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Private Sector Financing of Higher Education in Nigeria

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Abstract

Financing of higher education is complex due to multiple sources of revenue. Multiple outputs, which are connected to different revenue sources also contributes to its complexity. It is further complex because the revenue and expenditure patterns vary significantly by type of institution (University, Colleges of Education and Polytechnic) and ownership (public and private). The current issue in higher education such as growth, diversity, quality and standards, rise of managerialism and the decline in real resources necessitate innovative strategies in financing of higher education. The rise in the reduction of government support for higher education has generated a number of issues and the questions of who should really pay for the cost of higher education. State involvement in funding education has commonly been justified on the grounds that there would be underinvestment if left to the market forces. At the heart of

the debate about the funding of education by the private sector is the notion of education as a 'public good', which considers that the benefits of educational investment not only accrue to individuals through enhanced life opportunities but also have positive contributions to society. It is often argued that this is more relevant to lower levels of education, while private benefits of higher education outweigh public good aspects and, therefore, that private sector funding of higher education is highly desirable. This paper therefore addresses the need for private sector to take a proper stand in the funding of higher education in Nigeria.

Key Words: *Higher Education, Finance, Private Sector, Public Private Partnership*

Introduction

Higher education, which is also describe as tertiary education, is acquired after secondary level in institutions such as universities, colleges of education, polytechnics and monotechnics (Federal Republic o Nigeria, 2004). These institutions right from their inception, continued to expand in units, departments, faculties and schools. Thus, there is always the need for additional human and material resources in the institutions. As observed by Durosaro and Fasasi (2010), finance plays a central role in determining the availability and utilization of these resources.

As regards public institutions of higher learning, the Government (Federal and State) usually earmark in the annual budget for capital and recurrent expenditures. Besides the annual budget, Government also gives financial assistance to these institutions for structural and infrastructural development. For instance, the federal government gave 25 billion Naira to 12 tertiary institutions(The Nation Newspaper) These financial inputs notwithstanding, there is always need for more money for effective sustenance of the institutions. Therefore, the institutions had to embark on generating revenue from different sources in order to execute their programmes.As a result; the private sector became involved in financing education. Although this is not new in the history of education in Nigeria,

the manner in which they involved in the last two decades poses a challenge to educational administrators.

Financing of higher education is complex because of multiple sources of revenue and multiple outputs, or products, which are connected to these different revenue sources. It is further complex because these revenue and expenditure patterns vary significantly by types of institution (university, Colleges of Education and Polytechnic) and ownership (public, private or state). This is why Durosaro (2000) opined that globally higher education is viewed as a good investment for national development.

In the private sector, expenditure level as well as patterns of pricing and product discounting varies greatly by institutional resources and by the size, demographics, and the economic status of the parent of the applicants. In the public sector, these patterns vary as well according to government funding levels, tuition policies and carrying capacity set by the government. The nature of the institution's campus and the composition of the governing council could also influence expenditure (Philips et al 1997)

The issue of higher education finance is also large because finance underlies so much of the three overarching themes of contemporary higher education policy: quality and the relationship between funding and quality in any of its several dimensions; access, or the search for social equity in who benefit from, and who pays for, higher education; and effectiveness, or the search for a cost-effective relationship between revenues (particularly those that come from students, parents, and taxpayers) and outputs, whether measured in enrollments, graduates, student learning, or by scholarly activity of the institutions. Within these broad themes lie public and institutional policy issues that are better informed, if not definitely answered, by economic and financial perspectives.

Eckwert and Zilcha (2007) opined that the shift towards private funding of higher education is sometimes justified with reference to an egalitarian income distribution. On the average, students have a better socio-

economic background and, hence, higher income prospects than other members of society. Therefore, public subsidies of higher education constitute an implicit monetary transfer from the poor towards the more affluent individuals. Friedman has pointed out this problematic aspect of public funding in his famous contribution on Capitalism and Freedom in 1962. In addition, as long as frictionless financial markets (for private education financing) exist, individual abilities will be used efficiently in the production process under a private funding scheme. In reality, however, financial markets for education financing are imperfect and sometimes even non-existent. Young individuals often cannot provide sufficient collateral which would allow them to borrow against their future incomes. Therefore, a structural change away from public funding towards private funding requires the provision of suitable loan programs, which remove financial barriers for the young generation to participate in the higher education system. It is against this background that this paper was designed to examine various issues relating to private sector financing of higher education and other issues.

