

# Cost Recovery and Student Support in Tertiary Education

## Fees

In 1984, the World Bank presented statistics on recurrent expenditures met from tuition fees in different countries. It indicated that when the document was written, in only 20 countries, areas, or provinces of the world did tuition fees account for over 10 percent of recurrent expenditures (World Bank 1994a, 41). The scale of fees was not related to the incomes of countries, but there was variation across regions. Sub-Saharan Africa, North Africa, the Middle East, and Eastern Europe had little or no tradition of cost recovery in public higher education. However, public-institution fees exceeded 10 percent of recurrent expenditures in one out of five Latin American countries and in half of the Asian countries in the sample.

**Table 21: Sources of Recurrent Income of Selected Indian Universities, 1989/90-1991/92**

(percent)

<i>Institution</i>	<i>Govt. grants</i>	<i>Fees</i>	<i>Printing Press</i>	<i>Farm</i>	<i>Loans</i>	<i>Endowments</i>	<i>Misc.</i>	<i>Total</i>
<i>Central Universities</i>								
Aligarh Muslim	97.4	1.1	0.0	1.0	0.2	0.0	0.3	100.0
Banaras Hindu	89.4	0.8	0.6	7.2	0.0	0.4	1.6	100.0
Hyderabad	94.7	1.9	0.0	0.7	0.0	0.0	2.6	100.0
Jawaharlal Nehru	92.7	1.0	1.0	2.0	0.7	0.0	2.6	100.0
Pondicherry	86.7	8.3	0.5	0.3	0.0	0.0	4.1	100.0
Viswa Bharati	97.9	0.5	0.2	0.7	0.0	0.0	0.7	100.0
<i>Average</i>	93.2	1.2	0.4	3.7	0.1	0.1	1.3	100.0
<i>State Universities</i>								
Bombay	11.5	39.0	28.3	2.2	4.1	0.0	15.1	100.0
Calcutta	91.2	7.5	0.0	0.1	0.0	0.3	0.8	100.0
Karnataka	53.5	5.5	1.8	0.1	12.7	15.1	11.3	100.0
Kerala	58.3	30.1	4.5	1.2	1.9	0.0	4.0	100.0
Madras	15.7	46.8	1.0	0.2	4.5	0.4	31.4	100.0
Mohanlal Sukhadia	91.3	8.1	0.0	0.3	0.0	0.0	0.2	100.0
Utkal	59.2	22.1	0.0	0.5	2.2	0.7	15.3	100.0
<i>Average</i>	54.3	21.2	5.3	0.6	4.3	5.3	9.0	100.0

Source: Tilak 1997b, 11.

For analysis of some countries, disaggregation of national averages is necessary. Table 21 shows different fee incomes in selected universities in India. Fee incomes in the sample of central universities averaged below 2 percent of total income, but in state universities they averaged 21.2 percent. Among the state universities shown, the range was from 8.1 to 46.7 percent.

As the 1990s progressed, in some parts of Asia fees increased further. In Hong Kong, China, where the authorities had imposed uniform fees across all public institutions, they decided in 1991 to raise fees from 12 percent of recurrent costs (which was already a substantial increase from the situation in the mid-1980s) to 18 percent in 1997. Fees have also greatly increased in the PRC. Many institutions have admitted private (self-sponsored) students at higher fees than students paid for by the state, and in 1995 the average fee in many institutions was between 25 and 30 percent of recurrent costs (Zhang 1997). The Government sought to standardize the situation, setting a guideline that in 1997 fees should meet 20 percent of recurrent costs (World Bank 1997a, 47). In Singapore, differential fees were charged by academic discipline. In arts and social sciences, fees were increased from 10 percent of the recurrent cost in 1986/87 to 20 percent in 1992/93. The Government has declared its intent to raise fees further to 25 percent (Selvaratnam 1994, 81-3), though it has also decided to set uniform fees rather than divergent ones for individual clusters of disciplines.

### **Grants and Loans**

People who oppose increases in fees usually do so mainly on the grounds that fees are likely to exclude individuals from the poorest segments of society. Part of the response by policymakers has been to provide an array of support schemes, including grants and loans. Grants may be linked not only to the incomes of applicants but also to academic performance and to efforts to attract students to particular types of training. Loan schemes usually contain a substantial proportion of hidden grants.

Among the international authorities on student loans are Woodhall (1987, 1991, 1997) and Ziderman and Albrecht (1995). These authors have highlighted a wide range of models, of which the two main types are mortgage loans and income-contingent loans. Mortgage loans are more common, and require students to repay sums over a specified period, usually with fixed monthly payments. Income-contingent loans provide faster avenues for repayment by high-income graduates, and safety nets for low-income graduates, by linking the size of repayment to graduates' incomes. Most loan schemes provide for living expenses as well as tuition fees. Some loan schemes are administered by government agencies, while others are operated by commercial banks.

