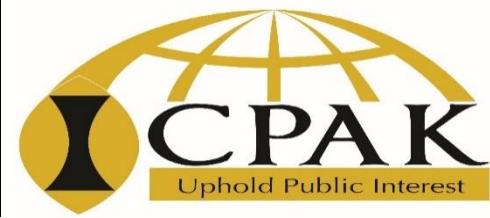


# **FINANCIAL MANAGEMENT FOR HIGHER EDUCATION SECTOR WORKSHOP**

**Investment Models for higher education institutions**

**HILTON HOTEL, NAIROBI, 20<sup>th</sup> -21<sup>st</sup> APRIL 2017**

# Session Focus

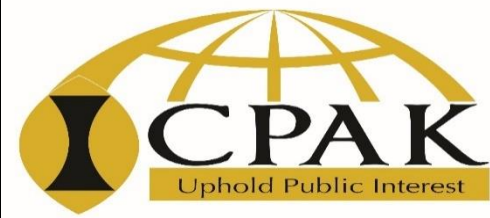


- Innovative Resource Mobilization & risk factors
- Prioritization of Projects

“Higher education must "promote development of the whole person and train responsible, informed citizens, committed to working for a better society in the future”

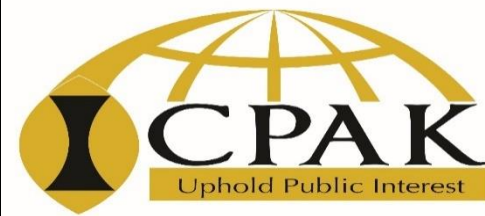
**How do we achieve this??**

# Higher education in Kenya has witnessed tremendous growth... Reasons for demand



- Economic value of attaining higher education.
- Social pressure to move beyond secondary level of education for non monetary reasons such as greater social standing and prestige in the community.
- Demand driven curricular in Higher Education.

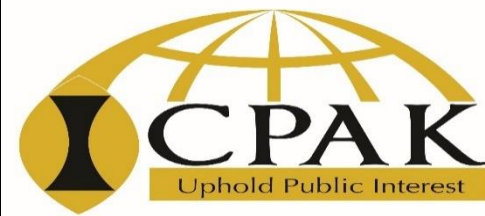
# What is the connection between education, innovation and economic development?



- Higher education is expanding rapidly in Kenya. Thousands more men and women are enrolling in our institutions.
- Now how do jobs get created? How do countries take on new technologies and become effective producers?

***Just as supplying education is important, it is also important to know where the possibilities for an economy to specialize and develop are going to be important***

# Development is contextualized.... It is based in....

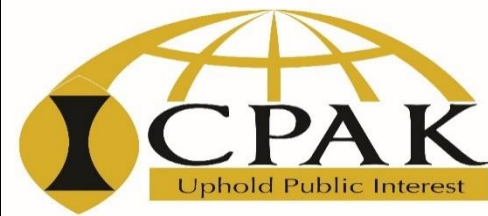


- Particular sectors,
- Particular skillsets,
- Particular firms,
- Particular counties, towns etc.

***“There’s got to be a focus on how we build the capability”***

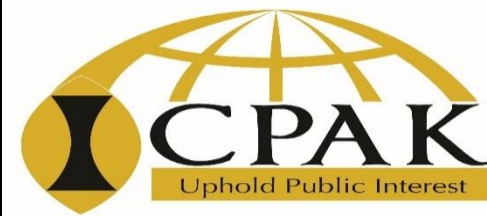
***“ Investing in education and leaving it to the markets will only do so much.”***

# The future of Higher Education



- As we start working towards the sustainable Development Goals, we will need professionals across all sectors – doctors, teachers and engineers will be vital to our future success;
- Higher education is central to producing those professionals;
- Higher education is not just for people to invest in their own human capital and become part of the elite, but for development to happen, there's going to have to be a lot of professionals trained!

