AUSTERITY AND GROWTH:
FINANCING EDUCATION IN DEVELOPING COUNTRIES

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1. INTRODUCTION

The economic and social conditions in which educational planning (and hence educational financing) takes place have changed dramatically since the 1960s. In many countries of the Northern Hemisphere, political realignments have taken place where economic recession, greater defence spending and rising unemployment have contributed to more restrictive policies on public investment in education. In the Southern Hemisphere many developing countries have experienced difficulty in responding to growing demand for universal enrolments at the first and second levels and expanded third-level provision. This has occurred at a time when the resources available to governments have been adversely affected by the effects of global recession. This has had particularly serious consequences for the poorest countries. Educational financing in these countries has been confronted with a new set of challenges to which it has been slow to respond. Significant growth in real terms in the resources available for public education is no longer possible in most cases.

Moreover, confidence in investment in education as an agent for development has waned, not amongst students and their parents, but amongst central planners and treasury officials seeking to reduce public-sector spending. Though growth in demand for educational services seems set to continue almost everywhere, there is little or no prospect of the available resources keeping pace.

Educational policy makers in developing countries are thus confronted by a scenario characterised by increasing economic austerity and continued growth in demand for access to educational services. As a result, more effort is being put into research and analysis of alternative methods of financing education.

This paper attempts to clarify the various policy options that are available to educational planners. The focus is on options designed for developing countries although there is some reference to education financing in developed countries, especially with regard to higher education. Section two of the paper focuses on the two criteria that have formed the basis for developing alternative financing models, viz., equity and efficiency. Many researchers have pointed out that present
2.

EDUCATIONAL METHODS

Educational financing methods are both inequitable (in the sense that access to educational opportunities is denied to a significant proportion of the population in many developing countries) and inefficient (because, *inter alia*, they result in an enormous wastage and/or misallocation of resources). In Section three the alternative methods of financing are assessed in some detail. Educational financing is still an area of experimentation and few entirely new methods of financing have been developed and implemented. The methods of financing described as 'alternative' include the following: cost recovery and user fees, grants, education vouchers, loans, tax changes, and foreign aid. It is notable that most commentators suggest policy packages comprising one or more of these instruments.

2. EFFICIENCY AND EQUITY IN FINANCING EDUCATION

In both developed and developing countries education is regarded as a highly profitable private and social investment. The social and private returns to education are generally highest at the primary level (see Table 1). (Private returns take into account only the cost of education to the individual. In contrast, social returns are based on the full cost of education to society, so they are comparatively lower). These magnitudes are likely to be under-estimates of the true social rates since they do not reflect non-market effects, which are expected to be substantial. Society as a whole gains from having a literate and numerate population, and there are indirect benefits, affecting health and fertility, which are not easily measured as monetary terms.

Table 1

The Returns to Investment in Education by Country Type and Level

<table>
<thead>
<tr>
<th>Region</th>
<th>Social</th>
<th></th>
<th>Private</th>
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<tr>
<td></td>
<td></td>
<td>Primary Secondary Higher</td>
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<td>Primary Secondary Higher</td>
</tr>
<tr>
<td>Developing countries</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Developed countries</td>
<td>-</td>
<td>11</td>
<td>9</td>
<td>-</td>
</tr>
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- : Data were not available because no control group was available.
During the 1960s and 1970s, most of the expansion of education was financed by increased public expenditure on education, which rose in relation to national income and public expenditure as a whole. The fact that educational investment took a large share of the national budget reflected the high priority given to education. It was generally believed that education would promote economic growth and provide the skilled manpower needed for development.

In the 1970s attitudes toward education began to change, partly as a result of the huge increases that had occurred in the 1960s. Many planners and social scientists expressed uncertainty about the economic role of education in the light of diminishing scarcity of qualified manpower in developing countries and the growing concern about the brain drain and unemployment among the educated (World Bank, 1986). Furthermore, other sectors such as health, population, nutrition, and rural development began to compete for public funds. In the 1980s the resources available for education have at best stagnated, if not declined. As Table 2 shows, the world trend is one of a declining share of education in the public sector.

### Table 2
Public Spending on Education as a Share of the State Budget, 1965-1980

<table>
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<tbody>
<tr>
<td>Developing countries</td>
<td>16.1</td>
<td>15.8</td>
<td>14.5</td>
<td>14.7</td>
</tr>
<tr>
<td>Developed countries</td>
<td>16.0</td>
<td>15.5</td>
<td>14.1</td>
<td>13.7</td>
</tr>
</tbody>
</table>


The research on alternative methods of funding education has focussed largely on two criteria: (i) How efficient are present patterns of financing education? and (ii) How equitable are present patterns of financing education?

The usual point of departure is an analysis of the present pattern of education financing. Although private contributions and foreign aid
are important, particularly in some developing countries, most educational support comes from a wide variety of public (either central or local government) sources, which range from general taxation of individuals or companies (including taxes on income, wealth, land, property, profits, expenditure, or sales), customs and excise duties, fees and licences, specific taxes earmarked for education (for example, property or payroll taxes, or levies earmarked for education or vocational training), to national lotteries (Psacharopoulos and Woodhall, 1985).

Because there is little information about private expenditure on education, it is difficult to measure the precise contribution of private financing, which may take the form of tuition fees, registration or examination fees, and the purchase of books, materials, and special clothing (such as uniforms) as well as the indirect costs of earnings or income foregone.

The data suggests that private expenditures on education vary considerably in developing countries, from less than one per cent to about 3 to 4 per cent of total private consumption expenditure (Psacharopoulos and Woodhall, 1985). These differences have arisen in part because private schools in some countries charge tuition fees, whereas in others there are no tuition fees. Although some private schools derive most of their income from tuition fees, this pattern is by no means universal. In a number of countries, government subsidies are an important source of income for private institutions. Although countries differ considerably in the extent of private education and in the importance of fees, overall the proportion of educational income from fees has declined. Other sources of private support for educational investment are donations or endowments. These are important in some developed countries, but are not likely to be significant in developing countries. Another private source of educational support is direct labour. Local communities may undertake to build a school, for example, or to provide goods or services in kind (such as food or accommodation for teachers). It is difficult to measure the value of such contributions, but so far, such indirect financing represents only a small part of the total costs of education in most developing countries. Some interesting efforts have been made to exploit such local resources, however, or to have pupils contribute towards the financing of their schools through direct labour, for example, by producing goods for sale.
An important source, particularly for capital investment, is foreign aid. This includes World Bank loans and credits, aid from bilateral and international agencies, and other forms of external assistance. However, external aid to education on average, amounts to less than ten per cent of the total education budget of developing countries, although the proportion of capital investment in buildings and equipment financed through external aid is often higher.

