



Ministry of Education
State Department for
Technical Education

Ministry of Education
State Department for Higher Education
& Research

NEW FUNDING MODEL
(NFM)

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1 INTRODUCTION

The higher education sector has been facing significant financial challenges due to the increasing number of students qualifying for and enrolling in various higher education programs. This growth has led to a substantial rise in budget requirements, which are not being met by current budgetary allocations, causing financial strain on higher learning institutions. In response, the Ministry of Education (MoE) has developed a new, sustainable funding mechanism to address these issues and ensure the continued provision of quality higher education.

On May 3, 2023, His Excellency the President of the Republic of Kenya announced the introduction of a new funding model for higher education, effective from the financial year 2023/2024. This student-centered funding model (SCFM) represents a significant shift from the previous block funding approach, the Differentiated Unit Cost (DUC), which primarily allocated funds directly to institutions, a block amount which was shared amongst the enrolled students which led to a lower grant amount per student. Under the new model, financial support is targeted directly to students based on their level of need, as determined by the Means Testing Instrument (MTI).

1.1 Key Components of the New Funding Model

1) Student-Centered Approach

The new funding model focuses on providing financial aid directly to students rather than institutions. This approach ensures that resources are allocated more equitably based on individual student needs.

2) Means Testing Instrument (MTI)

The MTI is a critical tool used to assess each student's financial need. It considers a range of socioeconomic indicators, including household income, geographical location poverty probability index, special circumstances such as orphans and students with disability, number of dependents, program costs, expenditure on education and gender. These indicators are scientifically weighted to ensure a fair and transparent allocation of funds.

3) Collaborative Implementation

The implementation of the new funding model involves collaboration among three government agencies and one state department, namely:

- Kenya Universities and Colleges Central Placement Services (KUCCPS): Responsible for career guidance and placement of students into higher learning institutions.
- Universities Fund (UF): Provides scholarships to government-sponsored students in public universities.
- Higher Education Loans Board (HELB): Offers tuition loans to students in public and private universities as well as public TVET colleges and provides upkeep payments directly to students.
- State Department of TVET (SDTVET): Offers scholarships to students in public TVET colleges under MoE.

1.2 Program Costs and Tuition Fees

Previously, the Differentiated Unit Cost (DUC) model was used to allocate tuition fees in Kenyan universities. The DUC model calculated funding based on the average cost of delivering various programs. However, this model often led to disparities and inconsistencies in funding allocations, as it did not always reflect the true cost of individual programs.

Transition to Actual Program Costs:

The shift to using actual program costs for university tuition is aimed at ensuring a more accurate and equitable allocation of funds. This new approach aligns tuition fees directly with the specific costs associated with each academic program, providing a clearer and more transparent funding mechanism.

Importance of using Actual Program Cost:

1) **Accurate Reflection of Program Costs**

- *Cost Analysis:* Each university program is analyzed to determine the actual expenses incurred in delivering the program. This includes faculty salaries, laboratory and equipment costs, materials, and other necessary resources.
- *Transparent Fee Structure:* The actual program cost model provides a transparent fee structure, enabling students and stakeholders to understand the basis for tuition fees.

2) **Equitable Funding Allocation**

- *Fair Distribution:* By aligning tuition fees with actual program costs, the new model ensures a fairer distribution of financial resources across different programs and institutions.
- *Targeted Support:* This model allows for more targeted financial support to programs that require higher investments, such as those in science, technology, engineering, and mathematics (STEM) fields.

3) **Sustainable Financing**

- *Budget Alignment:* Aligning tuition fees with actual costs ensures that universities can sustainably finance their programs without facing significant budget shortfalls.
- *Enhanced Quality of Education:* Adequate funding based on actual needs supports the maintenance and enhancement of educational quality, including the ability to attract and retain qualified faculty and improve facilities.

1.3 Ensuring Equitable Access

This model aims to ensure equitable access to higher education by directly supporting students based on their financial needs rather than allocating funds to institutions. The shift from the previous block funding approach to a more individualized and needs-based funding mechanism is designed to address disparities and improve access to higher education for all eligible students.

Key Elements Ensuring Equitable Access

1) Means Testing Instrument (MTI)

- *Comprehensive Assessment:* The MTI assesses the financial need of each student by considering a range of socio-economic indicators such as household income, geographic location poverty probability index, special circumstances such as orphan and disability, the number of dependents, and more. This ensures that financial aid is distributed based on the financial status of the student.
- *Scientific Weighting:* Indicators are scientifically weighted to ensure a fair and unbiased determination of need, promoting equity in the allocation of funds.

