The Student Loans Act 2023: Impact on Higher Education Funding in Nigeria

Mayowa Agbelusi
Central Bank of Nigeria

Abstract

In one of his first acts as President, Bola Ahmed Tinubu signed the Students Loans (Access to Higher Education) Act of 2023, aiming to provide access to higher education for financially disadvantaged students. This paper analyzes the Act, addressing funding challenges in Nigeria's higher education system, examining past student loan initiatives, and exploring the Act's potential impact on sustainable development. The study also considers the historical context and lessons from previous efforts. Moreover, it investigates how the implementation of the Act could provide a pathway to economic development in Nigeria.

Introduction

Higher education is the educational phase after post-basic education (National Policy on Education, 2013). It encompasses various types of institutions, including universities, polytechnics, colleges of education, and specialized centres. In Nigeria, publicly funded institutions face persistent challenges of inadequate funding, difficulties in recruiting and retaining top talent, and deteriorating infrastructure which have adversely affected their development and operational performance.

This Act represents a different dimension in efforts to tackle this problem. It establishes a framework for the disbursement of interest-free loans specifically designed to ease the financial burdens of economically disadvantaged students seeking higher education. This holds significant potential to improve access to educational opportunities for financially disadvantaged students and add another source of funding for public universities. However, its ultimate efficacy rests on its careful implementation and the government's ability to effectively address potential challenges that may arise in the process. As Nigeria embarks on this transformative journey, the impact of increased funding on the country's higher education landscape becomes a subject of keen anticipation and scrutiny, with the potential to reshape the future of higher education in Nigeria in particular and Nigeria in general.

A 2019 study by the Nigerian Universities Commission (NUC) showed that the majority of Nigerian undergraduates, around 94 percent, attended public universities. Among these, federal universities enrolled 65 percent of the students, while state universities enrolled 29 percent. The remaining 6 percent of undergraduates attended private universities. Since the 1980s, the Academic Staff Union of Universities (ASUU), a union of Nigerian academics employed by the Federal Government, has frequently gone on strikes that have seriously disrupted the academic calendar and the lives of students. In 2022, ASUU embarked on an eight-month strike, its 16th in 23 years, to protest the government's failure to release funds allocated for university revitalization as agreed in a 2009 pact.

ASUU's concerns also underline the issue of low wages for academics, even at the highest salary scale Nigerian university professors earn a monthly salary of NGN 416,000 making academia unattractive to top talent (Onda, 2021). In 2017, the Executive Secretary of the Tertiary Education Trust Fund (TETFUND) expressed dissatisfaction with research proposals from universities, revealing a significant lack of quality in these submissions, with over 90 percent deemed poor and unfundable. This highlights the effects of inadequate remuneration on manpower in academia.

Another consequence of underfunding public universities is the deteriorating state of infrastructure. The substandard living conditions experienced by students encompass overcrowded hostel accommodations, deficient toilet facilities, bedbug infestations, as well as insufficient lecture halls and laboratories (Cable News Journalism Foundation, 2023). These challenges have diminished the quality of higher education in Nigeria, affecting graduate employability and leading to calls for increased government funding and greater student financial support. The introduction of the Student Loans Act aims to address these challenges by providing an additional funding model for public higher education in Nigeria.

Funding of Public Universities in Nigeria

University funding is a critical concern for national governments, serving as a means of controlling academic institutions and addressing key policy issues. In Nigeria, the Federal Government's (FG) aim, as per the National Policy on Education (2013), is to provide free education at all levels through sufficient funding from various sources. While undergraduate tuition is free in federal universities, students are responsible for covering various supplementary fees, including registration, sports, library usage, hostel maintenance, and laboratory expenses.

Historically, the FG provided block grants to universities through the National Universities Commission (NUC). These grants were categorized into capital and recurrent components, with recurrent grants further divided into Overhead and Personnel costs. Currently, institutions are funded via legislative appropriation by the National Assembly, following recommendations and assessments by various ministries and commissions. The budget allocated to universities is largely dedicated to personnel expenses. For example, in the 2023 budget, the University of Ibadan received NGN18.3 billion, with 95 percent of the allocation for personnel costs. Only 3.5 percent was allocated to capital expenditures, and the remaining 1.5 percent covered overhead costs.

The Tertiary Education Trust Fund (TETFUND) also plays a crucial role in funding public universities. It operates as an intervention agency, primarily funded by a two percent education tax on companies' profits in Nigeria to enhance the tertiary education system through funding capital projects, research, staff development, and infrastructure improvement. In 2023, Universities were to receive NGN1.1 billion each; Polytechnics NGN699 million each, and Colleges of Education NGN800 million each (TETFUND, 2023). Apart from government funding, which forms the predominant source of funding, federal universities also generate income from student fees, investment returns, and endowments.