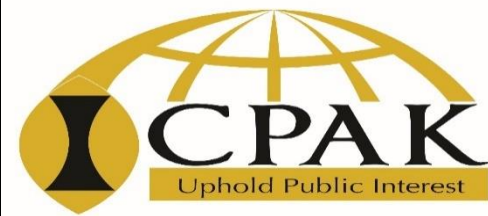
# How have we responded to increased demand



- Mobilize more resources principally by introducing or raising tuition fees as away of increasing cost sharing? What about student support services?
- Additional private resources through commercialization of research and other private uses of institutional facilities and staff.
- Issuance of bonds and other instruments of financial markets that allow greater public-private-partnership in providing Higher Education (Emerging financing )
- A trend towards innovative financing mechanisms that allow both public and private funding.

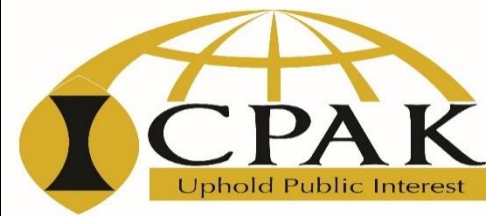


# Response to increased demand



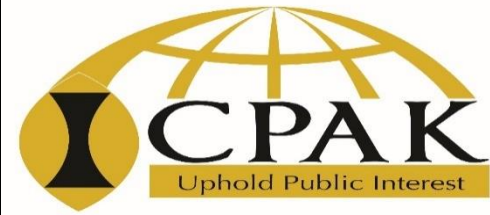
- Allowing of financing model that insulate funding decisions from political pressure and encouraging positive institutional behaviour.
- Performance based financing, setting a side a portion of funding to be distributed to institutions on the basis of a series of performance measures, performance contracts negotiated between governments and institutions: competitive funds that encourage innovation, great academic quality and strengthening institutional managed capacity; and financing model that directly pay for results.

# Response to increased demand



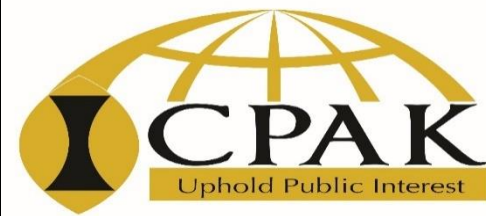
- Expansion of financial aid to students with high levels of financial need and or academic merit to allow for financial strategies that anticipate higher fees.
- Growth of students' loans to help students pay for the higher tuition fees entailed in cost recovery strategies.
- The response documented above has not entirely translated into a globally accepted model of financing higher education which will not only promote access and equity but will guarantee quality. In addition it is expected that a model of funding higher education should also generate the development and retention of the next generation of academics.

# Funding Higher Education



- A major challenge faced by governments everywhere is the reform of finance of higher education in response to pressures of rising private demand for higher education and heavily constrained public budgets.
- What sources of funds can be identified to meet the cost of providing high quality higher educational services?

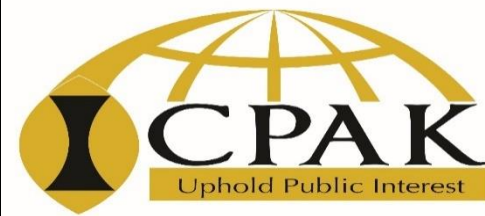
# Financial Imperatives



- Increasing societal demand for university services (education, research, service)
- Increasing costs of educational activities
- Declining priority for public support
- Public resistance to increasing prices (tuition, fees)
- Inability to re-engineering cost structures

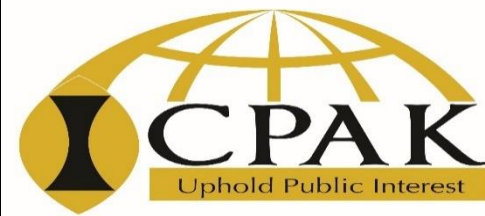
**Concern: The current paradigms for conducting, distributing, and financing higher education may not be able to adapt to the demands and realities of our times**

# Financing Higher Education



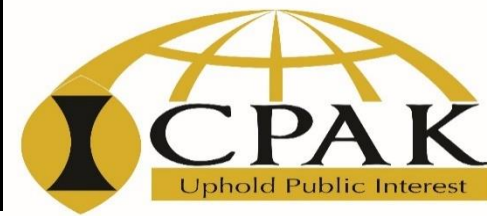
- Who pays? Government? Students? Research sponsors? Private donors? Marketplace?
- Tax policy that stimulates private donations (charitable contributions)
- Ownership of intellectual property
- The entrepreneurial university
- The “privately-supported but publicly-committed” Institution

