.2 |
| A | Daystar | 263 | 195 | 74.14 | 6,173,000 | 268,391 | 10.8 |
| T | | | | | | | |
| E | | | | | | | |
| All private | | 1,139 | 904 | 77.3 | 28,537,000 | 1,240,739 | 15.0 |
| P | Nairobi | 8,931 | 8,426 | 94.35 | 284,982,500 | 12,390,543 | 60.3 |
| U | Moi | 6,551 | 6,276 | 95.80 | 210,159,000 | 9,137,348 | 61.5 |
| B | Kenyatta | 5,586 | 5,271 | 94.36 | 177,087,500 | 7,699,457 | 52.8 |
| L | Egerton | 5,006 | 4,775 | 95.36 | 159,887,000 | 6,951,609 | 47.9 |
| I | JKUAT | 2,205 | 1,997 | 96.99 | 67,320,000 | 2,926,957 | 51.3 |
| C | Maseno | 2,524 | 2,370 | 93.90 | 79,389,000 | 3,451,696 | 34.4 |
| | All public | 30,803 | 29,115 | 95.1 | 978,825,000 | 42,557,609 | 51.4 |
| | All universities | 31,942 | 30,019 | 86.2 | 1,007,362,000 | 43,798,348 | 33.2 |

*Kenya shillings. US$1 = Ksh 23, 2002 purchasing power parity.
Key to abbreviations:
UEAB = University of Eastern Africa at Baraton
CUEA = Catholic University of Eastern Africa
USIU = United States International University
JKUAT = Jomo Kenyatta University of Agriculture and Technology

Loan Disbursement and Recovery Unit. One of the board's major achievements has been the increase in the number of students funded in both public and private universities, made possible by the board's aggressive campaign to recover outstanding loans. When the program was set up, students in private universities were not entitled to loans on the assumption that they are from financially able families. Although the number of students in private universities applying for the loans is lower than those in the public universities, more than half of the private university students who apply are granted loans (Table 1). A crucial category of higher education students not covered is the national polytechnics. This is a challenge for the board because polytechnic education is not only expensive (thereby justifying assistance), but most of the graduates also have better job prospects than university graduates, increasing the likelihood of repayment.

Data presented in Table 1 indicate that, notwithstanding improvement in widening participation in the loan program, only one third of all Kenya's university students accessed HELB loans for the 2002–2003 academic year, thus excluding a significant number of students. They include students in parallel or alternative degree programs who are currently ineligible according to HELB criteria. Further, less than 1% of postgraduate students access loans. The limitation of loans to regular program students in itself amounts to serious inequity since self-sponsored students account for about 22% of undergraduate enrollment (See Table 2).

The assumption that self-sponsored students are financially able does not hold; most were not admitted in the regular program for failure to meet the university admission requirements. the university admissions criteria favor the sons and daughters of wealthy families, who attend elite secondary schools and continue by dominating university admissions. The popularity of these programs is not therefore due to affordability but to an increased demand for higher education, which is seen as the escape route from the poverty that stalks most of the population. Currently, up to 56% of Kenyans live below the poverty line (Republic of Kenya, 2002). Thus, even children of the poor sacrifice to enroll in public universities and in alternative (Module II) programs in public universities, albeit in comparatively fewer numbers.

The low proportion of private university students applying for the loans, particularly at the United States International University (USIU), could be attributed both to the fact that the majority are from rich families and also to the perception that loans are "meant" for public university students. USIU is the largest, most expensive, but also the most popular private university. It is largely patronized by students whose parents work with international organizations in Kenya including diplomatic missions. It is also the only university that is 100% dependent on fees. Still, it is also the only university so far with functional

**Table 2:** Enrollment in Undergraduate Programs, 2001–2002

| Program | Male | | Female | | Total | |
|---|---|---|---|---|---|---|
| | N | % | n | % | n | % |
| Regular | 30,574 | 71 | 12,773 | 29 | 43,347 | 78 |
| Module II/SSP* | 7,901 | 65 | 4,185 | 35 | 12,086 | 22 |
| All programs | 38,475 | 69 | 16,958 | 31 | 55,433 | 100 |

*Source:* Mwiria & Ng'ethe (2002)
*SSP = self-sponsored programs

student aid programs. Arguably, private university students are averse to incurring future debts when their parents are able to meet the present cost of their education. For example, between 25 and 30% of the public university students do not apply for loans, instead opting to finance their studies directly. These are students from able families, at least some of whom attended expensive high schools in which the annual fees were much higher that university fees. If this category of students were eliminated, together with the 22% enrolled in parallel programs, only about half of the students in universities apply for loans. It would therefore not be far fetched to argue that those who do not receive loans constitute less than 20% of the entire university population.