Three main arguments are used to justify public subsidy of education. The first point has to do with externalities. That is to say, since the social benefits of education exceed private benefits, governments subsidise education to prevent underinvestment. The second point concerns equity and equality of opportunity. If education was provided under market conditions, only those who could afford to pay tuition fees could enrol. Not only would there be underinvestment from the social point of view, but income inequalities would be preserved from one generation to the next since education is itself a determinant of lifetime income. If all individuals had access to private capital markets, then those who could not afford to pay tuition fees could borrow: if the private return to investment in education was higher than the cost of borrowing, it would still be a profitable private investment. Many imperfections can be found in capital markets, however. Individual students cannot normally borrow to finance their education without providing collateral, and investment in education is risky and uncertain. Therefore governments in many countries provide loans or loan guarantees to help students finance their education. Governments believe, however, that externalities and equity demand substantial subsidies rather than simply the provision of loans. Third, many also believe that education is subject to economies of scale and thus it is more efficient to finance and provide education publicly (Psacharopoulos and Woodall, 1985).

The three arguments above support government subsidies on grounds of both efficiency and equity. They do not, however, suggest that all or even most of the costs of education must be publicly financed. Many economists have been concerned with whether the present balance between public and private financing in developing countries is characterised by a misallocation of resources across the various levels of education.
The social rates of return in Table 1 suggest that in most developing countries primary education should receive the highest investment priority. Whereas primary education expansion (or improvements in its quality) is the top investment priority, countries often tend to allocate more resources to higher education. The high subsidisation of higher education is reflected in the difference between the private and social rates of return. In Africa, for example, private rates of return to higher education (which include only the cost borne by individuals) exceed social rates of return (which include the total cost to the economy) by almost 2.5 times (World Bank, 1986).

There is evidence that the available resources are not used at peak efficiency. For instance, on average in developing countries 33 per cent of students drop out before they complete primary school (part of the decision to drop out must be due to non-school factors - such as the high opportunity cost of children attending school who could otherwise help out in agriculture). The high repetition rate may also be a symptom of the inefficient use of resources within schools. When students have no textbooks and teachers lack relevant teaching materials, it is hardly surprising that students must repeat grades.

Some reports have it that resources are internally wasted at the university level. Such waste is manifested in several ways, e.g. an inappropriate faculty mix relative to market conditions; high unit cost per graduate because of an excessive drop out rate; inefficient selection of the entering cohort (i.e. by criteria other than ability to succeed in higher education); facilities underutilisation; high ratio of administrative personnel to teaching staff suggesting poor management; minimal self-study; and primitive financial information systems within universities making it difficult to trace the allocation of funds in educational terms, which in turn pre-empts rigorous cost-effectiveness assessment. (Psacharopoulos, Tan and Jimenez, 1986).

Another source of inefficiency is when schools do not select the most able for further studies. A study by Pinera and Selowsky (1981) shows that in many developing countries, selection for secondary and higher education is relatively inefficient, both because some of the most able students
do not even apply for a place and because places are allocated to less able students who can afford to finance out-of-school investments, such as private tuition. Pinera and Selowsky estimate that if the allocation of scarce resources were based entirely on ability, and all the most able students were able to benefit from secondary or higher education, the efficiency gains would amount to over five per cent of GNP in Latin America, Africa and in the less-developed countries of Asia.

There are other ways in which public subsidies may lead to inefficiency within the education sector. In some cases, particularly at the higher education level, institutions are too small to exploit economies of scale. There is some evidence of economies of scale in higher education worldwide (Psacharopoulos, 1982; Lee, 1986), and in primary education and secondary education in Latin America (Jimenez, 1984). Another source of inefficiency is the lack of incentive for providers of education to minimise costs. In a fully subsidised system providers have little incentive to minimise costs unless they are closely monitored. On the other hand, in a system where the income of providers depends directly on their ability to attract students, there is likely to be greater awareness on the part of consumers (i.e. students or their families) of the differences between providers. This should give incentives to institutions to increase the efficiency with which they allocate resources. Increased competition could encourage school authorities to explore options such as changing teacher salaries or teacher:pupil ratios, refocussing the curriculum or changing the pattern of inputs, for example, by increasing the supply of textbooks or improving their quality. The result is likely to be lower unit costs and an increased variety of schooling services catering to a spectrum of consumer needs (Psacharopoulos, Tan and Jimenez, 1986).

Beyond the above inefficiencies, there are inequalities associated with the present financing arrangements. About six per cent of public expenditure on education is in the form of direct student subsidies and the higher proportion corresponds to university education. In addition to such explicit subsidy, students in most cases enjoy free tuition. Cost recovery in the sector is minimal. This situation may be unfair in the sense that higher education students typically come from richer families and after graduation they will have an above average level of
income. In four developing countries evidence exists that upper income groups receive most of the higher education subsidies (Table 3). This shows that in Chile, Columbia, Indonesia and Malaysia, students from the upper-income groups receive between 51 and 83 per cent of all public expenditures on higher education, whereas those from lower-income families receive between 6 and 15 per cent.

Table 3
Share of Higher Education Subsidies Received by Different Income Groups

<table>
<thead>
<tr>
<th>Country</th>
<th>Lower</th>
<th>Middle</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>15%</td>
<td>24%</td>
<td>61%</td>
</tr>
<tr>
<td>Columbia</td>
<td>6%</td>
<td>35%</td>
<td>60%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7%</td>
<td>10%</td>
<td>83%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10%</td>
<td>38%</td>
<td>51%</td>
</tr>
</tbody>
</table>


Those who have entered higher education have benefited not only from high unit public expenditure at this level of education, but also from public expenditure on primary and secondary education. As shown in Table 4, the unit cost of higher education is a multiple of the corresponding cost of primary education. In spite of the differential enrolment ratios, higher education accounts for about one quarter of the state budget on education.

It is in an attempt to overcome these inefficiencies resulting from present methods of financing education that researchers have developed alternative models. As will become obvious from the following section, the implementation of these new methods may give rise to serious equity problems.
3.

**ALTERNATIVE METHODS OF FINANCING EDUCATION**

The alternative strategies for financing education in developing countries suggested by researchers mainly comprise policy packages in which one or more of the following six options plays a dominant role. These options are: cost recovery and user fees, grants, education vouchers, loans, tax changes, foreign aid and decentralised education through private and community schools.

