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Educating Nigeria's poorest: A radical plan to attract private sector investment

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Abtract

Despite its recent economic successes, Nigeria still has a vast underclass where children either do not go to school or, if they did, they are forced to drop out early. In this brief paper, the study outline a new model to attract private sector investment into the education of Nigeria's poorest and most vulnerable children who, on present evidence, are unlikely to make their way out of the poverty trap anytime soon. The idea is radical but at its core the plan is simple and may be summed up thus: "The private sector will be invited to set up schools and educational institutions for our poorest and most disadvantaged children in return for an incentive never tried out before. As and when these children grow up and start earning their livelihood, the income tax paid by them to the central government over their life-time would be passed on to the entity that nurtured and educated them." The financial viability of the model for Nigerian conditions was considered by Oluwole Adelokun, a management consultant with KPMG Company. His conclusions form an integral part of this paper.

Keywords: Education, poverty, private sector, investment, financial viability.

Introduction

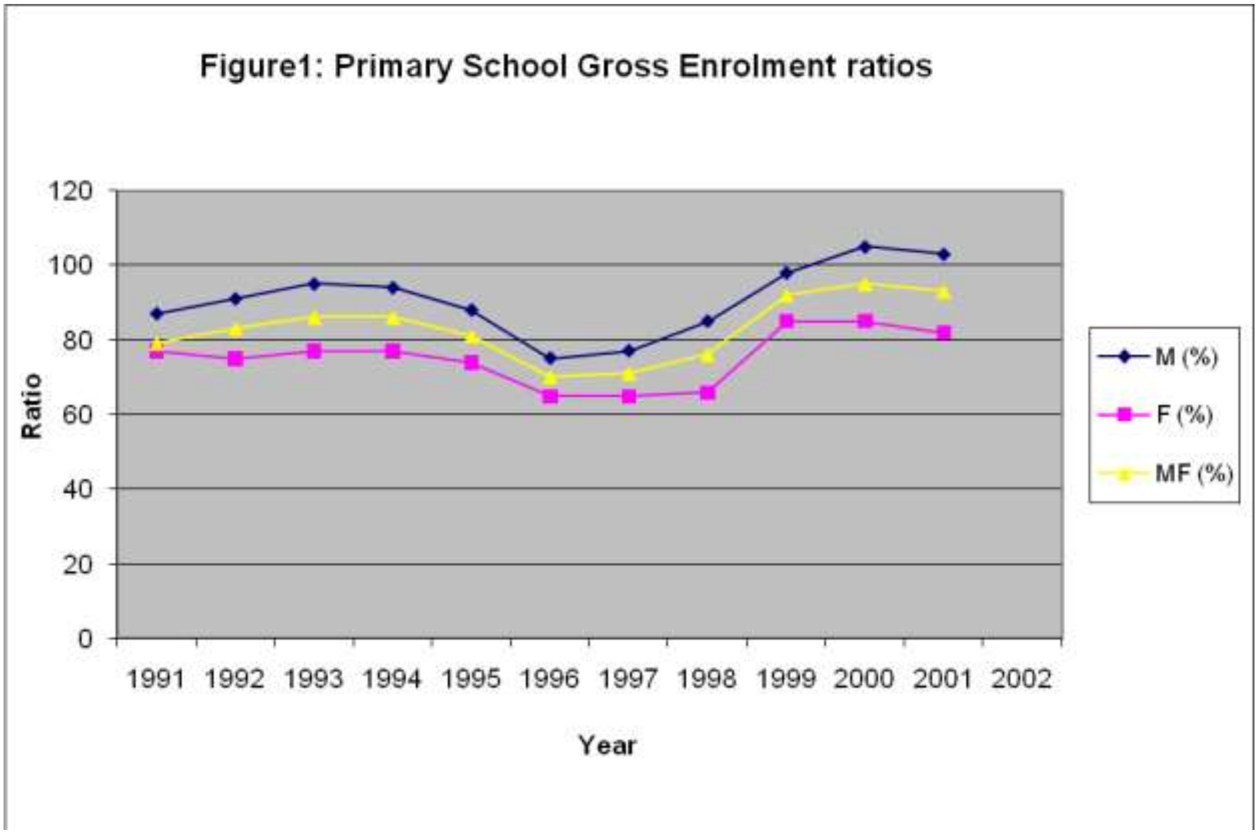
There is just no denying that despite Nigeria's recent economic achievements, large sections of its population continue to see little improvement in their day-to-day lives. What is worse, they also have very little hope for a better future. A telling statistic is the continuing and widespread prevalence of malnutrition among children in Nigeria. At more than 40% (and greater than in sub-Saharan Africa), it is the surest indicator of the blighted future that lies in wait for so many. The problem is not just that so much poverty exists, but that given current realities, it is very likely to be handed down as a cruel legacy from poor parents to children who remain poor because they would lack the skills to pull themselves up; either they do not go to schools or they are forced to drop out early on. According to NISER review of Nigerian Development, 2000: (NISER, 2001) in a paper titled "Structural Adjustment, Education and Poor Households in Nigeria: Analysis of a Sample Survey" put this problem in perspective: Despite much initiatives through universalisation of primary education, the number of illiterate persons aged seven and above increased from 36 million in 1985 to 69 million in 1991.