Financing Higher Institution with Public Funds.

The question regarding the financing of higher education can be structured around two issues. These are effectiveness and equity. In terms of effectiveness, higher education generates external benefits, which among others translate into higher wages for a higher educational graduate. Another benefit worth mentioning is that people holding a higher professional qualification, which can contribute to enhancing the productivity of their fellow workers, helping them to adjust to technological changes or to implement innovations. In view of this, if society as a whole benefits from the higher education system, it is only natural that society in turn should pay for part of the cost of higher education. Moreover, the benefits and future gains are not certain due to academic dropouts and to the difficulties of students in finding employment. Without public financing, there will be huge financial burden on the students while the demand for the higher education will decrease below the optimum economic level. (Dinca, 2002).

Dinca (2002) maintained that, it is necessary to continue financing higher education with public funds, because, the market and the social requirement for the real optimum quantity and quality of higher education is due to the fact that the market not turned to fully account for the external benefits of higher education. The equity related question stem from the fact that higher education must be accessible to all individuals seeking admission regardless of their economic resources. Furthermore, the government must intervene and put in place proper policies in order to provide equal opportunities for access to higher education. There are two main mechanisms to accomplish these objectives: to reduce tuition cost below the real cost and to promote scholarship programme (or loan schemes) to allow indigents students to have access to higher education.

The Need to have Alternative Source of Financing Higher Education.

In the past, higher education has been faced with an increased demand. This is because, the high value an academic degree has on the labour market. In Nigeria, the participation rate of University graduates on the labour market is roughly higher than the polytechnic and college of education. Also unemployment rate for higher education graduate is also high; the salaries of University graduates are clearly higher than the salaries of individuals holding lower qualifications. The Percentage of university graduates absorbed by the labour market has increased but is below a reasonable level.

The benefit offered by the labour market are only some of the benefits obtained by the holders of an academic degree. It is difficult to quantify other economic and social benefits, still everybody agrees that holders of an academic degree are not only more easily absorbed, by the labour market and earned more money, but they also gain a higher social status, are more effective as far as consumption is concerned, enjoy a better state of health, adjust more rapidly to technological change and also enjoy a series of cultural advantages.

Private sector too, benefit from higher education. General education reduces the training or refresher courses one need when new technologies are introduced, (Dinca 2002). The higher productivity that educated individuals possess is transferred to their employees and has a great impact on the productivity of all companies. A large share of external benefits generated by higher education graduates is absorbed not only by society at large (which accounts for financing from public funds), but also by the companies themselves. On the other hands, Companies are the one to benefit directly from the scientific and technical progress largely accomplished in universities. Consequently, the fact that companies are involved in financing higher education institutions by means of research contracts, service supply and donation might be considered as a substantial compensation for benefit that companies receive from higher education

Economically speaking, according to Dimca (2002), it is obvious that private benefits are high, for both individual and companies. In the same vein, it is generally accepted that there are huge social benefits as well but they are difficult to quantify. Therefore, the principle of "whoever has a benefit must pay" generates a combined financing system for higher education which has both a private and public components, based on this premise, the question is what should be the share of each financing component within the overall higher education financing system?

Achieving a Balance between Public and Private Financing Sources

With the Current economic situation of many countries, and the trends in the budgetary allocation to higher education, one cannot really hope to see a sharp increase in government budgetary allocations to higher education; therefore, a balance can only be reached according to HEFCE(2001) if:

- i. the involvement of the private sector in financing higher education is increased
- ii. the internally generated revenues of higher education institution are increased.

The involvement can be increased in the following ways:

- i. basic tuition fees are established in such a way as to account for a substantial amount of the costs
- ii. Special fees are established for special services
- iii. The business community is stimulated to get involve in financing of higher education.

Stressing the need to achieve a better balance between public and private financing sources, UNESCO and the World Bank Task Force on Higher Education and Society concluded on the basis of comparative research and intensive discussion that "the financing of higher education does not need to be limited to the public purse. Infact higher education can be provided and financed either entirely publicly or entirely privately (including by non-governmental organizations); or by some combination of the two. Given that a purely public system is still positioned to satisfy the demands for excellence and access, and that a purely private system does not adequately, safeguard the public interest, hybrid systems deserve serious considerations.