The sheer growth in the amount of loans disbursed by the board is also testimony to the progress it has made, particularly given the decline in government funding for higher education. While enrollment in public universities has grown in excess of 400% between 1987 and 2000, government funding increased by only 30% (Ramani, 2001). The loan program also evolved from being the fastest growing component of university education (Mungai, 1989), with yearly funding reaching a high of Ksh 880 million in 1995 but dropping to the current Ksh 600 million (a 32% decline). This diminished government funding, however, has been accompanied by a gradual increase in the amount of loans disbursed by HELB (See Table 3.)

**Table 3:** Total Loan Disbursements, 1993/1994–2002/2003 AYs

| Year | Cumulative Disbursements Ksh | US$ | % Increase |
|---|---|---|---|
| 1993/1994 | 4,802,516,543.00 | 208,805,067 | — |
| 1994/1995 | 5,845,769,503.00 | 254,163,891 | 17.8 |
| 1995/1996 | 7,169,391,939.00 | 311,712,693 | 18.5 |
| 1996/1997 | 8,124,181,961.30 | 353,255,303 | 17.6 |
| 1997/1998 | 8,956,953,104.12 | 389,432,744 | 9.3 |
| 1998/1999 | 9,814,187,581.12 | 426,703,808 | 8.7 |
| 1999/2000 | 10,761,479,881.12 | 467,890,430 | 8.8 |
| 2000/2001 | 11,700,952,981.12 | 508,737,086 | 8.0 |
| 2001/2002 | 12,633,945,331.12 | 549,301,971 | 7.4 |
| 2002/2003 | 13,641,307,331.12 | 593,100,319 | 7.4 |

*Source:* Higher Education Loans Board, 2002.

The HELB board has made some steps towards limiting over-reliance on government funding. Currently, up to 50% of disbursed funds are generated from recoveries, which, as of 2002, averaged Ksh 50 million (US$2,173,913) per month. Despite this achievement, the board is far from achieving full cost recovery, a daunting task for many loan programs.

One of the objectives for which the program was initiated is to establish a revolving fund, under the assumption that the loan program would be fully self-sustaining or, in other words, achieve full cost recovery. This assumption has been challenged severally in literature on student loans, including Johnstone (2001a). Several factors militate against the theory of self-sustenance, or the so-called revolving fund. These include diminishing governmental outlays for loan programs relying on government capitation, natural increases in student population with consequent increases in demands for financial support, the realities of unemployment, the hidden subsidies in most programs, and the death of the recipient—a serious concern in some developing countries given the high morbidity resulting from the HIV/AIDS pandemic. In Kenya, reportedly more than 20 teachers succumb to this scourge per month, yet repayments by teachers constitute more than half of all repayments in the program.

Another factor that is likely to impede the realization of "self reliance" is the bursary component of the loans. Not only does it pose a challenge to the flow of funds for the program, but it also raises deep equity issues. The bursaries on average constitute about 7% of the total funds disbursed (See Table 4).

**Table 4:** Summary of Bursary Awards, 1995/1996–2002/2003

| Year | Bursary Ksh | US$ | % of Loans | Loan Awards | Bursary Awards All | Bursary Awards % Loan Awards |
|---|---|---|---|---|---|---|
| 1995/1996 | 53,543,203.00 | 2,327,965 | 4.0 | 33,283 | 8,148 | 24.5 |
| 1996/1997 | 60,027,555.00 | 2,609,894 | 6.3 | 31,441 | 8,606 | 27.4 |
| 1997/1998 | 64,628,000.00 | 2,809,913 | 7.8 | 27,882 | 8,701 | 31.2 |
| 1998/1999 | 64,622,000.00 | 2,809,652 | 7.5 | 28,748 | 9,026 | 31.4 |
| 1999/2000 | 68,959,000.00 | 2,998,217 | 7.3 | 29,835 | 12,531 | 42.0 |
| 2000/2001 | 79,980,000.00 | 3,477,391 | 8.5 | 29,019 | 13,527 | 46.6 |
| 2001/2002 | 73,041,000.00 | 3,175,696 | 7.8 | 28,206 | 14,381 | 51.0 |
| 2002/2003 | 56,051,000.00 | 2,437,000 | 5.6 | 31,942 | 10,630 | 33.3 |

*Source:* Computed from data provided by HELB, 2002.

The board gives a maximum bursary of Ksh 8,000; but the amount is determined by need, meaning that not everyone gets a full bursary. The maximum sum is the equivalent of full tuition for a year. Given that the very poor constitute only 7.54 of university students (Fig. 1), the award of bursaries seems fairly generous, as the analysis in Table 4 indicates that in some instances more than half of those who get loans also get bursaries. This pattern raises the possibility that even some who do not deserve the bursaries benefit from them. Such a possibility is not surprising since anecdotal reports indicate that students lie about the financial backgrounds of their parents/guardians so they can benefit from the loan program. It is thus necessary to tighten the means-testing procedures.