3.1 **User Charges/User Fees**

One suggestion for increasing the efficiency and equity of a public education system is to impose selective charges at higher levels of education and redistribute the revenue to lower levels. Such reallocation it is believed, would help expand the most productive form of educational investment (which is often primary schooling), redirect state subsidies from the relatively wealthy socio-economic groups to the poorest, and in this way further both efficiency and equity.

This proposal would have education authorities charging for tuition to recover at least part of the cost of education. The strategy of cost recovery and charging user fees was advocated in the Berg report on accelerated development in sub-Saharan Africa (World Bank, 1981) and in
many subsequent reports on education and social-sector financing. Several commentators (e.g. Colclough, 1983) have argued that the logic behind cost recovery for public services produces contradictions between macro-economic strategy and commitment to serving the basic needs of the whole population. In particular, they have questioned whether the quantity and quality of basic services in rural populations can be maintained when the costs are shifted to the individuals who use the services. There are several dimensions to the debate over cost-recovery strategies that need exposure for a full discussion.

Economists have pointed out that because of high private returns there is a strong persistence in many developing countries of excess demand for education, especially at the university level. There are more willing students than available places. In Kenya, for example, only 21 per cent of qualified secondary graduates found university places in 1981 (Hinchcliffe, 1984). In Nigeria, the average acceptance rate for university education was only 16 per cent in 1979-80 (Adesina, 1982; Hinchcliffe, 1984).

High repetition rates at the secondary level sometimes indicate unsatisfied demand for higher education. In Mauritius, more than 40 per cent of secondary graduates repeat at least one grade to improve their chances of admission to higher education (World Bank, 1986).

Several researchers have claimed that in many developing countries, excess demand is so great that an increase in fees for higher education would not affect overall enrolments much. Evidence apparently also suggests that households' demand for education is relatively unresponsive to increases in private costs. Where tuition costs are low, many countries have excess demand for education at the higher and secondary levels. A rise in fees would mostly reduce excess demand and would not cause a large proportion of those currently enrolled to drop out. In several countries that have increased tuition fees, enrolments have fallen less than expected. In Mauritius, for example, fees have recently been introduced for university education, but enrolments have not fallen (World Bank, 1986). This line of argument is based on a downward bias in what is termed the
'elasticity of demand'. Advocates of this argument suggest that demand changes very little in response to the increase in the 'price' of education. There is very little evidence to support this.

Increased private financing might also be justified and feasible at the secondary level where there is often excess demand for places as well. In Malawi, for example, secondary school places meet only a third of the demand (Tan et.al., 1984). In Kenya, a large proportion of students retake the secondary entrance examination to improve their chances of admission (Somerset, 1974). In Tanzania, demand is so strong that many of those who fail to get into public secondary schools enrol in private institutions. In many countries, secondary students are lodged and boarded in tuition-free schools; this policy generates excess demand for secondary school places and necessitates rationing. Again it is advocated that increasing user charges might be appropriate since such a policy could increase both efficiency and equity.

The rationale of the argument for raising fees is that the resources generated by increased private contributions could be used to expand investment in education since the social returns to such investments are high. The extra funds could be used to expand the supply of school places or to improve educational quality through increases in expenditure per pupil. Which educational level should benefit from the increased revenue and whether expansion should be quantitative or qualitative are policy choices that depend on each country's conditions. In general, however, the resources generated by the increases in private financing should be used to expand educational investments whose marginal social rate of return is highest.

This school of thought admits the possibility that some poor students might be forced to terminate their schooling - but its advocates suggest that this could be mitigated by providing scholarships selectively to these students.

According to the World Bank (1986) estimates for twelve African countries illustrate the potential for expanding primary education through increased
private contributions in higher education. By merely eliminating living allowances, enough public resources would be freed to allow, on average, an 18 per cent expansion in the yearly primary education budget. These extra funds could be used to finance an increase in educational quality or in the coverage of the primary-school-age population. An additional expansion of 23 per cent could be achieved if fees were introduced to recover all operating costs in higher education. Thus, if both kinds of subsidies to higher education were fully withdrawn, the primary education budget could be expanded by an average of about 40 per cent in the twelve African countries.

Alternatively, the revenue generated could also be used to improve the quality of education. For example, many middle-income developing countries in Asia and Latin America, as well as a few countries in Africa, have almost achieved universal primary education. The quality of primary education, however, is often low. In particular, a high gross enrolment ratio in primary education often hides important inefficiencies if only six of ten students complete the primary school cycle (World Bank, 1986).

Recovering some of the cost of higher education and spending the revenue on the most efficient use - which, depending upon country conditions, could range from improvements in primary school quality to the expansion of selected fields of higher education - would also be an improvement upon present arrangements. Also, the policies suggested would tend to equalise the social rates of return to the three levels of education. Estimates indicate that reallocating the present level of public resources toward the equalisation of these rates would generate efficiency gains equivalent to 0.5 per cent of developing countries' GDP (Dougherty and Psacharopoulos, 1977).

The introduction of fees in higher education, it is suggested would improve efficiency within the system because it would provide appropriate incentives, to both students and managers to scrutinise costs more closely. In Ghana, for example, a proposal in 1970 to introduce charges for university students' board and lodging prompted student representatives to propose ways to reduce costs (Williams, 1974). Greater cost-consciousness among students would also encourage them to become more aware of the
cost differences between institutions. A greater demand for admission at the more efficient institutions would signal providers to expand such institutions. As a result, efficiency in the overall system would be likely to improve.

Charging fees directly to those who benefit from a service rather than indirectly through the taxation system is presumed to have at least two main kinds of benefit: improved accountability and increased resources. Arguably, it shortens the chain of accountability between the providing agencies (predominantly schools) and the users of the service. It might be expected therefore that parents and pupils would value the quality of schooling more and place more direct pressure on schools and teachers to maintain it where the costs of provision fall more directly on them. There is a strong ideological element to this argument, founded on a belief in market forces to produce results which are to the collective benefit. Fees for educational services may also increase the proportion of income allocated to education, since they may be levied in addition to a level of state subsidy. The situation where relatively wealthy parents pay twice for educational services is a familiar one: parents who elect for private education pay once through their taxes and again through school fees. They thus reduce the demand on the public system by withdrawing their children from it as an added bonus. This may create savings in the public-sector budget from reductions in enrolments in state schools. Where there is considerable effective demand for school places and a shortage of supply, parents are often willing to make sacrifices to keep their children in school and spend large proportions of family income to this end.

