



Financing Higher Education: Making NHEFM work for all in Kenya

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The Situation

The government of Kenya unveiled the New Higher Education Funding Model (NHEFM) in 2023, following recommendations from the Presidential Working Party on Education Reform. Under this model, universities and TVET colleges will no longer receive block capitation from the exchequer, but instead, funding will be channeled through various student loans, scholarships, and household contributions.

Despite the government's commendable efforts to strengthen higher education (HE) financing, stakeholders reckon that the NHEFM has not provided the much-anticipated relief. Emerging evidence suggests that students and their families often select university programs based on affordability, rather than merit or aspiration.

Furthermore, the proposed 2024/25 budget could only support 17.2% of the first-year students, underscoring the limited reach of available financial aid. The financial crisis in the HE sector is deepening, with nearly half of Kenya's public universities facing potential insolvency due to a cumulative debt burden that reached KShs 76 billion by the end of 2024. These urgent concerns prompted APHRC to undertake a rapid analysis of NHEFM.



17.2%

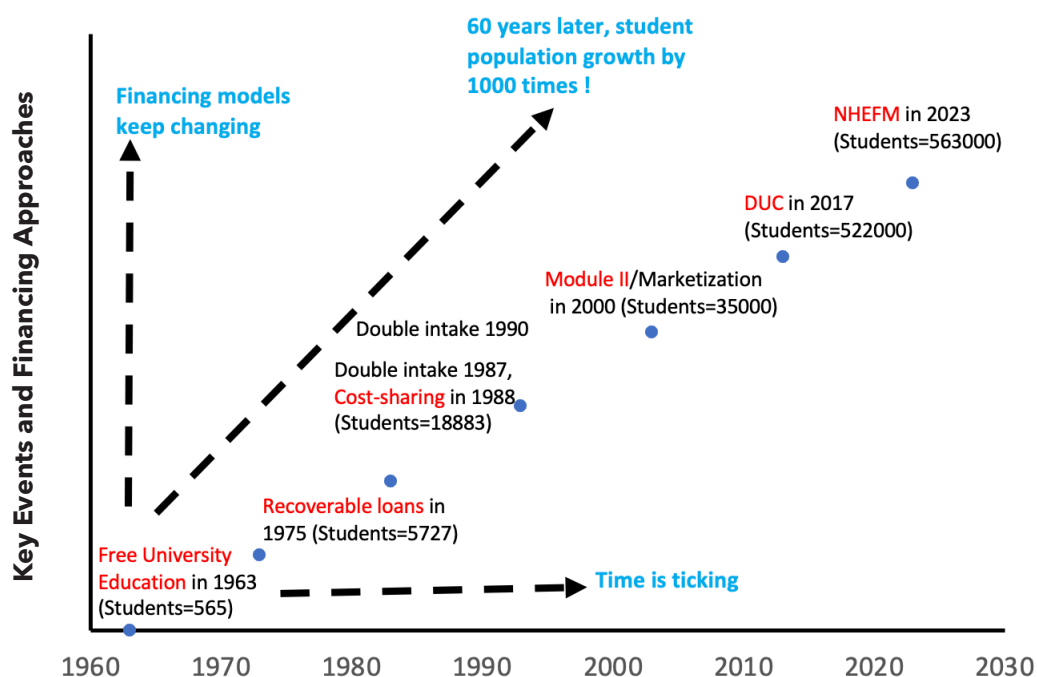
Of first-year students supported by budget



What the Analysis Shows

1. NHEFM alignment with higher education financing

Since independence, four key models have been used to finance higher education.



First was the post-independence policy of free university education. The policy saw a small number, below 2000 by 1970, of students join universities, making free provision of university education possible. By 1975, students were supported through a recoverable loan scheme of Kes 7000. The NHEFM envisions free HE for the most vulnerable.

Second is the cost-sharing policy of 1988, when the student population was slightly below 19,000. This model was introduced following the structural adjustment policies of the late 1980s and early 1990s imposed on many sub-Saharan African countries. Cost-sharing abolished student allowances and subsidized accommodation. This aligns with NHEFM, which aims to shift the burden to the student and family while creating a safety net through scholarships to cushion those from a low-income background. Cost-sharing approach involved allocating Kes 120,000 to every student, regardless of their program of study, with Kes 70,000 provided by the government, while the student paid the balance of Kes 50,000 funded through a means-tested HELB loan of up to Kes 42,000 and a bursary of up to Kes 8,000. The 'unit cost' of Kes 120,000 remained in place until the introduction of NHEFM.

