Financing higher education in Sub-Saharan Africa – Institutional requirements for a successful implementation of Income Share Agreements

Many developing countries face social problems when it comes to access to tertiary education. Especially in Sub-Saharan African countries, public expenditure on tertiary education is still rather low. Moreover, in most African countries, higher education is not free. Both public and private higher education institutions raise tuition fees. Together these factors result in a situation in which many individuals are excluded from higher education for monetary reasons.

The focus of this research project is on the current application of the Income Share Agreement (ISA) in countries of Sub-Saharan Africa (SSA) and its potential to reduce structural financial barriers to tertiary education. The ISA vehicle provides an innovative financing alternative to conventional debt instruments, which often are not accessible for a large part of the population. The ISA does not assess the current financial situation but instead looks at the future potential income of a person. Within the ISA, the individual commits to pay a specified percentage of his or her future income. In exchange, the investor covers the costs for tertiary education upfront. Repayments start once the student has graduated and earns above a defined minimum income threshold. The payment obligation lasts for a predefined period. However, as individually agreed bilateral contracts, ISAs may vary in their respective parameters. The question arises of how to structure and implement the ISA in a given country context so that it ultimately facilitates access to higher education.

Based on the concept of institutional transfer, this research project identifies central institutional factors which contribute to a successful implementation of ISAs in SSA. Empirical data was obtained through the interrogation of 11 participants in semi-structured interviews. The participants are executives of three organizations which currently offer ISAs in developing countries and SSA countries, and they are members of two educational institutions in Rwanda. Data analysis was conducted in a two-step methodological approach: The first part of the data was analyzed in a conventional qualitative thematic analysis. It determined the characteristics and the perceived purpose of ISAs, current alternatives for education financing in SSA as well as perceived advantages and disadvantages of ISAs in comparison to other financing options. The second part of the data was analyzed by performing a qualitative content analysis. It identified central institutional factors determining the success of the ISA application in three target domains, namely a) the ethical responsibility of the ISA instrument towards the student, b) the financial sustainability of the ISA business model, and c) the positive socioeconomic impact of ISA provision such as an increase in social mobility and the promotion of social equality.

The results of the study reemphasize that due to its income-based structure, the ISA instrument is accessible for poor and vulnerable individuals. In contrast to conventional bank loans and scholarships, which were found to be rare and often inaccessible in the SSA context, the ISA was associated with numerous advantages, which essentially concern the main aspects of security, freedom and empowerment. Results further show that the ISA protects students against financial risks arising from low future earnings and potential unemployment. In the context of institutional transfer, it was found that the current application of the instrument in SSA is embedded in a dense social network which is characterized by close interpersonal relationships and the commitment to shared beliefs, values and norms. This network represents the outcome of targeted community building. Furthermore, it was demonstrated that the three dimensions of a successful ISA provision, namely ethical responsibility, financial sustainability and positive socio-economic impacts, are not mutually exclusive. The ISA instrument aligns the interests of the student with those of the provider and the investor. Together with educational institutions and students, ISA providers share the incentive that studies are completed and that degrees lead to secure and well-paid employment. In the context of a positive socioeconomic impact it was shown that ISA-financed graduates are free to support family members and their local communities financially. Here, it became clear that the redistribution of an individual income has the potential to set off a multiplier effect in society: graduates were enabled to uplift other individuals.

From a development economics perspective, the ISA instrument has the potential to reduce structural financial barriers to tertiary education, so that the development of human capital is promoted. In the long run, the application of the ISA in education financing may therefore contribute to tackle the socioeconomic divide between the Global North and the Global South.