There is no doubt that bursaries are an important instrument in ensuring equity, given that those from the upper and upper middle income groups who get the loans are invariably enrolled in more "prestigious" programs like medicine and law and were qualified/admitted into these programs because of the higher grades they scored in national secondary examinations, again because of the better schools they attended. They, therefore, have higher prospects of landing better paying jobs faster, not only because of "ready" jobs, but also due to their family connections. Bursaries are, therefore, one means of increasing poorer students' access to funds. They also minimize the burden of repayment.

While the extent to which only the needy benefit from bursaries in the Kenyan program is yet to be investigated, these awards limit the possibility of recovering the real value of loans, since bursaries are full grants. In effect, a loan program that has a bursary component can hope to recover only a certain proportion of funds disbursed, even if there are no subsidies such as low interest rates. Ideally, a loan program will never fully satisfy demand. In other words, it is not likely for the situation to develop in which more funds are available than are needed.

The decline in the rate of growth of disbursements as reflected in Table 3 is mainly due to the increase in the number of students qualifying for HELB loans and the widening of the list of eligible applicants coupled with reduced government funding. Initially, the board gave loans only to public undergraduate students. It has since included private university students as well as master's and doctoral students in public universities. Though fewer, the loan value for postgraduate students is significantly higher. For instance, while the maximum loan for undergraduate students is Ksh 42,000 (US$1,826), doctoral students get loans of up to Ksh 150,000 (US$6,522) per year, which is 3.5 times that for an undergraduate student. The doctoral students are given loans on condition that they are simultaneously repaying the loans received during their undergraduate studies. This policy is one way of encouraging repayment among those envisaging postgraduate education.

## Improving Recovery Rates

When it was set up, the board inherited a large portfolio of unpaid debts, with the rate of recovery being very low (only 3.3%). This rate has increased to over 18%. The increase is attributed to aggressive public education, the enactment of a legal instrument binding borrowers and employers to ensure repayment, and streamlined record keeping, among other factors. It may be argued that the recovery rate of 18% in 2000–2001 is only a modest improvement and that it is still very low; but considering that it was only 3.3% less than 10 years ago and further considering Kenya's low economic growth rate, high unemployment, staff lay-offs, and high death rates resulting from the HIV/AIDS pandemic, all indications are that it will surpass the 20% mark by the end of 2002.

Sustained overall improvement in loan recoveries will depend to a great extent on the effort made by the board to enforce recoveries from beneficiaries outside the public sector. Currently, the bulk of recoveries are from those in government and quasi-government/public bodies (Table 5), with collections from teachers alone accounting for about 56%, while together with other government departments and state corporations, they account for nearly 76%.

**Table 5:** HELB Loan Recovery by Employment Category, January–September 2002

| Sector/Employment Category | Amount Ksh | US$ | % of Total |
|---|---|---|---|
| Agricultural organizations | 332,482.10 | 14,456 | 0.71 |
| Diplomatic missions | 19,696.60 | 856 | 0.04 |
| Educational institutions: schools, colleges | 2,333,973.00 | 101,477 | 4.97 |
| Financial institutions | 1,885,788.50 | 81,991 | 4.02 |
| Individuals/self employment | 1,219,417.90 | 53,018 | 2.59 |
| Insurance companies | 493,539.70 | 21,458 | 1.05 |
| Manufacturing | 1,635,772.80 | 71,121 | 2.91 |
| Government ministries/ departments | 6,942,656.80 | 301,855 | 14.80 |
| Nongovernmental organizations | 387,028.80 | 16,827 | 0.82 |
| Parastatals/state corporations | 2,900,182.40 | 126,095 | 6.18 |
| Service industries | 1,451,874.60 | 63,125 | 3.09 |
| Teachers' Service Commission | 26,167,766.30 | 1,137,729 | 55.77 |
| Others | 1,420,806.80 | 61,774 | 3.03 |
| Average total | 46, 920, 986.30 | 2,040,043 | |

*Source:* Higher Education Loans Board, 2002

Whereas the recoveries reflect trends in employment, with the government being the largest employer, the low recoveries from other sectors point to the difficulty in reaching those in the private sector or in dealing with sheer unwillingness to repay. Nongovernmental organizations for example employ a significant number of past borrowers, but these individuals are very mobile since they change jobs frequently or may be stationed in remote parts of the country or even in neighboring countries but with bases in Kenya. Equally difficult to reach, though few in number, are employees of diplomatic missions, since their employers cannot be legally compelled to abide by the provisions of the HELB Act or any other law.

Recoveries depend both on accessing past borrowers and on enforcement. The board may be able to access borrowers but be unable to enforce recoveries, legal provisions notwithstanding. The issue of the income from which loan repayments may be drawn from is more crucial in income-contingent repayment plans than with mortgage-type loan schemes. Consequently, the

concern with this type of loan is not the borrower's total income but rather with his/her ability to meet the fixed schedule of monthly repayments. Such thinking is reflected in the Kenyan program, although it does not account for some borrowers who are willing to repay but who are not in salaried jobs. This situation should not be overlooked, especially in a country where the formal employment sector has contracted and in which a significant number of graduates find themselves in the informal sector. It is such failure to define "income" that partly explains why the recovery rate from individuals is low.