There are counter-arguments to these presumed benefits. They centre around the conflict between individual benefit and collective gain, the sophistication of user groups, the impact on participation of charging user fees and the nature of the service provided at different levels of cost. Taking these in turn, the motivation for increased accountability to user groups can be expressed in terms of the benefits parents and pupils hope to obtain from schooling. This concerns the expected returns to individuals in income and social status from the access to the labour market that educational qualifications and achievement provide. There is no necessity for this to result in maximising collective welfare; an
obvious example is education of women, which could have considerable impact on child nutrition, infant mortality and population growth, but low rates of return if most women marry early and do not play an active part in the wage economy (assuming as most economists have done in the past, that child-rearing etc. should not be accounted for in calculating returns). Similarly, the returns on achieving universal literacy to the individuals who acquire it last are likely to be low, but its social utility may be high in reducing malnutrition and disease. Enhanced accountability also presumes that parents and pupils can discriminate between high- and low-quality educational services. Among those who have themselves not had significant schooling this seems unlikely; even amongst those who have, the quality of what they themselves received may result in ill-informed conclusions concerning the value of different methods of teaching and learning. This is a very complex set of issues partly bound up in cultural definitions of the nature of knowledge and the purposes of study. Where these are firmly grounded in the acquisition of factual knowledge and rote learning they are likely to be stressed to the exclusion of the development of more flexible high-order cognitive skills widely considered essential for national development (Lewin, 1987).

Charging user fees is likely to have a disproportionate impact on poor families. These generally have more members of school age, have less disposable income and experience greater fluctuations from year to year in income than do rich families. Real per capita income in more than half the countries in Africa is lower than it was ten years ago. Unicef (1984) has argued that a 2-3 per cent decline in average incomes can easily result in a 10-15 per cent decline in the incomes of the poorest groups and an even larger reduction in disposable income. The result of user fees is therefore likely to discourage regular enrolment amongst this group and, in many societies, affect adversely the enrolment of girls from poor families where they are in competition for declining family income. It can be doubly inequitable in the sense that it may not only reduce access but also contribute to continued poverty since it will exclude the poorest from job opportunities that require educational qualifications that are positively correlated with income. Where user fees are encouraged they may also have an unequal impact on levels of provision. Institutions with relatively wealthy catchments may generate
sums substantially in excess of those which they are obliged to recover. This increases the differences between schools in ways which favour the already advantaged.

These are serious objections which need careful consideration before policy decisions are taken. Several authors (e.g. Meesook, 1984; Thobani, 1983) have argued that some of the detrimental effects of introducing or increasing user fees on the poorest groups can be offset by sliding scales of charges related to levels of family income. This is attractive since it seems to provide a mechanism to increase spending without necessarily increasing the burden on those least able to afford it. The practicalities of doing this, however, are daunting. Incomes are difficult to ascertain reliably in most developing countries, especially for those outside regular wage employment; the costs of administration may be such as to absorb much of the gain from charging fees (Ainsworth, 1984); school staff are ill-equipped to make discriminatory judgements about the wealth of families and unable to enforce payment without encouraging drop-out and souring relationships with parents whose co-operation they need. The political difficulties of introducing fees, whether they are means-tested or not, should not be underestimated either, since they are almost invariably unpopular and appear to undermine the widespread political commitments to 'free' education.

It has been contended that a situation of low user charges and a low level of service may be worse from an equity point of view than one with high user charges and an expanded supply. Thobani (1983) has argued this in his work on Malawi. The reasoning for this is a little tortuous but essentially runs like this. Where there is excess demand for school places and insufficient public finance some individuals are denied the service and/or quality suffers. In both cases the rich suffer least: services are denied to marginal areas first (usually the poorest); and selection through examinations into limited numbers of schools correlates positively with the socio-economic background of students. If user costs are introduced at too high a level only a minority of the richest will be able to afford the service and equity again will suffer. If these propositions are true then Thobani argues that there is an optimal interim level of user charges that maximises the opportunities for expansion and quality improvement at the lower levels (which benefit the poor most) without a significant deterioration in their limited access.
This argument might hold where supply is greatly restricted and there is great unsatisfied demand and high rates of return for the successful. But it seems equally plausible that demand is not sufficiently inelastic for modest user fees to have little impact on participation rates, which is a requirement of the model. The supporting evidence offered is that primary enrolment rates (but not secondary) are highest in the north of Malawi (100 per cent) which is the poorest region, and lower in the richer central (51.5 per cent) and southern (56.2 per cent) regions. This does indicate that enrolment is not simply a function of wealth. It does not exclude the likely probability that within those regions the poorest groups will decrease their relative proportion of enrolments with the introduction of user fees. Moreover, the argument that richer households with small stock and landholdings will prefer to capitalise on the opportunity cost of children's labour and withdraw them from school as fees increase (cited by Thobani in relation to Botswana and assumed to hold in Malawi), is counter to the earlier assertion that 'it is generally richer people who utilise the subsidised service' to a greater extent. There is some evidence, however, for Malawi that enrolment of boys will be discouraged more than that of girls by user fees (Tan, Lee and Mingat, 1984), which may reflect opportunities boys have to earn income if they are not in school.

Thobani also argues that the 'wage compression' which results from an increased supply of (say) secondary-school graduates contributes to increases in equity - but this is only true if wage differentials are not simply moved up to the next level of relative scarcity. It attributes little importance to factors other than educational attainment in the determination of wage distribution. There is clearly need for great caution in accepting this reasoning, particularly where it is extended to countries with very different characteristics of demand, as Psacharopoulos and Woodhall (1985) recognise.

From another study based on Malawi data (Tan, Lee and Mingat, 1984) it is clear that progressive increases in school fees are associated with declining expectations of continued enrolment. The proportion likely to continue is higher among students with better-educated parents, from high-asset owning families, from urban centres, and from more-developed areas
of the country. Fathers' annual income has a positive effect on continued schooling at all projected levels of fee increase, though its influence appears to diminish at primary level as fees are raised. Willingness to pay increased fees varies directly with socio-economic background in this study.