Cost-Sharing, Cost of education and Student Loans

The concept of cost-sharing in higher education involves sharing financial responsibilities among students, parents, taxpayers, and institutions (Johnstone, 1986). In Nigeria, taxpayers cover tuition costs for students in federal universities, while students and parents handle various indirect expenses. Institutions, through endowments or philanthropy, provide scholarships and grants to deserving students. However, due to limited resources, the government is considering introducing tuition fees for federal universities to share the financial burden more equitably with parents and students.

The Vice-Chancellor of the University of Benin and the Chairman of the Committee of Vice Chancellors of Universities in Nigeria, in May 2023 contributed significantly to the ongoing discussion surrounding the funding of Federal universities. She stated that the Federal Government cannot afford to fully finance these institutions anymore and advocated for parents to take on some responsibility for their children's tuition. Notably, she highlighted the considerable cost involved in training medical students at the University of Benin, amounting to NGN3 million per session. In contrast, students currently only pay NGN240 for tuition over six years. This adds to the debate on cost-sharing in higher education and raises questions about the roles of parents, universities' financial sustainability, and the potential introduction of tuition fees.

In terms of fiscal policy, tuition-free university education can be considered regressive. This is because it mainly benefits an elite group of people relative to the general population, while significant costs are covered by a larger group of taxpayers. Additionally, a significant number of students who can afford higher education typically come from middle to upper-income families. This group attends public universities tuition-free, funded by taxes paid by individuals with lower incomes throughout the country. ASUU recognizes the need for alternative funding for universities but opposes student loans, fearing negative impacts on disadvantaged students. However, well-executed student loans can create a sustainable and equitable financing system for universities. The idea is to lend to students and be paid back by the professionals. This approach can ease taxpayers' financial burden, provide essential funding for universities, and instill accountability among students while ensuring that the cost of educating an elite group is not borne by low-income taxpayers (Woodhall, 2004).

History of Student Loans in Nigeria

Nigerian Students Loan Board (NSLB) 1972 - 1992

Nigeria's previous attempts at providing student loans faced significant challenges. In 1972, the Nigerian Students Loans Board (NSLB) was created to grant loans to indigent Nigerian students studying within the country. It aimed to assist students in completing their education and recover the loans later. This decree was replaced by subsequent ones in 1976 and 1988, allowing loans for foreign education and addressing issues in the earlier decrees.

It's important to note that during the initial decree, there were only six federally owned universities in Nigeria. Under the 1988 decree, the maximum loan for Nigerian university students was NGN1,000 per year, with a total of NGN5,000, while overseas students could receive NGN5,000 for tuition, books, and living expenses, with a 7 percent interest rate for 10 years. Repayment was due two years after graduation or upon employment, with two guarantors required (Chuta, 1992). From 1972 to 1992, the NSLB disbursed NGN46 million in loans but faced a low 13 percent loan recovery rate. This was due to gaps in the loan system's regulations, administrative and resource challenges within the NSLB, and cultural factors, including a lack of enthusiasm for loan repayment. Recognizing the need for accessible financial assistance, Nigeria established the Nigerian Education Bank (NEB) to replace the NSLB in 1993.

Nigerian Education Bank (EDUBANK) (1993 - 2023)

In 1993, the Nigerian Education Bank came into existence through the enactment of Decree No. 50 of 1993. It was established with a share capital of NGN400 million, divided into 400 million shares valued at NGN1 each. The bank was set up to harness private capital to fund the education system and reduce the funding burden on the FG. Its functions fell into four broad categories: educational lending and recovery, project financing, funds mobilizations, and provision of advisory services. Primarily, its responsibility was to approve and distribute loans within the higher education ecosystem, including students, researchers, publishers, conference organizers, and alumni associations. Under the Decree, the bank was endowed with an N200 million Students Loan Revolving Fund, provided by the Federal Government, aimed at granting loans to students pursuing higher education (Decree No. 50, 1993) (Chuta, 1998). In 2004, the Nigerian Education Bank Act was passed. Despite having legal support, the Nigerian Education Bank never commenced operations.

Nigerian Education Loan Fund (NELF) 2023

The Students Loans (Access to Higher Education) Act 2023 repealed the Nigerian Education Bank Act of 2004 and established the Nigerian Education Loan Fund (NELF) to provide interest-free loans for economically disadvantaged students, specifically covering tuition fees for those pursuing higher education in public institutions in Nigeria. The Fund will be managed by the Central Bank of Nigeria and disbursed through Deposit Money Banks (DMBs). Its funding sources include education bonds, endowment funds, 1 percent of various taxes and duties collected by the Federal Government, 1 percent of profits from oil and minerals, as well as donations and grants.

To qualify for a loan under this Act, applicants must gain admission into public universities, polytechnics, colleges of education, or vocational schools. Their income or family income should not exceed NGN500,000 annually (NGN42,000 per month). Applicants must also provide at least two guarantors, who must be civil servants of at least level 12, lawyers with a minimum of 10 years post-call experience, judicial officers, or justices of the peace. Ineligible applicants include those with prior loan defaults, involvement in exam malpractice, convictions for felonies, dishonesty, fraud, drug offences, or if their parents have defaulted on loans. Loan repayment begins two years after completing the National Youth Service Corps (NYSC) program and involves a direct deduction of 10 percent from the beneficiary's monthly salary by their employer or business profits if the beneficiary is self-employed. Beneficiaries transitioning into self-employment must inform the Committee Chairman within 30 days and provide essential business details.