According to the UNESCO survey (UNESCO, 2003) for the year 1992-2000, 59.3 per cent and 13.9 per cent in rural and urban areas, respectively are unable to read and write. One-third of the children aged 6-13 years were out of school. Since then, considerable progress appears to have been made in cutting down on the percentage of children not attending school. The Annual Status of Education Report for 2009 brought out by Federal Ministry of Education (2003) says that nationally, the proportion of 6 - 11 year-olds not-in school is at 3.6%, and the proportion of 12 - 15 year olds not in-school is at 7.3%. However, whether this translates into meaningful improvements in learning is a different matter altogether.

Table 1. Primary school gross enrolment ratio (GER) (National)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
%M	87	91	95	94	88	75	77	85	98	105	103
%F	77	75	77	77	74	65	65	66	85	85	82
%M/F	79	83	86	86	81	70	71	76	92	95	93

Source: FOS, Ministry of Education, Abuja 2006



Why the Private Sector?

From experience there are limits to what the Nigerian government can do. The Nigerian story, in common with many other countries, has been that government efforts have in-built elements of waste, graft and other leakages that compel the use of disproportionate resources to achieve even modest goals. In an article titled "Education push yields little for India's poor" [NewYork Times, January 17, 2008] Somini Sengupta writes: Sixty One years after independence, with 40 percent of its population under 18, India is now confronting the perils of its failure to educate its citizens, notably the poor.

More Nigerian children are in school than ever before, but the quality of public schools like this one has sunk to spectacularly low levels, as government schools have become reserves of children at the very bottom of Nigeria's social ladder. In a survey conducted across 11,000 villages in 2008 by Federal Office of Statistics which reports: While many more children were sitting in class, vast numbers of them could not read, write or perform basic arithmetic, to say nothing of those who were not in school at all. Among children in primary five, 5 out of 10 could not read text at the primary two, and 7 out of 10 could not subtract. The results reflected a slight improvement in reading from 2006 and a slight decline in arithmetic; together they underscored one of the most worrying gaps in Nigeria's prospects for continued growth (FOS/UNICEF/UNESCO/UNDP, 2008).

And here is an even more damning indictment. In "Private Education: The Poor's Best Chance", Ige Mathew (2008) writes: how do government schools serve the poor? Usefully, the Ige's report (Ige. A. M. 2008), which paints a bleak picture indeed of the 'malfunctioning' of government schools for the poor. When the researcher called unannounced on his random sample of schools, only in 51% was there any "teaching activity" going on. In fully 33%, the headteacher was absent. Alarmingly, the team noted that the deterioration of teaching standards was not to do with disempowered teachers, but instead could be ascribed to 'plain negligence'. He noted 'several cases of irresponsible teachers keeping a school closed for months at a time', many cases of drunk teachers, and headteachers who asked children to do domestic chores, 'including looking after the baby'. Significantly, the low level of teaching activity occurred even in those schools with relatively good infrastructure, teaching aids and pupil-teacher ratio.