# Investment for higher education institutions – key messages



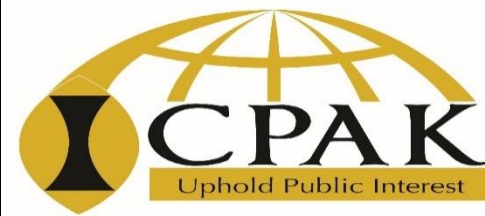
- Education sector prone to low public spending
- Highly regulated with multitude of agencies
- Recent Government Initiatives would completely transform Education sector landscape
- Investment in Education needs to recognize unique characteristics to plug in large deficits
- Understanding the value chain in Education would help develop appropriate models
- Formulation of clear policy, regulatory framework, monitoring service delivery, and project design is critical

# Education sector and low public spending



- Budgetary Allocations have not increased in percentage terms
- Leading to large deficits across the value chain
  - Gross Enrolment Ratio (GER) on increase
  - Availability of professional colleges in rural areas non commensurate with the total rural population
  - Significant regional disparities
- Offers immense investment opportunities....

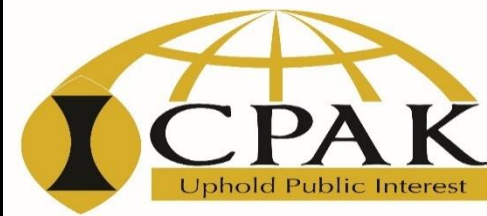
# Policy and Regulatory environment highly regulated



- Multitude of regulations that govern education sector at both national and sub national
- Fragmented with involvement of multiple agencies
  - Ministry of Education
  - Commission for University Education
  - Technical and Vocational Education and Training Authority.
  - Higher Education Loans Board etc.
- Private investment in education only as “not-for-profit” and can be structured through sponsor/Trustee

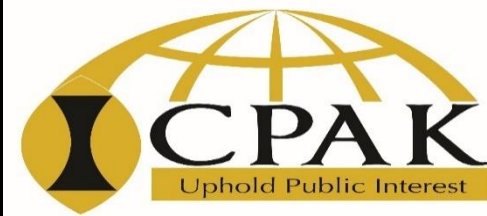


# Recent Government Initiatives have potential to completely transform Education sector landscape...



- Elementary education received a major thrust post the Constitution of Kenya 2010
- Enactment of Right to Free and Compulsory Education- a path breaking milestone
- Policy proposals in pipeline??:
  - Restriction on satellite campuses
  - Accreditation & Regulatory Authority- to maintain global standards
  - Entry & operations of educational institutions; prohibition of unfair practices;

# Government recognizes criticality of private investments to meet plan targets



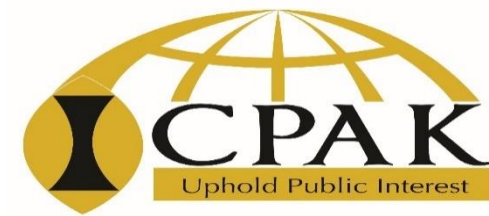
- Private investment imperative to expand infrastructure and provide greater access to all forms of education (comparative model in Singapore, India and South Africa)
- PPPs a good way to attract private investments
- Concept of PPP & its applicability to education not new; requirement is to accelerate the pace and develop new models of participation

## In Kenya - PPPs would improve

Infrastructure	Access	Transparency	Funding	Relevance
Availability of schools & allied infrastructure	For rural population & marginalized citizens of the society	By making cost of service more visible	Through easing of budgetary constraints	Impart right skills in line with changing demands`

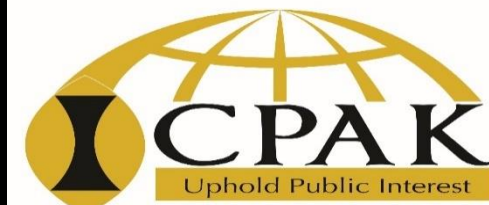
*However, Private participation needs to be regulated to ensure non-negotiable quality and affordability in line with socio-economic objectives*