For loan programs that provide for a grace period—in Kenya, this period is two years—it makes sense to compute a net recovery rate on the basis of the matured loans. The recovery information discussed above represents gross recovery. It would then mean that the actual recovery rate would be much higher if computed on the former criterion. While the provision of a grace period is contestable on the grounds, among others, that it delays recovery, it makes sense in systems that are characterized by high unemployment. Kenya's unemployment is currently 26%, in itself a serious setback to recovery efforts because the economy is not generating enough jobs to make repayments possible from the employed. In such a case, the borrower is not penalized for late or delayed payment. However, where there is chronic unemployment, as in Kenya, the borrower may not be able to start repaying even when the two-year period is over. According to HELB data on matured loans for most of the university programs running for an average of four years, in 1995, HELB disbursed a total of Ksh 630 million as loans to 6,316 first-year students. From this cohort, it has so far recovered about Ksh 6.420 million (US$279,000) monthly from 3,000 loanees, the majority of whom are teachers. If it were recovering loans from all borrowers for that year, the total would be Ksh 12.7 million (US$552,174). Thus, less than 50% of this cohort are repaying their loans (Cheboi, 2002).

Arguably, the lending authority may also lose track of the graduates in the two-year grace period through job mobility, emigration, or the sheer difficulty in reaching those who return to rural areas and remain unemployed. The situation is worsened by lack of follow-up arrangements between borrowers and universities on the one hand, and between borrowers and HELB on the other. As noted elsewhere (Otieno, 1997), there are no arrangements for reconciling records between the program, universities, MoE/CHE and banks disbursing the loans.

The mere recovery of loans should not be taken to mean that a program is performing well. No loan program can so far claim to have achieved a 100% repayment rate, not even the much-vaunted success stories of Australia and New Zealand (Johnstone, 2001a). Factors such as the length of repayment,

interest rates, costs of administration, etc., make full cost recovery impossible. One option for the Kenyan program is to convert itself into an income-contingent scheme, the reasoning being that those with higher earnings can repay their loans faster. Johnstone and Aemero (2001) discount the applicability of income-contingent repayment plans in Ethiopia and, by extension, in other developing countries. It should be noted, however, that other variants of income-contingent repayment plans, not necessarily modeled on the Australian HECS type but depending on each country's socio-economic experience, could be developed. Loan programs the world over are still evolving, and none of them is perfect.

Converting the Kenyan program into an income-contingent plan is likely to yield two advantages. First, the loans will be recovered in good time before their value is further eroded. Second, borrowers will pay off debts fast enough to allow further borrowing for other purposes, in the event that this is a possibility. Third, the program would be able to cushion itself against the eventualities of death, emigration, and lays-offs (popularly known in Kenya as retrenchment), etc., especially in a depressed economy like Kenya's. Already, the board is exploring this option ("Job Cuts," 2001). This option has become more attractive following massive government layoffs in 2000–2001 that saw several borrowers lose their jobs before completing or even starting loan repayment.

## Means Testing for Equity

The idea of means testing was never an issue in the loan program as designed in 1974, since students were given full loans irrespective of their backgrounds. It was only after significantly reforming the program in 1995 that the government thought it necessary to introduce a means test. The decision was as much a result of its realization that students come from different socio-economic backgrounds as it was dictated by fiscal limitations that did not permit it to award the maximum loan to all applicants. The board uses information given in the application forms as the means-testing instrument for identifying needy students and has developed criteria for awarding need-based loans. The category "1" is the neediest (See Table 6.)

**Table 6:** HELB's Criteria for Allocating Loans to Undergraduate Students

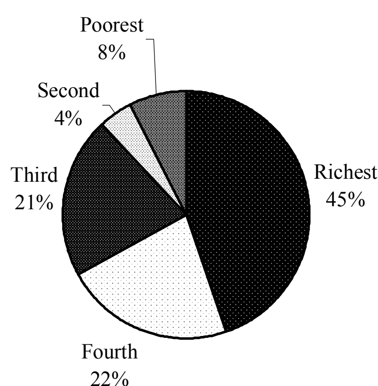
| Category | Amount (Ksh | Tuition per Semester (paid directly to university) | | Allowance Disbursed to Student Accounts | | Total to Student Account per Year |
|---|---|---|---|---|---|---|
| | | 1st semester | 2nd semester | 1st semester | 2nd semester | |
| 1 | 42,000 | 4,000 | 4,000 | 17,000 | 17,000 | 34,000 |
| 2 | 40,000 | 4,00 | 4,000 | 16,000 | 16,000 | 32,000 |
| 3 | 35,000 | 4,000 | 4,000 | 13,500 | 13,500 | 27,000 |
| 4 | 30,000 | 4,000 | 4,000 | 11,000 | 11,000 | 22,000 |
| 5 | 27,000 | 4,000 | 4,000 | 9,750 | 9,750 | 19,000 |
| 6 | 25,000 | 4,000 | 4,000 | 8,500 | 8,500 | 17,000 |
| 7 | 20,000 | 4,000 | 4,000 | 6,000 | 6,000 | 12,000 |

*Source:* Mwiria & Ng'ethe (2002).