The hidden grant elements of loans take the form of subsidized interest rates, leniency for low-income students, and tolerance of default on repayment. Table 22 shows figures compiled by Ziderman and Albrecht of hidden subsidies and government losses in 20 countries. The hidden grant through subsidized interest rates ranged from 13 to 93 percent of the loans, while average loan recovery ratios varied substantially. In addition, loan schemes

**Table 22: Hidden Subsidies, Government Losses, and Average Loan Recovery Ratios on Selected Student Loan Programs**

<i>Economy</i> <sup>a</sup>	<i>Nominal interest rate (%)</i> <sup>b</sup>	<i>Real interest rate (%)</i> <sup>c</sup>	<i>Max. or projected repayment period (years)</i> <sup>d</sup>	<i>Hidden grant to students (% of loan)</i> <sup>e</sup>	<i>Govt. loss with default (%)</i> <sup>f</sup>	<i>Govt. loss with default &amp; administrative costs (%)</i> <sup>g</sup>	<i>Average loan recovery ratio (%)</i> <sup>h</sup>	<i>Year</i> <sup>i</sup>	<i>Estimates</i>
<i>Mortgage Loans</i>									
Barbados	8.0	4.1	12	13	18	33	67	1988	Default 5%, Administrative 2%
Brazil I	15.0	-35.0	5	91	94	98	2	1983	Default 30%, Administrative 2%
Brazil II	318.0	-14.9	8	62	65	71	29	1989	Default 10%, Administrative 2
Chile	varies	1.0	10	48	69	82	18	1989	Administrative 2%
Colombia I	11.0	-10.6	8	73	76	87	13	1978	Administrative 2%
Colombia II	14.0	3.0	5	29	38	47	53	1985	Administrative 2%
Denmark	8.0	1.6	10	52	56	62	38	1986	Administrative 1%
Finland	6.5	-0.6	10	45	46	52	48	1986	Default 2%, Administrative 1%
Honduras	12.0	-3.0	8	51	53	73	27	1991	Administrative 5%
Hong Kong, China	0.0	-6.3	5	43	43	47	53	1985	Administrative 2%
Indonesia	6.0	-2.3	10	57	61	71	29	1985	Default 10%, Administrative 1%
Jamaica I	6.0	-10.7	9	74	84	92	8	1987	Administrative 2%
Jamaica II	12.0	-5.6	9	56	62	70	30	1988	Default 20%, Administrative 2%
Japan	0.0	-1.4	20	50	51	60	40	1987	Administrative 1%
Kenya	2.0	-6.9	10	70	94	103		1989	Administrative 2%
Norway	11.5	5.6	20	33	33	48	52	1986	Administrative 1%
Quebec	10	5.2	10	31	31	37	63	1989	Administrative 1%
Sweden I	4.3	-3.0	20	61	62	70	30	1988	Administrative 1%
United Kingdom	6.0	0.0	7	26	30	41	59	1989	Default 5%, Administrative 1%
United States	8.0	3.8	10	29	41	53	47	1986	Administrative 2%
Venezuela	4.0	-23.0	20	93	98	108		1991	Administrative 3%
<i>Income Contingent Loans</i>									
Australia	varies	0.0	17	48	52	57	43	1990	Evasion 3%, Administrative 0.5%
Sweden II	varies	1.0	10	28	30	33	67	1990	Evasion 3%, Administrative 0.5%

**Notes:**

<sup>a</sup> Economies with I and II refer to situations where the loan program underwent reform.

<sup>b</sup> Nominal interest rate refers only to the rate during repayment.

<sup>c</sup> Real interest rates use purchasing power parity formula, where inflation is based on the average of the 1980-1988 period as reported in the *World Bank Development Report*, except in instances noted where a five-year average of inflation was calculated from the data date.

<sup>d</sup> The repayment length is the maximum prescribed in the loan, except for the two income-contingent loans where it is the repayment length that is implied by the average income profile of a graduate. This does not include grace periods.

<sup>e</sup> The hidden grant percentage is calculated as a discounted cash flow of the student's account, and therefore excludes default and administrative costs.

<sup>f</sup> The government loss due to default subtracts the percentage of default from each year of the repayment stream.

<sup>g</sup> The loss with default and administrative costs subtracts an annual administrative cost related to outstanding debt each year.

<sup>h</sup> The loan recovery ratio is equal to 100 minus government loss with default and administrative costs.

<sup>i</sup> Year is the date from which loan information was collected, and from which inflation calculations were made.

Source: Ziderman and Albrecht 1995, 70-1.

may demand substantial administrative costs. These figures demonstrate that loan schemes are much less efficient as a mechanism for recovery of costs than is widely assumed.

In the light of such statistics, much attention has focused on ways to improve the efficiency of cost-recovery schemes. When such a scheme was initiated in 1969 in Hong Kong, China, loans were interest free. However, in 1987 a 2.5 percent charge was placed on loans, and a 1996 report recommended that the authorities should raise this to between 5.8 and 8.5 percent, while simplifying administration (Ernst and Young 1996, 122). Similarly, continued scrutiny of schemes in the PRC is permitting the authorities to plug some of the leaks in the system set up in the early 1990s (Li and Bray 1992; World Bank 1997a).