To someone living in Nigeria and even cursorily aware of the wider realities, the results reported above would come as no surprise. It is clear that after 49 years of trying, government efforts have made little headway, and there seems little reason to hope that in the years ahead, anything by way of more of the same can lead to a different or better outcome. It also follows that for any meaningful change to come about, greater private sector investment and involvement to supplement (and perhaps even substitute) the effort of the government is a must. This is not to suggest that the private sector is now uninvolved in this sector, or that it is not doing good work already.

As Ige points out : A common assumption about the private sector in education is that it caters only for the élite, and that its promotion would only serve to exacerbate inequality. On the contrary, recent research points in the opposite direction. If really to help some of the most disadvantaged groups in society, then encouraging deeper private sector involvement is likely to be the best way forward.

All of this suggests that if one is interested in serving the needs of the poor in Nigeria, then trying to reform the totally inadequate, cumbersome and unaccountable government system is unlikely to be the best way. Instead, reform the regulatory environment to make it suitable for the flourishing of private schools for the poor, help build private voucher schemes using overseas and indigenous philanthropy, and encourage public voucher schemes, so that parents can use their allowance of funding where they see the schools are performing well, rather than wasting them in unresponsive government schools.

However, much of the existing private effort in education for the poor that Ige refers to is directed towards those who, while poor, can still afford to pay relatively small amounts of fees. That would still leave out in the cold that sizable underclass where parents are too poor to even feed their children properly let alone afford other basic necessities, and where children are often expected to work and contribute to the family income. What can private initiative and enterprise do for them? Essentially, this is a question that boils down to, "How do you draw the interest of the private sector into ventures that offer no profits and therefore no motives other than charity?" Without a clear-cut answer, this area will continue to be the exclusive preserve of NGOs and institutions that operate

as charities. And since there are natural constraints on how much, and how fast, charity can be scaled up, such efforts, while commendable in themselves, are doomed to inadequacy in the face of the mounting challenges. Of course, one possible way out would be a well-structured series of tax incentives to attract private investment. However, the prospect of losing out on current revenue when governments are generally strapped for cash, has strictly limited appeal.

A radical plan

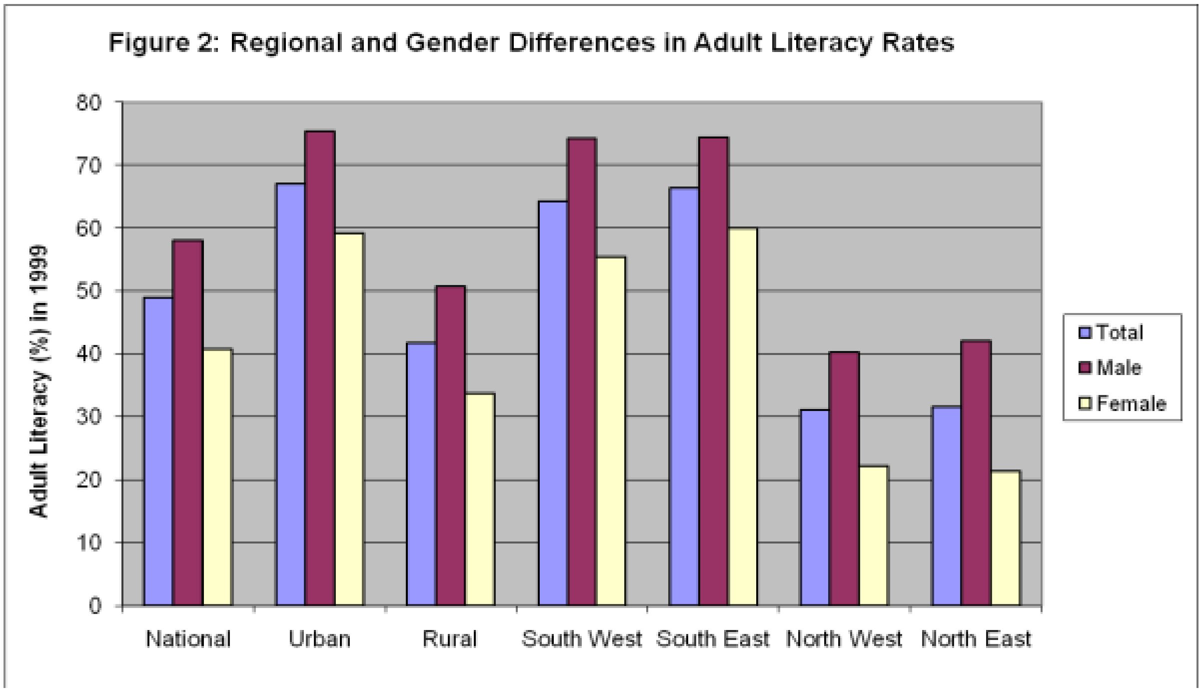
Here, then, is a new idea. Recognizing that the private sector can almost work wonders when there is a profit motive at work, the study propose that the Nigerian government should invite them to set up schools and colleges for the very poor, or arrange to take them into existing quality schools and colleges, with the incentive that as when such children grow up and start earning their livelihood, the income tax paid by them to the federal government over their life-time would go to the entity that nurtured and educated them.