All students get the maximum allocation for tuition but receive differentiated living allowances. The categories are developed on the basis of the parents/ guardians' financial ability, as described in the application form. Thus, a student in the median category would get about Ksh 10,000 less than the neediest. The total loans range from Ksh 20,000 (US$870) to Ksh 42,000 (US$ 1,826), and bursaries range from Ksh 4,000 (US$174) to Ksh 8,000 (US$348). Out of the university fees, the board pays tuition fees of Ksh 8,000 (US$348) direct to the universities for every student who is awarded a loan. The balance is paid directly to the students for their personal expenses through their respective bank accounts. In effect, and in line with the government policy of cost-sharing, the board supplements parental contributions toward a student's financial requirements.

Arguably, the inadequacy of the means-testing instrument is that it fails to categorize the students in realistic clusters such as expenditure groups. Obviously, the information provided by the students (even where full objectivity is assumed), is not representative enough to place students into realistic, nationally accepted norms of income and expenditure groups. If adequate information could be obtained on the financial backgrounds of students, it would be a more practical mechanism for determining need and hence allocation of loans. However, the board does not have the capacity to perform such a function, although it could borrow the expertise of the relevant government departments such as the Central Bureau of Statistics that compiles socio-economic data

**Figure 1:** Distribution of university students across per capita expenditure quintiles (%) (Kenya 1994)




*Source:* Deolalikar (1999).

yearly on the population. The problem of more detailed information-collecting is that it could actually increase the overall cost of loan administration.

At this point, it is pertinent to ask how far a financing instrument, such as a loan program, is capable of contributing to equity in university education? The answer depends on the pattern of university enrollments. When, as in Kenya, a majority of the students come from the higher socio-economic groups (Fig. 1), the program can do little in redressing inequities inherent in the national educational system. Certainly, the Kenyan loan program exacerbates inequity insofar as it disproportionately benefits (subsidizes) the education of the more affluent segment of the society, which constitutes 45% of university students. Redressing such inequities is, however, beyond the means of the loan program since these inequities stem from the lower-level (secondary) school system. Equally, where there are gender disparities in Kenyan university education, the loan program can do little to enhance equity. In a nutshell, it is highly debatable what means testing, no matter how rigorous, can do when the majority of the loan applicants already come from the higher income bracket, even though it could be argued that such a case makes it all the more urgent to ensure that the few resources available go to deserving people.

**Table 7:** Tuition Fees at Private Universities, 2001-2002

| University | Tuition Fees | |
|---|---|---|
| | Ksh | US$ |
| USIU | 171,540 (57,180 per quarter) | 7,458 |
| CUEA | 117,760 (58,880 per term) | 5,120 |
| UEA - B | 144,000 (48,000 per quarter) | 6,261 |
| Daystar | 131,000 (65,500 per semester) | 5,696 |

*Source:* Fees structures, various universities.

Another deep equity issue is the sufficiency of the loan funds in meeting recipients' needs. In theory the tuition component at public universities is fully defrayed for those students who get maximum loan amounts; however, such a sum constitutes a very insignificant portion of tuition costs at private universities where tuition can be 11 times higher than at regulated public universities (See Table 7). For high-cost universities like USIU, the maximum loan would cover only 4.7% of the tuition, while for low-cost universities like Catholic University of Eastern Africa, it is still only 6.8%. The board cannot increase the tuition component to private universities without triggering demands from public universities for tuition fee increases. The board, in that case, would more or less be obliged to provide loans covering half of tuition costs, which would be good news for the universities since it would mean increased income. Thus, current differences are almost certain to persist.

## Other Hurdles on the Way

A major challenge facing the board is raising enough revenue to fully satisfy the demand for loans. First, as already shown, though all students admitted in public and private universities are eligible for the loans, only a small fraction eventually benefit from them. Even students who do benefit often complain that their loan constitutes a paltry proportion of the expenses they have to meet. Consequently, some students have resorted to various coping mechanisms including doing menial jobs within the universities to the detriment of their studies. It is not uncommon to find university students working as barbers, cobblers, hairdressers, brokers in computer typing and printing, vendors/hawkers of light goods such as writing/photocopying papers, electronics, cigarettes, etc.

In the period preceding the establishment of HELB, not much thought was given to recovery, and the government gave loans without expecting repayment. Attempts to recover the loans were casual at best. It is only with the establishment of HELB that serious efforts were made to recover the loans. Still, the current recovery rate of about 20% could be substantially improved. However, several obstacles stand in the board's way of achieving this goal. First, the Act of Parliament that established HELB (1995) empowers it to collect loans only from people who are formally employed. With unemployment at 26%, many people have resorted to self-employment and cannot therefore be reached by the board. The informal sector is currently the largest and fastest-growing sector of Kenya's economy. Economic growth in the last three years has been less than 1% and, indeed, has sometimes been negative.