2) Direct Support to Students

- *Targeted Financial Aid:* Financial support is provided directly to students rather than institutions, ensuring that funds are used to meet the specific needs of each student.
- *Scholarships and Loans:* The model includes variable scholarships and loans, ensuring that the most financially needy students receive a higher allocation of scholarships and a lower loan amount. Conversely, students with lesser financial need will receive a higher loan amount and a lower allocation of scholarships.

3) Special Consideration for Vulnerable Groups

- *Support for Students with Disabilities and Orphans:* The model gives absolute scores to students with disabilities and orphans, ensuring they receive the necessary financial support without any undue burdens.
- *Affirmative Action:* The funding model incorporates affirmative action measures to support marginalized and vulnerable groups, promoting inclusivity and equal opportunities for all students.

1.4 Level of Need

Categorization is based on the level of need which refers to the extent to which a student requires financial assistance to cover the cost of higher education. The level is determined by composite indicators which include but are not limited to, family structure and size, education expenditure, affirmative action and health expenditure. This results in categorization into five socio-economic tiers.

Household income refers to the total earnings received by members of a household. It includes wages, salary, pension, proceeds from farming, business, and investments among others. The different household economic levels represent broad household estimated income brackets (KNBS Economic Survey, 2020) as outlined below:

- a) **Level-1:** This group includes estimated household income of below **KShs.5,995** per month.
- b) **Level-2:** This group includes estimated household income of between **KShs.5,995** to **KShs.23,670** per month.
- c) **Level-3:** This group includes estimated household income between **KShs.23,671** and **KShs.70,000** per month.
- d) **Level-4:** This group represents estimated household income of between **KShs.70,001** and **KShs.119,999** per month.
- e) **Level-5:** This group represents estimated household income above **KShs.120,000** per month.

The above socio-economic tiers have been formulated into five bands based on the assessed household income using the MTI as shown in Table 1.

Funding Simulation for a Student

Below is a simulation of the implication of categorization in various levels of need (Bands).

Table 2: Funding simulation for a student categorized in band 1

Program Name	Program Cost	Band 1			
		Scholarship 70%	Tuition Loan 25%	Upkeep	Household 5%
Medicine	612,000	428,400	153,000	60,000	30,600
Bachelor of Education (Science)	244,800	171,360	61,200	60,000	12,240
Bachelor of Education (Arts)	183,600	128,520	45,900	60,000	9,180
Bachelor of Commerce	220,150	154,105	55,037.50	60,000	11,007.50
Bachelor of Arts	122,400	85,680	30,600	60,000	6,120

Table 3: Funding simulation for a student categorized in band 2

Program Name	Program Cost	Band 2			
		Scholarship 60%	Tuition Loan 30%	Upkeep	Household 10%
Medicine	612,000	367,200	183,600	55,000	61,200
Bachelor of Education (Science)	244,800	146,880	73,440	55,000	24,480
Bachelor of Education (Arts)	183,600	110,160	55,080	55,000	18,360
Bachelor of Commerce	220,150	132,090	66,045	55,000	22,015
Bachelor of Arts	122,400	73,440	36,720	55,000	12,240

Table 4: Funding simulation for a student categorized in band 3

Program Name	Program Cost	Band 3			
		Scholarship 50%	Tuition Loan 30%	Upkeep	Household 20%
Medicine	612,000	306,000	183,600	50,000	122,400
Bachelor of Education (Science)	244,800	122,400	73,440	50,000	48,960
Bachelor of Education (Arts)	183,600	91,800	55,080	50,000	36,720
Bachelor of Commerce	220,150	110,075	66,045	50,000	44,030
Bachelor of Arts	122,400	61,200	36,720	50,000	24,480

Table 5: Funding simulation for a student categorized in band 4

Program Name	Program Cost	Band 4			
		Scholarship 40%	Tuition Loan 30%	Upkeep	Household 30%
Medicine	612,000	244,800	183,600	45,000	183,600
Bachelor of Education (Science)	244,800	97,920	73,440	45,000	73,440
Bachelor of Education (Arts)	183,600	73,440	55,080	45,000	55,080
Bachelor of Commerce	220,150	88,060	66,045	45,000	66,045
Bachelor of Arts	122,400	48,960	36,720	45,000	36,720

Table 6: Funding simulation for a student categorized in band 5

Program Name	Program Cost	Band 5			
		Scholarship 30%	Tuition Loan 30%	Upkeep	Household 40%
Medicine	612,000	183,600	183,600	40,000	244,800
Bachelor of Education (Science)	244,800	73,440	73,440	40,000	97,920
Bachelor of Education (Arts)	183,600	55,080	55,080	40,000	73,440
Bachelor of Commerce	220,150	66,045	66,045	40,000	88,060
Bachelor of Arts	122,400	36,720	36,720	40,000	48,960