The basic idea of enlisting the services of a more efficient private sector for an identified national cause, by offering them a share of the future gains that accrue from the venture is actually not very new. For instance, the idea behind getting private entities to build roads (or other physical infrastructure) by allowing them to collect and keep the toll for a certain period is actually very similar. The difference now is about extending this concept towards building our human capital.

Table 2. Regional and gender differences in adult literacy rates.

	Total	Male	Female
National	48.9	58	40.7
Urban	67	75.4	59.1
Rural	41.7	50.8	33.6
South West	64.2	74.2	55.4
South East	66.4	74.4	60
North West	31	40.3	22.1
North East	31.6	42.1	21.4

Source: FOS, Ministry of Education, Abuja 2008



The plan in practice

Under this plan, the beneficiaries will bear no formal obligation whatsoever to their benefactors. They will not be made to sign bonds or do anything out of the way. For that matter, they would not even have a say in the matter. Instead, using modern information technology, the system would maintain a centralised database that would automatically (or with a minimum of bureaucratic intervention) pick up the future series of income tax payments from them, no matter where in Nigeriaa they happen to be, and match it to their benefactors. Indeed, once the government has put in place the necessary legal, administrative and IT framework (including defining the pool of eligible potential beneficiaries), such a system could work pretty much on auto-pilot. With the Nigerian government now working towards a UID project—which would give each Nigerian citizen a unique identification number—a major technical obstacle will be overcome.

The nitty-gritty to be sorted out

Yes, once it comes to implementation, there are daunting logistical challenges that would have to be sorted out. Questions to be grappled with would include tricky, finer details like, "Should it be the whole amount of the income tax paid or only a part? Should it really last for a lifetime or for a predetermined period? How do you ensure that only the genuinely poor benefit? What are the potential loopholes that would allow unscrupulous entities to subvert the system?" Here is a sample list of some of the likely issues that would have to be sorted out before implementation:

Should it be the whole amount of the income tax paid or only a part?

(Perhaps there should be some gradation based on, for instance, how long the particular beneficiary was supported)

Should it be for the lifetime or for a shorter pre-defined period? (The lifetime payout goes a long way in making the idea a viable business proposition.)

How do you ensure that only the genuinely poor benefit? (No real harm even if the slightly less poor were to benefit.)

What about kids who do so well out of it that they get jobs abroad and do not pay any tax here? (Every system will have some loopholes. Maybe, over time, this can become an international agreement with, say, the US government agreeing to pass on some of the tax revenue earned from beneficiaries who immigrate to that country. Should this

happen, it would be a powerful, additional incentive in the system.)

How about someone who becomes a successful businessman and understates his earnings? (Losers weepers.)

Can the unscrupulous possibly subvert the system in any way? (I am sure there will be some loopholes or the other, but the benefits would still far outweigh the costs.)