Second, the board has only four loans inspectors—far short of enough staff to visit all of the employers to verify the status of their employees. It should also be noted that, when the idea of the loans board was introduced in the country, it encountered some degree of hostility from the students, community, and parents. Most students had viewed the loans as free grants from the government, an attitude which has slowed loan repayments. Recoveries are not likely to increase markedly due to the poor economy, systematic lay-offs in both public and private sectors, a significant freeze in public sector employment, massive unprecedented emigration, and high death rates resulting from HIV/AIDS pandemic, among others. Recovery will call for ingenuity in overcoming these hurdles.

While the board has tried to improve its record keeping, it still faces the challenge of scanty records from earlier periods. Records of borrowers between 1983 and 1986 are permanently missing and cannot be found (Bogonko 1992). Three years constituted a full university undergraduate cycle at the time. Thus, it seems possible that either by collusion or connivance, somebody who benefitted during that period deleted the records to escape the responsibility of repayment. This scenario is possible because some of those employed in the disbanded Loan Disbursement Recovery Unit were themselves borrowers and may have used their presence in the section to secure their future by tampering with the records.

The means-testing instrument, although better than the earlier system's, is not rigorous enough. Reportedly, up to 25% of loan recipients have lied about the education, employment, and income status of their parents (Mwiria & Ng'ethe 2002). Some even claim that their parents are dead when they are alive and working. The board is obviously unable to verify the information provided by the applicants on the form by visiting their homes and families.

The board has tremendous powers conferred upon it by its enabling act (1995), including its exception from the Limitations of Actions law. HELB is allowed to retroactively apply not only the exemption clause but also the entire act. The board also has powers to prosecute employers and beneficiaries who fail to comply with the provisions of the act. In addition, employers are legally obligated to provide the board with records of borrowers in its employment. However, there is no evidence so far that the board has taken any employer/employee to court. Known borrowers in public sector employment (e.g., the universities) are not repaying their loans, yet the board has taken no action against them. Part of the reason for this reluctance is the lack of political will to implement measures that are seen as politically sensitive. Implicitly, prosecuting borrowers for noncompliance can have negative public relations, as it will create a perception of the board as a vengeful tax man and discourage late but willing borrowers. However, prosecution could also work positively by sending a strong signal that the board is determined that every employer and borrower will meet her or his obligation.

Johnstone (2001b) and Johnstone and Aemero (2001) cited two major, and partly conflicting, goals for student loan programs: (a) supplementing governmental revenues (which depends on the degree of effective cost recovery and on tapping private capital), and (b) expanding participation in higher education. The Kenyan program has not been very successful in either regard, save for a scholarship arrangement with the Visa Oshwal community in Kenya that is benefiting 101 students for the duration of their studies in the public universities (Mwiria & Ng'ethe 2002). Assuming that the board would give full loans of Ksh 42,000 for each student, the assistance amounts to savings of Ksh 4,242,000 (US$ 184,435) per year and Ksh 16,968,000 (US$737,739) for the four-year study duration. Other than this one-time assistance, the program is dependent on the traditional government subventions and recoveries, though it is mandated to secure other forms and sources of funding.

Without doubt, there has been a significant expansion of higher education in Kenya, particularly in the last five years, and the board has been a significant source of funding for students particularly in the public universities. Still, the overall expansion of higher education in Kenya cannot be attributed solely to the loan program for several reasons, two of which stand out. First, a significant proportion of the expansion (22%) is due to the initiation of Module II (parallel) programs. So far, these students are not eligible for support from the loan program. Second, there has been a significant growth in the number of Kenya's private universities, which enroll about 15% of all university students.

The Kenyan program is highly subsidized, given that it carries an interest rate of only 4%, effective on repayment after a two-year grace period. Because

the market interest rate is 17—20%, the program has been criticized as being too lenient. However, subsidies associated with government-funded student loans can be defended as connected to the government's obligation to provide social services to its citizens in exchange for their taxes and compliance with the law. As the custodian of collective social interest, the government properly bears a portion of the cost of services it gives the citizens. However, it is also facing competing interests for its few resources. On this score, it makes sense to expect student loan programs to generate sufficient funds not only to sustain themselves but to release the government's limited resources to service other sectors.

Internally, the need to expand higher education access through such available cost-sharing instruments as student loans justify the elimination of subsidies and the institution of real cost recovery measures. This aim constitutes part of the twin but competing (if not contradictory) goals of student loan programs as ably expounded by Johnstone and Aemero (2001). The issue of subsidies in loan programs must not only deal with the economics of lending and borrowing but must also recognize political realities, particularly in the developing world where students constitute an important and volatile political constituency. It would be highly imprudent for a government to provoke students by implementing decisions that they consider punitive. It is for this reason that the current loan repayment terms are not likely to change in the near future.