In Malawi in 1981 primary-school fees in rural areas were raised by 50 per cent and in urban areas by 43 per cent for Grades 1-5, and by 15 per cent for Grades 6-8. Secondary fees increased by 50 per cent and boarding charges by 150 per cent in both cases after several years at the same level. By 1983 few children appeared to have dropped out of primary school as a result of this; at secondary level where the fees are much higher about 8 per cent of children from low-asset backgrounds had dropped out, and only 4 per cent from high-asset backgrounds. These low rates may represent a residual wish by parents and pupils to capitalise on sacrifices already made to support children through to secondary school. It remains to be seen whether the decline will continue or stabilise. There is evidence of some increased borrowing to support the increased cost of fees. The proportion of low-asset families citing increased school fees as the reason for borrowing increase from 50.6 per cent to 72.8 per cent between 1981 and 1983.

Recent work on Brazil (Behrman and Birdsall, 1983) concludes that it may be better to focus on providing better education to a smaller proportion of the age group than to expand provision to reach everyone. If the costs of keeping one child in school for six years are similar to those of keeping three children in school for two years the former is thought likely to result in greater net productivity gains. The most productive strategy, ensuring the highest economic returns to society's investment, is argued to be one where fewer children receive better-quality schooling. Fees can only have a limited impact on the problem. Birdsall (1982) argues that a doubling of urban-school expenditures could be achieved with fee levels at about 5 per cent of the reported monthly income of urban heads of households. In rural schools, where the need to improve quality is greatest, the fee levels that would be necessary are so high that they would not be sustained by poor families. In the poorest areas only one-third of the poorest children attend school whilst nine-tenths of the richest do; any fee-levying would almost certainly worsen this uneven distri-
bution. There is a danger that this kind of analysis undervalues the non-economic benefits of schooling. Even a few years of schooling may well be significant and they do represent progress towards development goals in the sense that they satisfy an effective demand. The multiplier effects of a modernising environment on agricultural productivity gains (e.g. as illustrated by Lockheed, Jamieson and Lau (1980) are more likely to be available where education is widely available. In their study of modernisation, Inkeles and Smith (1974) show that the number of years of school experience appears as the most important predictor of modern attitudes generally associated with the valued traits of employees.

3.2 Grants:

Education grants in a broad sense refer to public subsidies to education, scholarships and bursaries. In this paper, however, the term 'grants' refers only to government subsidies to education. Defining grants in this way allows one to distinguish between block grants and categorical grants.

When government allocates a subsidy without placing any restrictions on the allocation of these funds, such a subsidy can be classified as a block grant — although an educational institution would be expected to use these funds for educational purposes. On the other hand, the donors of categorical grants stipulate that the funds have to be used for a specific purpose (e.g. to purchase textbooks).

Block grants are proposed by those economists who favour a more decentralised or 'free market' approach to education financing. According to its advocates the main advantage of block grants is that the block grant allows decisions regarding the allocation of resources to be made by those closer to the ultimate users of education, and who are thus better informed of local priorities.

Because block grants have been defined as funds that can be used according to the discretion of the educational institution, the resulting autonomy is said to enhance both academic freedom and efficiency. Block grants offer financial freedom which has implications for educational autonomy.
and economic efficiency. Block grants particularly when enrolment-calculated not only allow the freedom necessary for attaining economic efficiency but by making grants provisional upon parental support introduce a competitive element amongst institutions. This combination of freedom and competition, it is argued, would lead to greater adaptability to school-user needs and thus to the better allocation of educational resources (Melck, 1985).

Melck has argued that the freedom created by block grants may be economically beneficial to education because it overcomes what may be termed 'bureaucratic failure' which is the inability of large centralised systems such as governmental education systems to acquire the information required for decision-making quickly and correctly. Within a decentralised, competitive system created with the aid of block grants, the communication channels are shortened and decision-making on the educational needs of the community occurs at a level at which those needs are more easily discernible. Furthermore, within such a system incorrect information is more readily corrected by the counterclaims of competitors than in a centralised system. Accordingly, block grants to education could be expected to reduce the high information and decision-making costs of government education departments which easily tend to become protected monopolies (Melck, 1985).

Block grants could moreover, be supplemented with income from other sources in the community. The inflow of such revenue would indicate approval of and the withholding of payment dissatisfaction with an institution's performance. He also suggests that if disparities in community wealth lead to an inequitable allocation to different schools, a ceiling could be imposed upon these external sources of income.

In this way block grants to decentralised units could help to make decisions and resource allocation in education more cost-effective than would be the case within a centralised bureaucratic planning system.

Levin (1985), however, has pointed out that categorical grants are provided to ensure that expenditure occurs on those goods which are deemed to be in the national interest, while block grants allow expenditure to take place on those goods seen to be in the recipients' interest. With categorical
grants, programmes can be designed to increase equality of opportunity for disadvantaged students.

Levin also argues that the problem of 'bureaucratic failure' can be avoided if the government simplifies and streamlines its procedures of collecting information and allocating grants. Further, he contends that categorical grants are superior to block grants because they encourage joint planning, and hence avoid the wasteful duplication of administrative effort.

Although grants were introduced to help poor students gain access to educational opportunities, studies of the grant system in Britain indicate that 'almost half the grants in Britain go to students whose parents could well pay for their own maintenance' (Blaug, 1970). Thus, to ensure that education does not serve to perpetuate income inequalities, a system should be devised whereby education grants are granted only to those who could not otherwise gain access to education.

3.3 Education Vouchers

Public subsidies are commonly channelled through schools and other educational institutions. Alternatively, education subsidies could be given directly to students and their families on the basis of individual need and merit. Grant recipients should then be allowed to attend the school of their choice. One way of achieving this is through the use of education vouchers whereby each student is given a voucher which is redeemable at any education institution of his choice. The institution can then collect the stipulated sum from the government in lieu of tuition fees from the student. This approach is intended to increase parental choice and institutional accountability by encouraging schools to compete for students and in this way improve the efficiency in the education system.

A voucher can be used to facilitate the equitable subsidisation of education if the value of the voucher is varied inversely with parental income. Some observers believe that such a system could be easily implemented by making the voucher part of taxable income. With progressive taxation, this could make the vouchers worth less to rich than to poor parents. If this did not lead to a sufficient degree of equity, the value of the voucher could simply be scaled down with a rise in parental income.
Various categories of vouchers have been developed to deal with specific situations such as transport-included education vouchers, cost-fees, income-related vouchers, limited education vouchers (which can only be used in state schools) and unlimited vouchers (which can be used in state and private schools).

Since there has never been an extensive trial of unlimited, cost-fees, or income-related vouchers, no empirical evidence exists to support or refute the claims regarding the virtues of education vouchers. However, one can argue that by providing parents with sufficient funds to 'purchase' an education for their children, vouchers allow education to be provided on an equitable basis.