Economic Impact of Public Universities

A well-functioning public university system plays a pivotal role in nurturing human capital development, propelling technological advancements, and broadening economic opportunities. It achieves this by producing graduates equipped with the knowledge and skills essential for various industries, thereby elevating overall productivity. Labour productivity, which quantifies the real GDP generated per labour hour, relies on three primary factors: investments in physical capital, the integration of new technologies, and the cultivation of human capital. Consequently, countries with a robust educational system tend to have more productive workforces. In Nigeria, this deficiency in capacity is notably observed in the agricultural sector, where growth predominantly depends on increasing the workforce (factor accumulation), as opposed to embracing new technologies, enhancing skills, and implementing improved managerial practices.

Furthermore, a robust public university system fosters research endeavors that have the potential to propel technological progress and provide solutions to economic hurdles. This, in turn, nurtures innovation and bolsters the nation's competitive edge. For instance, during the Covid-19 pandemic, Oxford University collaborated with AstraZeneca to develop a life-saving vaccine used around the world. This serves as a noteworthy example of how higher education establishments play a pivotal role in economic development.

In recognition of the impact of the knowledge economy, the Ekiti State Government is building the Ekiti Knowledge Zone (EKZ), a world-class knowledge park in a Special Economic Zone that will be built around 4 universities and a polytechnic that leverages the state's comparative advantage in the educational sector. Key activities to be rendered in the EKZ are research and development, software development, and business process outsourcing.

Challenges to the Implementation of the Student Loan Act

- **Stringent Guarantor Conditions:** The Act mandates two guarantors, each with specific qualifications, like being a civil servant of at least level 12, a lawyer with a decade of experience, a judicial officer, or a justice of the peace. This requirement may exclude many low-income applicants who may struggle to find suitable guarantors. It might even lead to a black market for guarantors.

- **Low Employment Prospects for Graduates:** Repayment is expected to start two years after completing the NYSC, assuming applicants will be employed or self-employed. However, Nigeria's high youth unemployment rate, particularly among post-secondary graduates, raises concerns. Many borrowers may face difficulties repaying, leading to fines or legal troubles, creating new challenges.
- **Interest-Free Nature of Loans:** The Act's interest-free loans may seem flexible, but they don't account for inflation or changes in the cost of living. The fixed principal amount remains constant, potentially affecting the program's sustainability as repaid loans lose value over time, contradicting the concept of the time value of money.
- **Credit Culture in Nigeria:** Nigeria's credit culture is still developing, with challenges related to identity management, high interest rates, and limited credit histories. Many rely on informal options like community savings groups or local moneylenders. Historical difficulties in loan recovery by the government add to these concerns.

Policy Recommendations

- **Improved Stakeholder Engagement:** The introduction of student loans affects various stakeholders differently. The government sees it as sharing the financial responsibility, universities find a funding opportunity, but ASUU and students see it as an increased financial burden. Effective communication and understanding with all parties are crucial. Proactive engagement can ease concerns and ensure smoother implementation.
- **Diverse Guarantor Criteria:** The Act should expand guarantor criteria beyond specific professions like civil servants and lawyers. Including respected community leaders, businesspersons, or those with a commitment to borrowers would help low-income applicants. Exploring community-based guarantor networks, inspired by past practices, can provide reliable support.
- **Indexing Student Loans:** To address loan sustainability due to interest-free terms, Nigeria can adopt the indexing approach from successful programs like the Higher Education Contribution Scheme (HECS) in Australia. Rather than indexing against high inflation rates, consider indexing to the administrative cost of the program. Periodic reviews can maintain alignment with economic conditions.
- **Revamping Scholarships:** Alongside student loans, reforming the scholarship system is essential. Presently, scholarship administration faces inefficiencies, especially in State governments. A national scholarship policy can encourage private sector involvement, ensuring continuous educational funding. International examples offer valuable insights.
- **Enforceable Loan Agreements Abroad:** To address borrowers leaving Nigeria and defaulting on loans, consider making loan agreements enforceable outside the country, similar to private student loan finance companies. This can help ensure the sustainability of the program and create a new diaspora remittance approach.

Conclusion

The implementation of the 2023 Students Loans Act in Nigeria offers both opportunities and challenges for higher education. It aims to improve access, ease financial burdens on disadvantaged students, and potentially enhance university funding. However, success depends on factors like stakeholder engagement, fair loan allocation, and program efficiency. In essence, this Act could reshape Nigerian higher education, but careful planning, sound policies, and ongoing monitoring are vital to fully realize its benefits.

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