## The Way Forward for Kenya's Loan Program

Drawing lessons from the seven-year existence of HELB as well as from its predecessor organization, several measures and policies call attention to themselves as needing consideration before the program can fully meet the objectives for which it was set up. The challenges include facilitating the expansion of university education, addressing issues of equity and efficiency in funding universities and other postsecondary/tertiary institutions of education, enhancing recovery, and tapping additional sources of finance than the government. The board needs to look beyond itself and recognize other sources of funding available to those desiring higher education, including commercial banks. Students and parents may not be going to these facilities because they have believe that HELB is the only local source of education funding and have not been informed about alternative borrowing sources. There seems to be absolutely no reason why people should borrow money from commercial banks for physical investment but be unwilling to borrow the same for human capital/ educational investment. HELB program managers need to conduct campaigns of public education for the borrowers and for Kenyan society in general. There

is no compelling financial reason why students and their parents cannot, for instance, borrow from the market to finance shortfalls from HELB assistance, especially since 45% of the students in Kenyan universities come from its wealthier sections. Accessing private credit would release a significant portion of funds, which could in turn be used to expand the places available in higher education. There have been no attempts so far to encourage banks to initiate softer loan facilities for education with probable government guarantees. The argument normally given for not accessing credit from commercial banks for education is that the bank rates are too high. While this is true (some banks charge interest rates exceeding 25%), avenues do exist outside banks. Savings and credit societies, for instance, already give loans for lower level/ secondary education. Curiously, some secondary-level students are educated with loans from cooperative saving and credit societies, but their parents are not ready to obtain the same loans to finance university education, mostly due to the belief among Kenyans that university education should be "free," as it has been for a long time.

Other opportunities relate to making university education more relevant to the needs of the Kenyan society. The board does not have the capacity to ensure this goal on its own since its responsibility is to disburse loans to those qualifying for university education. However, it could insist on the adoption of some policies that will satisfy its clients. Currently, the board disburses the tuition component of the loans to the university where a student has been admitted. Only the living allowances are disbursed directly to students' accounts. This policy has resulted in complacency among the universities, as they are sure that students will be forthcoming. Were the whole amount to be placed in the students' hands in a liberalized admission regime, the students could take the money to a different university than the school where they are admitted. Thus, the board could lobby for a revision of admission policies, allowing students to invest the funds in the courses/programs in which they see the most returns, whether monetary or otherwise.

A number of equity concerns in the program also demand the board's attention. One of the program's aims is to promote equality of opportunity in higher education. Equality implies justice or fairness. The loan program as such should open avenues for access to higher education for those who qualify and equitably distribute financial support to the qualifying students. The program has compromised this goal, as the bulk of the students now benefiting have been public university students. Other higher education students (defined as postsecondary tertiary institutions) have been locked out of the program, understandably due to limited funds that the board can disburse in any given year. Even for the qualifying public university students, the loans are not scaled

to the demands of the programs or courses. Medicine and engineering, for instance, are labor intensive, requiring greater financial commitments. Even laboratory courses such as chemistry are very demanding. Students enrolled in one program may have different financial needs and requirements than students in another program. If two students are admitted in the school of education, one taking subjects such as history and religious studies while the other takes fine art or home economics, and if they receive similar loans, equity is not addressed. The first student needs only a lecture room, board, chalk, and writing materials while the second has to spend additional money on fabrics, colorings, supplies, etc. The financial burden of the second is thus greater. Still, the program must be commended for providing loans to qualified students irrespective of gender or socio-economic background. The increase in university opportunity index attests to this fact.

Indicatively, since primary and secondary education respectively form the foundation for higher education, achieving equality of opportunity and equity at the university is possible only when the provision of education at the base (primary and secondary levels) is equitable both in access to and distribution of educational resources. Given manifestations of inequalities in the two levels of education (Deolalikar 1999; Mitha et al. 1995; Karani, et al. 1995), it is only logical to address the two issues at these levels first. Suffice it to say, then, that achieving equality of opportunity and equality in higher education calls for implementing a whole set of intervention measures that will address ills inherent in the entire education system beginning at the primary level. When this is done, the loan program could be used, along with other measures (fees, grants, and scholarships), to enhance equity.

Relying exclusively on the loan program to achieve equity goals in higher education is both shortsighted and impractical. An examination of the rates of return to the different levels of education and the costs borne by the government and households in Kenya (Table 8), and their implications underscores the futility of trying to address the twin goals at the higher education level by means of the loan scheme without targeting the lower level of education. Within the framework of the loan program, options include setting an interest rate more realistic than the current highly subsidized rate of 4%. Investing in primary education, which would clearly yield higher social benefits, draws credence from the current pattern of expenditure that is heavily tilted in favor of higher education, with the government bearing up to 92% of the costs of university education, while households bear as little as 8%.