In the view of World Bank and UNESCO (2002) there are both advantages and disadvantages of provision and financing arrangement that fall into each of the three categories. Public financing and provision of higher education is in many ways the traditional paradigm for most developing countries. Private provision of higher education is attractive because it can lead to the delivery of more or better education at the same overall cost. Furthermore, this can be coupled with public financing as in the case of voucher system in which the government awards funding to students who are free to enroll in different institutions (or gives the money directly to the institutions after the students enroll) .In principle, this system gives universities a powerful incentives to provide quality education at a reasonable cost.

Private financing is encouraged because it reduces the burden on government budgets, and help ensures that costs of higher education are borne by those to whom the benefits accrue. Private financing can be

achieved in the context of public provision via tuition and fees, as well as grants and contracts from foundations and industry. In the case of private, not-for-profit institutions (and in principle public institutions as well), income from private endowment funds can also be used to support teaching and research activities.

Private Sector Involvement In Financing Education in Nigeria

Private sector participation in education involves individuals and organizations establishing and financing educational institutions. This practice started before independence and continued up till present. The second type of participation involves individuals and organizations collaborating with government in financing government-owned educational institutions. In this manner, the individual finances provisions for essential facilities and the organizations. This government-private partnership is the concern of this paper.

The intervention of the Private sector in financing higher education especially in the area of infrastructural provision could take any of the following under listed forms. This intervention according to Bello (2012) could be in form of a partnership between the authorities of the higher education institutions and the private sector in form of Public-Private Partnership (PPP). This is why Zakari (2007) observed that private sector intervention in financing higher education can take different forms depending on the aims and objectives of the partnership, the type, nature and characteristics of the stakeholders and the beneficiaries; the type of contractual agreement and management policies adopted and a clearly defined shared responsibilities and sources of financial and material support to ensure growth, sustenance and better return on investment.

Various models of private sector intervention in financing higher education according to International Monetary Fund (2004) are in three distinct categories as listed below:

1. The Design-Build-Finance-Operate (DBFO) model - under this model, private sector does not have any intention of transferring the utilities to the

government after design; build, operate and management of an infrastructure. This could take the following forms:

- a. BOO - Build-Own-Operate
- b. BDO - Build-Develop-Operate
- c. DCMF - Design-Construct-Manage-Finance

2. Under the above categories, private operators buy or lease government assets, renovate and operate without any obligation to return it to the government. These are:

- a. BBO - Buy-Build-Operate
- b. LDO - Lease-Develop-Operate; and

3 DBOT - Unlike the first two categories, the private sectors design, build-operate and transfer to the government after the agreement date expires. These include:

- a. BOT - Build-Operate-Transfer
- b. BOOT - Build-Own-Operate-Transfer
- c. BLOT - Build-Lease-Operate-Transfer
- d. BTO - Build-Transfer-Operate; and
- e. DBOT - Design-Build-Operate-Transfer

It is could be said at this juncture that the common feature of private sector participation in financing the provision of infrastructure higher education in the less-developed countries is where the government builds an infrastructure and the private sector manages them. At times, the private sector is given concession by the public sector to manage and maintain asset. According to Harris (2003), the private sectors do feel reluctant to place their capital at risk in the developing countries; this is why the Lease and Management contracts are more common.

- (a) **Build Transfers (BT):** This model allows private sector to build an infrastructure on her behalf and must be in accordance with the requirement quality of the government. After completing the infrastructure, government takes over the operation and maintenance of the structure.