Won't this end up as an exercise in "cream skimming" where intelligent kids with promise and potential get cherry-picked while the greater majority get left out? (Even then, it would still amount to a good beginning.) Yes, the questions are many, but when placed against the larger backdrop of the potential gains, these are at best minor quibbles.

Accepting the core idea is the real challenge

While there are daunting procedural and logistical challenges to be sorted out, the important issue is to reconcile to the idea of private participants motivated not by altruism or charity but by future profits. Yes, this idea is also about bringing in the element of windfall gains into the area of education for our poorest and most vulnerable. Much in the way that privately owned companies drill for oil and continue to drill even after some wells turn out to be dry, private entities would have a powerful incentive to look after and take care of some of our most disadvantaged children and their families and lead them out of the vicious circle of poverty. They would know that even if a small

minority plucked from our poorest could be nurtured to join the ranks of our wealthy and successful, they would be looking at mega profits. As for the beneficiaries, every child who emerges with some degree of success would have pulled up one family out of this vicious circle of poverty begetting more poverty. For the government, the only sacrifice is the loss of that future income tax revenue that most certainly would not have accrued but for this plan.

However, acceptance of the profit motive in the area of education remains a touchy subject in Nigeria. After two decades of economic reforms, Nigeria still does not allow "for profit" organisations to invest in education — despite thousands of our finest students flocking to the U.S. and U.K. every year to study at some of the best colleges and universities of the world that also happen to be run for profit. One way to ease the likely opposition based on ideology would be to initially restrict the plan to beneficiaries drawn exclusively from Nigeria's depressed Scheduled Caste and Scheduled Tribe communities.

The viability aspect

Of course, ultimately, an idea like this can take roots only if it appeals to those who are expected to step forward and invest their money. Oluwole Adelokun is a management consultant now based in Nigeria. He was also a global partner with the well-known management consultancy firm KPMG International

Company. He considered the viability aspect of the model in some detail and was convinced the idea is workable and worth pursuing. His calculations looked at a high-cost model where a corporate entity in Nigeria invests in 20 brand new schools exclusively for this purpose and considered what the likely returns would be. He says the break-even would be about 11 years and that over a timeframe of four to five decades, the project could generate very good returns, with an IRR in excess of 16%.

Here he is, summarising his conclusions:

Overall, the concept can be economically self-sustainable, provided we take a longer term (~ 20 year) perspective. If we consider a network of schools, breakeven can be achieved by about the 11th year, and the rate of return can be attractive (IRR >16%) in a 35-45 year timeframe. Roughly, if,

▪ Cost per school per year #75,000,000 million (US$ 500,000)

▪ Number of schools/company ~ 10

▪ Students per school at steady state ~ 120/class (with 3 sections) 12classes ~ 1440

▪ Drop outs + non tax payers ~ 40% of the above

▪ Top decile of each class makes #3,333,300million (US$22222.2) per year (at peak salary)

▪ First class to pass out from school is after 5 years (i.e. initially you have classes 1-6 and then keep promoting)

▪ First pay back after first class passes out ~ 5-6 years afterwards (to account for further studies etc)

▪ Inflation is 8%, and cost of capital is 15% etc

Then

▪ Breakeven is after 16 years

▪ Total value in today's terms is ~ #450,000,000 million (US$3,000,000)

▪ Total payout in today's terms in first 16 years is ~#2659999995billion

(US$117,333,33.3)

▪ IRR (rate of return) ~ 16.9%

These returns can be improved if we assume a quicker first income (i.e. class that passes out earns and pays taxes earlier). Also, if we assume a better distribution of income, and, therefore taxes. Obviously, the conclusions are very heavily dependent on the assumptions. Critically, running costs need to be managed carefully (the results above assume a figure of about #172,500,000million (US$1,150,000)/year for a school of about 1500 students). Further, the drop out rate needs to be minimized and the school curriculum and pedagogy should be oriented towards ensuring the "employability" of the students. To make the venture sustainable, about 60% of each incoming class should graduate successfully. Finally, tax leakage needs to be minimized. While Oluwole Adelokun has taken a high cost (or heavy-on-investment) model for evaluation, this plan would also have room for private entities operating on

a lesser scale with far less investment. In fact, as I envisage it, even an ordinary individual who volunteers to pay for and support an eligible child should be able to register under this plan.