**Table 8:** Rates of Return to Education in Kenya, 1994, and Cost Borne by Government and Households

| Level | Rate of Return | | | Percent of Costs Borne by: | |
|---|---|---|---|---|---|
| | Social | Private | Difference | Government | Households |
| Primary | 8.1 | 13.5 | 5.4 | 69 | 31 |
| Secondary | 7.4 | 12.6 | 5.2 | 40 | 60 |
| University | 5.7 | 19.7 | 14.0 | 92 | 8 |

*Sources:* Republic of Kenya (1996, 1998); Ayako et al. (2000).

By 1997, the government spent only Ksh 2,774 (US$ 121) per primary school pupil and Ksh 9,418 (US $409) per secondary school student while expenditure per university student was Ksh 115,812 (US$5,035), meaning that the government spends 42 times more on a university student than on a primary school pupil (Abagi 1997). Taking a chunk of funds from university education and transferring it to the primary level would be more optimal. On the other hand, the relatively low benefits to an individual from secondary education reflect the expensive nature of this level of schooling. The import of the high cost is that only those who are financially able to purchase secondary education eventually benefit from the highly subsidized loan program at the university. Students from disadvantaged socio-economic backgrounds are effectively excluded from both secondary and university education. (See Fig. 1.) Stated differently, the current loan arrangement in Kenya gives clear preference at the university level to families who are able to purchase secondary education for their children. This factor strengthens the case for a review of loan program features that would make the financing regime both realistic and equitable.

It has been argued elsewhere (Johnstone 2001a, 2001b) that using more specialized government agencies such as the income tax departments could enhance recoveries. In Kenya, this could be done by contracting with the state tax collection agency, the Kenya Revenue Authority (KRA). Such a move would likely result in better recovery rates because the KRA already has records of employed graduates, something that the HELB does not have. Indeed, the rate is low because HELB has relied heavily on recoveries from those graduates in government, parastatals (state corporations), the Teachers' Service Commission, and a few private companies, mostly because these known entities are easy to reach. The HELB does not know where many other graduates are currently working or if they are working at all.

The KRA's well-organized operations and mandate positions it advantageously both for tax collection and debt recovery. For example, it has divided the country into tax regions for the purposes of ensuring tax compliance. Each region has officials whose responsibility is to visit employers at random to see if there are traders or firms evading tax payments. HELB inspectors have so far been unable to effectively discharge their similar responsibility. The KRA could arguably be singled out as one of the very few efficient public institutions in Kenya today. Given that it has records of borrowers, it will not even need to search for them, but only put them on notice of the effective date when it will affect the recoveries. Such a move would not be totally new. In the past, the KRA has undertaken dues collection on behalf of National Hospital Insurance Fund and Catering Levy Trustees, resulting in significant increases in collections, even though the NHIF policy was scuttled after a very short period without valid reasons being given. This should by no means be a deterrent, for the circumstances of students loans are quite different. However, there must be very strong and visible political support for such an initiative to succeed.

Some of HELB's plans indicate that it is indeed on the right track in widening access to credit by those desiring to invest in higher education. According to the HELB secretary, it is currently negotiating with commercial banks, through their umbrella body, the Kenya Bankers Association to offer soft loans to students with the HELB guaranteeing the loans (personal communication). It is envisaged that the negotiations might yield useful results by the beginning of the new year (2003). If it succeeds, it will revolutionize higher education financing in Kenya since banks have expressed unwillingness to engage in educational lending due to the high risks involved (Otieno, 1997). More significant is the likelihood of freeing funds that the board could then use to expand access to higher education by awarding more loans or by increasing the amount of loan per student. The degree to which the initiative succeeds will depend on the number of banks involved, the total volume of the funds available for lending, and the terms of lending. Ideally, given the positive increase in recovery rate, the board should have no problem in convincing the banks that the loans are recoverable. If, as a nonbanking institution it has been able to recover Ksh 50 million monthly, the banks with more experience and infrastructure in debt management should do better. Such success will, however, depend on whether the banks will recover the monies directly or whether the board will recover the loans on their behalf.

## Conclusion

The Kenyan loan program has come a long way. From an institution registering a gross loss of over 103% (Albrecht & Ziderman, 1991), it is currently one

of the few functional loan programs in Africa (with the possible exception of the South African program) which has significantly reduced government dependence to about 50% of its disbursements, yet like most loan programs all over the world, it must overcome a number of obstacles, including raising enough funds to serve all of the qualifying claimants, thereby expanding access to higher education and ensuring real cost recovery while limiting debt burdens in a way that it will encourage borrowers to repay. While the current recovery rate is not good enough, it is a significant achievement in less than 10 years. Not only has the board been able to raise recoveries significantly, it has also reduced administration costs and procedures, including setting up an interactive Website. A tighter form of means testing will ensure that the loans serve the purpose for which the program was introduced, namely, to expand access to higher education through equitable distribution of available funds.

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