Third, is the privatization and marketization policy that came into place in the early 2000s, when the student population was about 35,000. The marketisation era saw the introduction of self-sponsored students, also known as Module II students, who paid the full cost of their education

and were admitted in parallel to 'regular' or government-sponsored students who were under a cost-sharing arrangement. NHEFM aligns with the marketisation model in that students who are considered the least poor are expected to contribute at least 40% of the cost of their university education, with access to a 30% loan from HELB.

Lastly, there is the Differentiated Unit Cost (DUC), which came into effect in 2017, when the student population had grown to approximately 522,000. Under DUC, various degree programs were costed differently, and access to government funding and the amount allocated varied according to the program cost as determined by DUC, with STEM programs having higher unit costs. The unit costing was perceived as arbitrary, raising significant concerns that contributed, in part, to the adoption of the NHEFM. NHEFM envisions funding students through scholarships and loans in five bands: vulnerable, extremely needy, needy, less impoverished, and much less needy, with household contribution rates of 5%, 10%, 20%, 30%, and 40%, respectively. Loans will cover the other costs at 25% for the vulnerable, and 30% for all other bands. Scholarships will cover the remaining costs.

2. Equity in Loans and Scholarships

In the computation of equity measures (the Gini-coefficient) in the 2023/2024 fiscal year, inequalities in the distribution of loans through the NHEFM existed with a scholarship index/coefficient of 32% and 30% for universities and TVET, respectively. In context, 0% means there is no inequality, while 100% means perfect inequality. Similarly, on loan disbursement through NHEFM, we observed moderate inequalities with a Gini index of 33% and 12.6% for university and TVET, respectively. These inequalities emanate from the use of the mean testing instrument (MTI), which has proven insufficient in accurately categorizing students based on their actual levels of need. Our analysis of primary data indicates that MTI is prone to human manipulations.

3. Loan Recoveries and Financial Sustainability

In 2023, 37% of HELB's budget was financed from recoveries, and the loan default rate stood at 27%. This default rate is down from 40% seen 20 years earlier. In the 2011/2012 fiscal year, loan recoveries were much higher than government direct allocations, with a recovery to government ratio of 311%, compared to 41% in the 2022/2023 fiscal year. This paints a feeble picture of the sustainability of the NHEFM.

4. Key concerns raised on DUC and NHEFM

- It is not clear how the current costs of degree programs are calculated.
- Cost of programs cannot be the same across all universities.
- The means testing criteria under the NHEFM is proving to be ineffective in identifying needy students.
- On a person level, students are not guaranteed employment while the loan repayments have very high interest rates.

Call to Action

Comparative advantage and program costs

- Program costs should vary across universities depending on context, demand, and quality. This will promote identification of niche areas in unique programs with competitive skills.
- Universities/TVET institutions must uphold effectiveness in the management of resources, staff recruitment, and institutional expansion.
- The University Act should require an analysis and review of unit cost for every program from time to time.
- There is need for more systematic designing of the NHEFM and an effective planning and gradual implementation.

Accountability and governance

- There are compelling reasons for private universities to admit government fee-paying students since the NHEFM is student-centered.
- Adopt a graduated funding rate, basing university funding on performance indicators, to ensure efficiency and quality are maintained.

Selection of loan and scholarship beneficiaries

- Revise the household expenditures under NHEFM Band I upwards from Kes 5,995 to Kes 29,640 to reflect economic realities.
- Consider the average family size in determining household expenditures.
- The funding model should consider program unit costs when allocating scholarships (and, to some extent, loans), to ensure the poorest can access expensive programs.

Conclusion

The government should implement NHEFM with a long-term view of higher education's contribution to development. The implementation should be done effectively through phased rollouts, cost reviews, accountability measures, and funding assessments to protect low-income students' access to competitive academic programs, promote equity, and sustain higher education in Kenya. This will enable a fair and efficient higher education financing system.



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