- (b) **Lease-Develop-Operate(LDO):** This partnership involves a private investor being given a long-term lease to operate and expand an existing public owned facility/system with the view to enable the investor to invest in the improvement of the facility/system so as to receive the investment in addition to return on investment over the term of the lease. It is expected that the facility/system will be returned to the government at the end of the term of lease.
- (c) **Build-Operate-Maintain (BOM):** This partnership involves a private sector investor building, owning and maintaining a facility leased by the government and operates it using public sector staff. It is expected that the private investor will make some returns to the government at least in form of ground rent, tax and serve as employer of labour through hiring the public sector staff. This arrangement is necessary especially in providing services which otherwise may not have been easily provided best by the government even in the end after the expiration of the agreed period the facilities will be transferred to the government.
- (d) **Build-Operate-Transfer (BOT):** This partnership arrangement involves a private investor financing, building, owning and operating a public facility/system for specified period after which it is returned to the government. The BOT arrangement allows the private developer to make returns on investment before the expiration of the term of agreement. At the expiration period when the facility/system would have been returned to the government, it would have been able to acquire a facility, which would not have been easy to build and maintain due to other competing sectoral demands of the society.
- (e) **Build-Own-Operate (BOO):** The private partner is granted the right to finance, design and build a school and retain the ownership of the infrastructure. These facilities will not be transferred to the government. This partnership arrangement

allows the private investor to build, own and operate the facility/system in perpetuity subject to government's regulatory policy on its operations, which may include pricing. The private investor's long-term right to operate the system/facility serves as an incentive for it to invest more of its capital resources in the facility/system while at the same time taking cognizance of the government's regulations and policy of operations.

This arrangement could be seen as an avenue to relieve the government of the burden of providing some specialized public-oriented services, which may not be provided easily by the government efficiently and effectively. Considering the above objectives of private sector involvement, the choice of which type and format of partnership to be adopted may still be dependent upon certain factors such as the expected benefits derivable by the respective partners, the nature of the project or service, the predisposition of the target beneficiaries etc.

Public-Private Partnership in financing education can be viewed as a contractual agreement between the public and the private sector. Harris (2003) observed that the nature and scope of private involvement varies from management contracts to the outright sale of existing assets. Government opted for PPP arrangement in order to be able to provide adequate social, economic and educational infrastructure.

Advantages of Private Sector Financing of Higher Education

Government interest in private finance initiatives has increased and has led to substantial growth in global pool of capital available for investment in infrastructure. Private sector financing of education has been of tremendous assistance to the three tiers of government whereas public resources for infrastructure not being regularly reduced or delayed by leaders in authority. In fact, even if such facilities are budgeted for, the release of such allocation may not be disbursed at the needed time. Usually delayed till almost end of the year when prices of materials for completion of the project may have escalated.

Price, Waterhouse, and Coopers (2005), opined that private sector takes share of responsibility and risk for the infrastructure project as a condition of the contract. This vital benefit not present in the public sector finance initiative as specialist to handle the construction usually have it at the back of their mind that it is government work which may not be properly completed or even abandoned after collecting construction fee. Examples abound in all levels of education particularly at the university and yet such specialist (contractors) will not border to adhere to government call and threats to go back to site because of god-fatherism and political reasons. Also, there is a fiscal incentive to circumvent regular budgeting procedures because only the annual rents that the government pays to the private contractors are deducted from the annual budget instead of the entire amount of the investment (Sadka, 2006).

From an educational perspective, private contributions in the provision of university infrastructure helps the government to provide appropriate infrastructure buildings and to relieve teaching staff (lecturers) and school administrators of maintenance duties that are outside of the primary scope of their work, allowing them to concentrate on meeting the learning needs of students.

Private sector financing if properly handled may create competition in the education sector. The private partner will want to perform to expectation in the performance of their purpose for quality education, this may lead to great improvement in the public sector with the use of incentive to react to this competition by increasing the quality of education that its provides. Babalola(1998) explained that sector involvement allows governments to take advantage of the specialized skills offered by certain private organizations and to overcome operating restrictions such as inflexible salary scales and work rules that may be prevented in the public sector. The private sector can increase efficiency, choice and expand access to educational services, particularly for household that tend to be poorly served by the government.

Private sector participation in financing of education ensured reduced cost in terms of cost of materials for construction, lower rate of construction costs, labour cost etc and public sector does not have to provide capital funding for the upgrade time reduction in project implementation, universities benefit from private partners in construction. Risks can be shared between the government and the private partners (sector). This risks sharing will increase efficiency in the performance and delivery of services that can result to pumping additional resources or provision for education. In PPP, government can choose contractors by means of an open bidding process in which the government defines specific requirements for the quality of education that it expects from the contractors (Babalola, 1998).