Furthermore, while the plan as outlined above involves no sacrifice on the part of the government, should concerns about viability arise — in particular, to sustain the venture in the first decade or so before the returns start kicking in — it would make a lot of sense for the government to actually concede some financial incentives. This would ensure that the efforts don't flag during the crucial take-off period. Possibly such "explicit" incentives could be adjusted against the future income of the project so as to make it "revenue neutral" over the long term.

Will the private sector bite the bait?

Ideally, this model should be of interest to those players with deep pockets to ride out the initial 8 to 12 years of wait. As an investment proposition, it involves spending money for up to 12 years and thereafter earning an income (from the successful beneficiaries) for 35 to 40 years, with momentum being built up every passing year thereafter. And then, not to be ignored or taken lightly is the fact that benefactors will always stand a chance of windfall gains from the exceptionally successful cases.

Needless to add, if the government were to actually concede some "sweeteners" for the initial years, the element of risk would reduce and viability would improve even further.

How does the government gain?

The government is actually a major beneficiary because:

a) It does not sacrifice current income. The future revenue which is required to be passed on is in a sense notional because it would not have materialised but for this plan. Moreover, despite the loss of the income tax component, the government will continue to earn from the indirect taxes contributed by the beneficiaries.

b) Evidence shows that people who pull themselves out of poverty through education tend to ensure that their children are also educated.

Therefore, the escape from the poverty-trap becomes permanent and the beneficiaries, their children, grandchildren etc. are all likely to lead lives far better than what was originally in store for them. Contrast this with typical government schemes to reduce poverty where many of the beneficiaries would likely revert to poverty the moment the scheme is discontinued.

c) In Nigeria where there is a well defined system of affirmative action for those at the bottom of the caste hierarchy, this plan (whose beneficiaries would inevitably be drawn mostly from these sections) would result in an increased pool of qualified manpower to fill in such positions. Therefore, it can actually take the edge off the most common criticism against affirmative action, viz. that it ignores merit.

A compelling rationale

In an article titled "A Share in Children's Success" (Washington Post, June 6, 2009), Daniel A Epstein presents an inspiring vision of the corporate sector willingly financing college education for poor American students. He refers to work done by the Nobel Prize winning economist James Heckman suggesting that the potential return on investment in the education of young children can be as high as 17 percent compounded annually. And he writes, "The return manifests itself in increased future earnings and reduced social costs. Today, that 17 percent compound annual growth rate is inaccessible to investors, but if people could issue shares of their future cash flow, it would unleash that potential, initiating a massive influx of investment in children." However, as anyone going through the article would likely notice, the author on weak ground when it came to defining a robust and workable method to realize the vision. He talks of tax-incentives, which is always an unwelcome prospect for cash-strapped governments. And, there is talk of corporate investors being repaid out of the future income of the beneficiaries. This is potentially a logistical nightmare: how do you enforce compliance without getting into a tangled web? I believe the model that I am proposing in this paper, addresses these shortcomings.

Is not the Government, whose duty it is to ensure universal education, abdicating its responsibilities?

Social and economic policies can be framed based on how things are (the reality) or how things should be (the ideal). I have no doubt which one works better.

Other areas where this plan can be applied

Here are three examples that come to mind.

a) Adoption and foster care: A similar incentive can be offered to encourage the adoption of children from the foster-care system with the adoptive parents made eligible for some (or even the full) share of the future income tax paid by their adopted children. In the U.S. foster-care system, for instance, about 130,000 kids await adoption every year of whom only about 50,000 of them actually get adopted. Moreover, payments from the state (to the foster-parents) cease when the child becomes 18 years old. As a result, it is estimated that nearly 50% of the children who "age out" of the system become homeless. With an incentive linked to future income tax payments, adoptive parents would have a powerful reason to continue giving care and shelter (and even putting their foster-children through college), if only to better secure their own future prospects.