Also, the main advantage of such privatisation is that it grants parents a greater freedom of choice than is currently provided with state-owned institutions. This increase in parental choice could improve competition between schools - and benefits such as increased diversity in types of education (and curricula) offered, an increased awareness of cost-effectiveness within schools, and an increased responsiveness in the provision of education to the demands of society.

Although not without merit, the benefits would, of course, be limited to those areas where competition could be expected, i.e. in densely populated, urban areas. Besides this, the most intense debate has been caused by the possibility of parents being able to supplement vouchers at private institutions, in which case the rich would be able to raise standards in their areas, thus accentuating inequalities.

In practice, however, an education voucher scheme may not be feasible in most developing countries because, other considerations aside, its administrative costs would probably be high. An alternative approach would be to distribute subsidies according to the economic need of localities or neighbourhood groups. For example, rural communities could be more heavily subsidised than urban neighbourhoods. Local authorities could then provide the educational services that their constituents demanded, through a combination of centrally provided subsidies and local levies.
Subsidies are distributed along these lines in Brazil (Mahar and Dillinger, 1983). The same approach has evolved since the mid-1970s in Chile's primary and secondary school systems.

Another option for targeting subsidies to poor students is through cross-subsidisation within private schools. In Latin America, especially Colombia, governments pressure private schools to provide free schooling for a limited number of low-income students. In some Latin American countries, between 5 and 10 per cent of private secondary students attend free (Schiefelbein, 1985).

3.4 Loans

Loans are another method of transferring costs from the state to individuals. The focus has been on higher education and little emphasis has been given to their use at lower levels. Many countries now operate some form of loan system. Woodhall (1983) identifies schemes in eighteen Latin American countries and six in Africa and Asia.

Many economists have argued in favour of greater use of loans as a means of financing education. At the same time, however, other commentators were highly critical of student loans and argued for scholarships, fellowships and grants as a better way of providing financial aid for students, and direct subsidies to institutions to allow them to provide free or highly subsidised tuition as a better way for governments to ensure adequate investment in education.

Opponents of loans have argued that they would not extend opportunities, since poor students would be discouraged by the fear of accumulating large debts, that the costs of administering a loan programme would be prohibitive, and default rates would be high. Advocates of loans, on the other hand, argued that loans were more equitable than grants, would encourage efficiency, improve motivation of students and would allow governments to assist a larger number of students with a given budget.

Administrative problems, particularly the problem of securing repayment, inadequacies in the banking system in many developing countries and the problem of the brain drain have been cited as reasons for the unsuitability of loan schemes in developing countries.
Experience in developed countries, including Sweden and the USA, and also Canada, Japan and many European countries, shows that student loan schemes can and do work. In several Scandinavian countries a very high proportion of students receive loans, combined with grants, to finance their living expenses, while they are following free courses of higher education. In Canada, Japan and the USA students receive loans to help them finance tuition fees, as well as living expenses (Woodhall, 1985).

Nevertheless, when most student loan schemes were introduced in developed countries, it represented an increase in financial support for students, rather than a reduction, so this experience does not provide a guide to what would happen if governments introduced loans in place of grants, or simultaneously increased tuition fees. In developing countries, where both tuition and living costs are often highly subsidised, the introduction of student loans would involve a reduction in the level of subsidy of higher education.

It has been suggested that loans would improve efficiency by reducing wastage and helping to reduce the length of study, by improving student motivation and increasing cost consciousness among students. There is little evidence to support or refute these arguments.

There have been certain problems with student loan programmes; default rates and delayed payments have proved troublesome in some countries. In the United States, for instance, nearly one million graduates have failed to meet their obligations to repay their loans within ten years (The Economist, 21-11-87). These defaults add up to US$ 1.6 billion. This has resulted because the federal government drastically cut its programmes giving outright grants to students from very poor families. To make up the difference, many young people took on loans that they could not repay.

Virtually all researchers are agreed that no student loan scheme is self-financing and because of the extent of interest subsidies and the long repayment periods, student loan programmes will continue to need regular injections of capital from government or other sources, including international agencies.
It is also recommended that the introduction of student loans should be accompanied by other changes, particularly increased tuition fees, and attempts to reduce costs if they are to be effective (Woodhall, 1983).

Loan schemes then, seem to hold out little prospect of significant short- to medium-term savings. As pointed out earlier, no loan programmes are fully financing and it seems unlikely that any can become so in less than twenty years (Psacharopoulos and Woodhall, 1985). Loan programmes do work in the sense that they are utilised and that poor students do take advantage of them. However, the Colombian case (Jallade, 1974) seems to indicate that they may not be redistributive (since rich students make up the majority of loan-takers) and they may serve to channel public finance into private institutions (private universities benefitted from the fees paid through government loans). There are also problems associated with the erosion of the value of repayments by inflation where fixed or zero interest rates are employed; and with defaulters from whom it may not be economic to recover loans through legal sanctions. The estimates of cost recovery that can be achieved in higher education through student loans show that interest rates would have to be kept relatively high to recover costs within a reasonably short period of time (World Bank, 1986).

If fees charged do represent a close approximation of the full cost of provision, loans can transfer costs to individuals in the long term, assuming repayment at close to real terms. Such arrangements are nevertheless politically unpopular, since they involve significant initial costs in setting-up and administration well in advance of any possible savings. They also oppose common perceptions of the sacrosanct nature of free-education policy, although this invariably conceals the regressive subsidy to the relatively wealthy.

Furthermore, a special new inequality may be created between the less well-to-do who require loans and those who did not need loans. In other words, their salaries will differ for long periods because of the obligation to repay the loan.
3.5 Tax-Related Methods of Financing Education

Financial aid to students and their families can take the form of tax credits or tax allowances. A cost-recovery method involving taxation is the use of a graduate tax.

A tuition tax credit applies when, after a taxpayer's normal liability has been calculated a sum is credited to the income tax account of that taxpayer for each student he supports (Melck, 1988). This approach is usually intended to encourage the migration of students from state to private schools, so that government is relieved of the cost of financing such students in state schools (Frey, 1983). This system is based on the belief that the tax credit required to induce a parent to send his child to a private school is less than the government's cost of providing a place for that child in a state school. Tax credits may also be paid to parents whose children are at university.

Some observers believe that this system could result in an increase in the number of private schools, as well as an increase in efficiency in these schools (Frey, 1983). However, the poor who are left behind in state schools may then be relatively worse off. Analysing the equity aspects of tax credits Catterall (in Frey, 1983) produced figures to show that families with high incomes could be disproportionate beneficiaries. Such a conclusion is based on the assumption that tax credits are distributed according to the current distribution of pupils in private schools, most of whom come from relatively rich families. This problem could be avoided if, for a limited time period, such tax credits were granted only to lower income families.