# Investment in Education needs to recognize following key characteristics of this sector...



- “Core education services” is “not-for-profit”. However, infrastructure and other support services can be. Need to understand value chain
- Regulation & strict adherence to quality of service delivery absolutely critical for success of Institutions
- Sector (key sub-segments) may require both capital and operational subsidies; prioritization may be critical for ushering in large scale investments
- Need to have alternate revenue streams - Multiple use of infrastructure – day/evening/weekend/, ODL, corporate training centres etc.

# Understanding the value chain in Education would help develop appropriate models

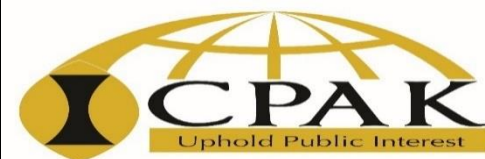


Infrastructure facilities	Operational Services	Allied Services
1. Management of Professional services- development of building/infrastructure	1. Operations - O & M 2. Provision of Faculty 3. Training and development	1. Provision of Books 2. Transport, Catering 3. Library 4. Labs, IT, Administration Sports

## Bundled Approach for development of institutions

- **Basis for structuring the investment models**
  - Gap and Objective - pressure from Government, Political, Community, students
  - Social and Legal Aspects
- **Infrastructure and allied services can be easily taken up by any infrastructure developer / player with a profit objective**
- **Operational services needs to align with “not-for-profit” objective of government**
- **Alternate revenue streams may reduce need for operational subsidies**

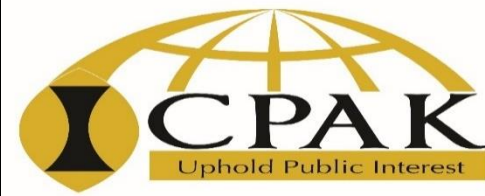
# PPP Models in Education Sector (illustrative only)



Service	Definition	Contract Type
<b>Infrastructure (input)</b>	Government buys services	Management or professional services
<b>Operational Services (process)</b>	Government buys operation services of schools (Grant in aid)	Operational contract
<b>Education Services (output)</b>	Government buys seats in private schools	Contract for education of specific students
<b>Facility Availability (input)</b>	Government buys facility availability- sports, IT, Labs	Infrastructure services contract
<b>Facilities and Services (“bundle”)</b>	Government buys facility availability and services	Infrastructure contract and services contract

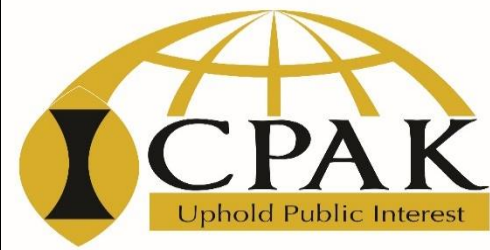
Source: PPP in Education (Dr Sam Carlson)

# Key suggestions for stimulating investments in Education...



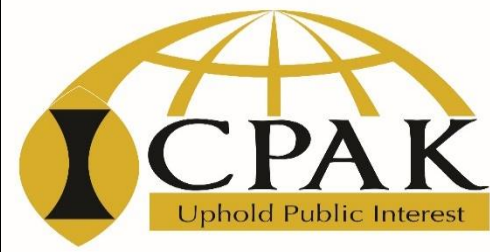
- Formulate clear policy to promote Investments in Education – MOE, Council and Boards
- Creation of a robust institutional and regulatory mechanism including establishment of enabling agencies
- Develop appropriate models to attract private investments keeping in view the government objectives and value chain
- Development of Contract documents or atleast key principles document, which can be used by state agencies to develop project pipeline
- Launch pilot projects to test models

# Conclusion



- Institutions should not rely on a single source of funding – government.
- Institutions should rely on a mix of funding models to achieve the objectives they seek for their higher education systems.
- Student loans often are the best mechanism to help promote better access and equity, but they should not be entirely relied on for achieving this important objective.

# Plenary



- Discussion
- Questions?