Prompt delivery of services Allison (2003) wrote that private sector had a track record of completing construction of infrastructure on time or even ahead of schedule. Economically, private sector involvement in financing infrastructure can stimulate employment generation, transfer of expertise and economic growth (Odekunle and Babalola, 2008).

Private sector involvement in infrastructure projects encourages innovation, monitored financial accounting to deal with multitude of contractual, political, market and credit risks. Most importantly, PPPs are noted for building standard professionals structures that fits the environment socially and economically and politically feasible.

Disadvantages of Private Sector Financing of Higher Education

Jones, Vann and Hayford, (2004) opined that the major argument against the private sector was the focus on avoiding increases in public debt, which subsequently led to higher cost than could have been achieved under the standard public procurement. The core problem is that private investors demand and received rate of return that is higher than the government bond rate despite the fact that public sector bears all the risks associated with the infrastructure. Students are made to pay higher rate for accommodation than being left to public sector provision.

Teachers and other employers may see PPP as a rival or threat of their job stability, member's terms and condition of service. Even though collective unions may see them as a way of diminishing their influence over their arrangements and labour laws apply to PPP arrangements, there could be adverse reactions from students, labour unions, and staff among others.

Student union leaders may not be allowed to have control over infrastructure as a result of private sector involvement and Government control on public school may be reduce because of the privatization of education through the coming in of the private sector. Public-Private Partnerships may lead to poorer students being left behind in the deteriorating public schools that lose the supports of more educated parents, where the private partner commits more funds to a project than the public sector, there is a likelihood that the private partner would seek for more control over how services are provided and priced. In this type of situation, the onus of establishing services, standards and ensuring the protection of public interest rests squarely with the government (Jones, Vann and Hayford, 2004).

Also, Kingdom (2007) asserted that if poorly handles, contracting can even reduce already low levels of government accountability and control. This is because with PPP the lines of accountability for the provision for services are often not very clear to the public, to the extent that this may result in public criticism of the partnership arrangement. .

The government of any country that has not been using PPP may have to change its educational policies because of PPP contract that is, processes, management support, professional operation, educational services and infrastructure. This may lead to increased costs since the delivery of service through PPP requires some degree of cost recovery or pricing policy to reflect all relevant costs, and then some can expect some increase in user fees for the affected services. Serious care needs to be taken in the selection of partners that may want to offer low bids in order to win Public-Private Partnership contracts. Consequently, more

transparent and well-developed selection procedures are needed in the selection of private sector partners. Even though collective arrangements and labour laws supply to PPP arrangements, there could be adverse reactions from labour unions or the staff of government (Kingdom, 2007).

William (2005) opined that PPP might be faced with inadequate planning that is, without taking proper account of the market in the planning phase; government may come out with more projects than bidders, which will create a non-competitive environment. Because of the current global financial crisis, PPPs (developers) may be faced with financial shortfall and recessions that may result from less cash to invest in the development of new PPP projects.

Conclusion and Recommendations

Private sector financing of higher education in Nigeria is a laudable innovation as it complements the efforts of the government in financing of higher education in the country. Collaboration between the government and the private sector in form of public private partnership (PPP) is encouraged. However, the government must take caution on the type model to be adopted. This paper therefore supports a partnership that would be beneficial to both the private sector and the government. We therefore recommends the adoption of a model that encourages the private sector investing in higher education operate whatever structure or system they provided for an agreed upon period and later transfer such to the government. This is because the involvement of private sector in financing higher education had been in form of donation of facilities, equipment etc to the tertiary institutions as part of their corporate social responsibility. The private sector can still do more if they enter into partnership with the government in form of design, build, operate and transfer. This has a lot of advantages as it aids the infrastructural development of the intuitions, it also save money, time and effort on the part of the government while the private sector also benefits a immensely for operating an investment before it is transfer to the government. If this

partnership adequately carried out by both parties, it will motivate the private investor in investing in higher education.

The private sector should also intensify efforts in the endowment of a chair in higher education, research funding, foreign aids and technical assistance, provision of international linkage and academic-industry linkage. For the partnership to be sustained, there is a need for an appropriate legal framework and political will by the government in order to sustain the partnership.

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