Several authors focus on what they believe to be the major cost of tuition tax credits: the revenue foregone by the state. Longanecker (in Frey, 1983), for example, estimated that in the United States, a tax credit of up to $250 per child and not exceeding 50 per cent of tuition expenses would reduce state revenue by about $1 billion. Like Catterall, he estimates that middle and upper income families would receive a disproportionate amount of the benefits given current attendance patterns. It is conceded, however, that lower income families would benefit proportionately more than others if the tax credits were made refundable, that is,
if they were paid to families who contributed zero or little in income tax payments. Longanecker distinguishes between the costs of providing credits to the present (incumbent) private education population and the additional tax credit costs caused by enrolment expansions in the private system. The shift in the demand for private schooling would result in a new equilibrium point along the supply curve representing both higher enrolments and higher tuitions, both of which would have implications for the final cost of the credit.

In an education system where user fees are charged, tax concessions could be granted to encourage parents to invest in their children's education. These tax allowances take the form of adjustments to the taxable income to allow for dependents who are being educated. Such tax concessions could be regressive in that low-income earners who pay little or no tax would receive comparatively little benefit. Such a tax amendment would then tend to favour the rich as they could spend more on education and at the same time benefit more through the tax system.

The graduate tax can be regarded as a specific type of loan system in which education is provided 'free' to all who demand it. The recipients are later subject to a higher-than-average income-tax. The major disadvantage of a graduate tax is that it may encourage the 'brain drain' of highly skilled and highly-paid professionals. Without resort to such authoritarian measures as restricting international travel to such persons there is little that can be done to prevent their emigration.

Tax concessions can also be made to the private sector for financing education. In this way the actual cost to the donor is reduced and an incentive is provided for increased contributions. When private financing is involved, steps would have to be taken to ensure that profit seeking motives should not take precedence over society's objectives (Melck, 1988).

3.6 Foreign Aid and Donor Dependence

Budgetary restraint in the public sector may increase the proportion of educational expenditure that is externally financed. Across all developing
countries external aid to education, on average, amounts to approximately 10 per cent of the total education budgets.

There are several possible consequences of increased donor support (Damiba, 1980; Weiler, 1983). First, the majority of capital and developmental budgets may fall under some level of external control. This invites problems related to the conditions under which such finance may be provided and the difficulties of reaching agreement on the sectors that should be supported. It also has another set of consequences that derive from the preference most donors show for this type of support (Colclough, Lewin and Oxenham, 1985). Capital investment carries with it direct local costs (thus increasing the demand on domestic resources), and recurrent implications for continued support. The accumulation of externally financed capital projects may therefore deepen the problems of maintaining public expenditure levels by increasing recurrent demands. This does not, of course, negate the rationale for such investments; it does suggest that such investment may be compromised by subsequent inability to meet recurrent-cost implications arising from the employment of additional staff, etc.

Increased donor inputs may also distract the energies of talented administrators from the mundane but essential purpose of providing efficient services to existing institutions. The attractions of involvement with high-profile, externally funded projects may be compelling, since they may offer individual (e.g. foreign travel) and career benefits.

It may well be, however, that more revenue can be generated through well-articulated proposals to donors than through painful re-examination of the domestic opportunities to increase taxation, fees or the share of public expenditure that the education budget takes (Lewin, 1987).

In countries where budgetary restraint is severe, innovation and curricular improvement are only likely to be possible on a significant scale with some measure of external assistance. Donors have been prominent in supporting the development of new curricula over the last fifteen years, and the adoption of new science curricula throughout the world (Lewin, 1981) provides a good example of the mechanisms that have been employed. Dependence in the initiation and implementation of such innovations carries with it certain risks.
The problems of increased donor dependence are the same as those associated with the receipt of any external assistance that is not a free good. They are heightened when donor support begins to condition policy rather than respond to it. Enlightened self-interest may characterise relationships between donors and recipients: nevertheless it is easy to share Weller's (1983) reservations about the use of educational aid as 'compensatory legitimation' to support foreign-policy objectives of donors and delay domestic changes rather than promote them.

3.7 Decentralised Education Through Private and Community Schools

This section is not concerned with methods of financing education directly but with better use of resources. Many researchers advocating a free-market ideology in education are arguing for increased decentralisation of education through the establishment of more private and community-run institutions. The rationale for these proposals is that decentralisation leads to a more efficient utilisation of available resources.

In many developing countries, private and community schools are tightly controlled and sometimes even prohibited. In an effort to improve 'educational efficiency' it is proposed that restrictions on such schools be eased. These proposals include lifting outright prohibitions (where they exist) and allowing private and local schools greater freedom in setting fees, selecting curricula, and hiring teachers.

In some countries, restrictions apply not only to schools owned by individuals or religious institutions but also to those operated by community groups - parents, neighbourhood associations, occupational guilds, or even entire local political subdivisions, such as villages or districts. Such constraints often prevent private and local schools from responding adequately to their constituents' changing needs. As a result, not enough school places are offered, and the type and quality of education may not be what parents and scholars want (World Bank, 1986). To counteract this inefficiency, central authorities should loosen their administrative and financial control over educational systems. Schools would then be accountable to both central authorities and local groups, including parents, villages, neighbourhood associations, and other forms of local government.
It is also proposed that community-run schools could be organised and administered by recognised local governments. These bodies should also be given the freedom to mobilise additional resources through fees and local levies. Without this latitude, they would depend too heavily on the central government for financial assistance. The central government could become a financial catalyst, allocating financial assistance as a reward for local fundraising.

Another important consideration in allocating central government assistance is its impact on equity. In a decentralised system, the distribution of educational services could reflect the ability of localities to generate resources. Since this ability varies, central authorities could grant compensation subsidies to reduce the disparity between rich and poor communities. To ensure that rich communities still have some incentive to generate their own resources, these transfers could be coupled with some matching grants.

It is claimed that these reforms are feasible. In Pakistan, for example, private schools are once again being allowed to operate, thus reversing the comprehensive nationalisation of educational institutions in 1971. A privately endowed university for science and technology is being established; it will have complete freedom to determine the content and duration of studies, the criterion for student admission, the salary and qualification of teachers, and the tuition fees. In China, after decades of state control, private language and tutoring schools have recently been allowed to open. China has also announced plans to decentralise the public school system further. In Brazil, India, Mexico and Nigeria, the responsibility for financing primary and most secondary education has already been delegated to state and local governments, though major reforms are needed to give the lower tiers of government fiscal authority commensurate with their responsibility (Mahar and Dillinger, 1983; Tilak and Varghese, 1985).

In some African countries, community schools are not considered a part of the public system although they are an important vehicle of decentralisation. An example is Kenya's 'harambee' schools in which a large proportion of secondary school students are enrolled. In such schools, private assistance is mobilised through cash and labour contributions to cover
operating costs and school construction. Another example is the 'ujamaa' decentralisation movement of Tanzania, which allows communities considerable control, although the national government still plays a predominant role as administrator and financier of teachers' salaries.

Greater decentralisation is supposed to increase competition among schools. In turn, competition increases the numbers of educational services, lowers costs, and gives parents or students a wider choice of schools. Increased competition within the system means higher efficiency through greater managerial accountability (World Bank, 1986).

An important issue bearing on private school expansion is whether it adversely affects equity or promotes elitism. If supplemented by selective scholarship schemes, the policy options advocated here are likely to mitigate such adverse effects. In Peru, private school fees for primary and secondary education are sometimes as high as US$485 a year. Not surprisingly, most students who attend are from wealthier families. But poorer students stand a chance of obtaining admission since a limited number of scholarships are available on the basis of economic need and academic potential. Clearly, this would not serve to reduce income inequalities to any degree.

4. CONCLUSION

This paper has attempted to provide some clarification about the possible advantages and disadvantages of various alternative methods of financing education in developing countries. These methods were designed, mainly by researchers in developed countries, as a response to increasing budgetary restraint in the public sector of most Third World countries. At the same time the demand for educational services shows no signs of diminishing.

Many researchers, writing in an orthodox, free-market perspective have advocated greater decentralisation of educational services to overcome problems of inequality and inefficiency. The solution proposed is invariably a policy package incorporating one or more of the policy options outlined in the previous section (it should be noted that two options not evaluated were scholarships and private sector financing).
The World Bank (1986) advocates such a three-pronged strategy:

(a) recovering costs through user fees and reallocating the resources generated;
(b) Providing loans and selective scholarships; and
(c) decentralised management of education.

As the paper shows, many of the new policy options pose serious problems with respect to equity. Much of the research in support of the free-market-type proposals is based on unsubstantiated assumptions and estimates: for example, the downward bias in the elasticity of demand for education in response to price increases on which the whole philosophy of user-fees and cost recovery is based.

The purpose of the paper was to provide a starting point for the development of alternative methods of financing education in South Africa. There are undoubtedly some crucial lessons to be learned from the proposals devised for and the experience of developing countries.

First, the principle of cost recovery should be examined closely and may prove to be a valuable exercise. Research needs to be done on the historical financing of education at the various levels to determine the degree of misallocation, if any. Certainly at the tertiary level there seem to be possibilities for achieving economies of scale with fewer, larger institutions or making existing institutions specialise in certain disciplines and thus avoid duplication.

The issue of user fees is a sensitive one and can only be resolved by further studies of the response of poorer families to the imposition of fees. It may be feasible to introduce an income-contingent fee scheme at all levels but preferably only at the tertiary and possibly secondary levels. With such a scheme students' fees would be a function of their parents' income. A variation of this theme, at university level is to provide grants to students whose parents never went to university.

Loans have been suggested as the panacea to problems of financing higher education. Loan schemes should, however, be approached with great
caution because they may serve to aggravate income inequalities. It may be possible to overcome some of the major obstacles associated with loans to some extent. Because loan schemes can never be self-financing, their implementation may be more effective if supported by generous scholarship/bursary schemes for talented scholars from poor families. Because private banks are often reluctant to give loans to students because of the high risk involved, a possible solution would be to establish a co-operative bank funded by government or community organisations.

The educational financial policies ultimately developed for South Africa may well encompass some of the policy options outlined in this paper but the relative 'weighting' of each will depend to a great extent on the availability of public sector resources, the extent of private sector and foreign financing and personal incomes. A financing package may well comprise public sector financing of primary education and the implementation of user fees, loans, grants and tuition-tax credits at the secondary and tertiary levels.

It seems obvious that the long term solution lies in the development of methods of financing education which are less dependent on the public sector. The move away from state financing is mooted not on the grounds of the supposed efficiency of private sector financing. It is becoming increasingly fashionable to promote the privatisation of education but its 'more efficient allocation of resources' is often at an enormous cost to equity considerations. Rather, it is suggested that alternative methods of education be developed so that a South Africa in the transitional or post-apartheid state is faced with minimum demand for public sector resources from the education sector in the face of competing sectors such as health, employment creation schemes and social security.
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To anybody interested in what is happening in Southern Africa at the present time, it is clear that an understanding of changes taking place in the field of labour is crucial. The whole debate about the political implications of economic growth, for example, revolves very largely around different assessments of the role of black workers in the mines and factories of the Republic. Many of the questions with which people involved in Southern Africa are now concerned relate, in one way or another, to the field generally set aside for labour economists to cultivate. The impact of trade unions; the causes of unemployment; the economic consequences of different educational policies; the determination of wage structures; the economics of discrimination; all these and more are matters with which labour economists have been wrestling over the years in various parts of the world.

At the same time there are many who would argue that these issues are far wider than can be contained within the narrow context of 'labour economics'. These issues, it is pointed out, go to the heart of the whole nature of development. In recent studies, commissioned by the International Labour Office, of development problems in Columbia, Sri Lanka, and Kenya, for example, leading scholars have identified the three crucial issues facing these countries as being poverty, unemployment, and the distribution of income. Thus the distinction between labour and development studies is becoming more blurred as economists come face to face with problems of real life in the Third World.

It is here too that an increasing number of people are coming to see that study of the political economy of South Africa must not be done on the assumption that the problems there are absolutely different from those facing other parts of the world. Indeed it can be argued that far from being an isolated, special case, South Africa is a model of the whole world containing within it all the divisions and tensions (black/white; rich/poor; migrant/nonmigrant; capitalist west/third-world; etc.) that may be seen in global perspective. Be that as it may, the fact remains that the economy of Southern Africa (for the political and economic boundaries are singularly out of line with each other) is one of the most fascinating in the world. It is one on which far more research work needs to be done, and about which further understanding of the forces at work is urgently required. It is in order to attempt to contribute to such an understanding that Saldrup is issuing these working papers.