b) Acquiring land for SEZs, Industrial Estates, etc.: The basic idea of getting people to do something extra for the country — which they would not do in the normal course — in return for the government agreeing to share in the future benefits, can be applied to the process of acquiring land for public purposes, say for a Special Economic Zone (SEZ) or an expressway. If an SEZ is projected to pull in increased tax revenues, a part of the increase can well be passed on to those from whom land was acquired. Not only do they get a cash compensation upfront (which by definition is always inadequate),

they also get the promise of future income tied to the financial success of the project.

c) Motivate teachers in Government schools: A watered-down version of this plan holding out the promise of an extra future income (linked to successful poor students passing out from the school) could be used to motivate "apathetic" teachers in government run schools in remote and rural areas where poor students study in large numbers.

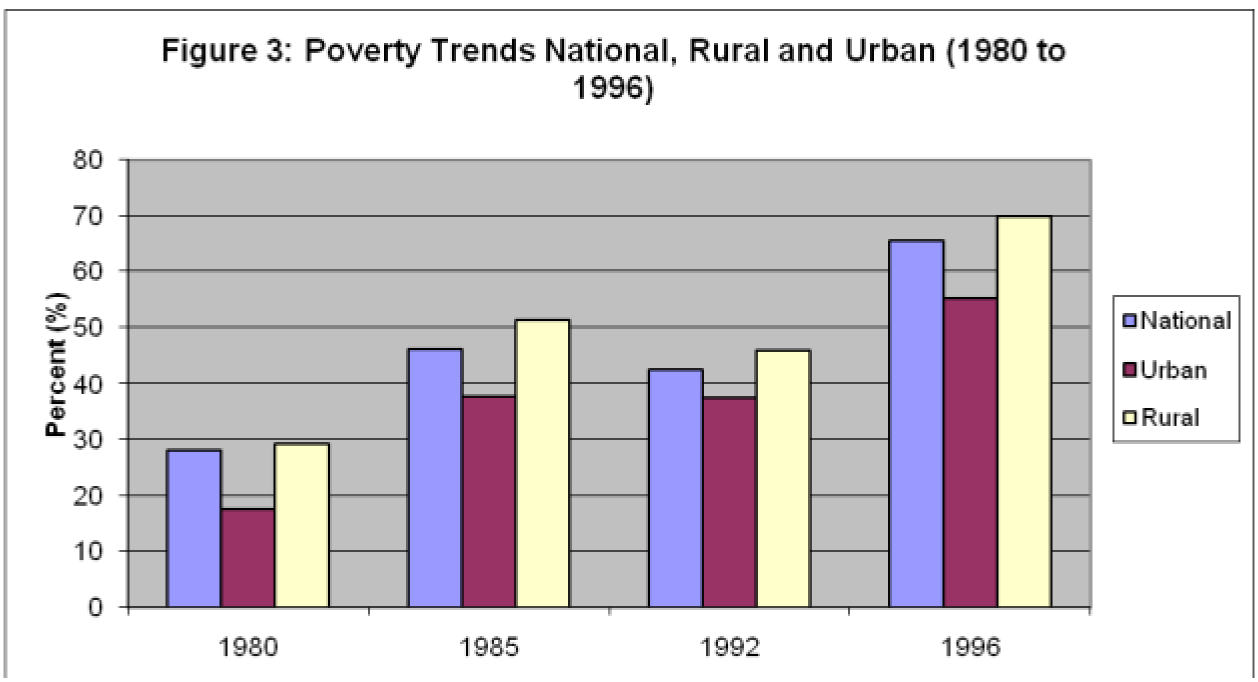
A word in passing

A friend who happened to take a look at an earlier draft of this article spoke of a disturbing incident when on a bitterly cold winter day, he had come across a thinly clad boy about five or six years old sifting through a pile of rubbish. It was obvious that this was a rag-picker's son getting an early start in the family profession.

	National	Urban	Rural
1980	28.1	17.6	29.3
1985	46.3	37.8	51.4
1992	42.7	37.5	46.1
1996	65.6	55.2	69.8

Source: FOS poverty profile for Nigeria, 1980 - 1996

Figure 3. Poverty Data (1996).



Well, this child, and all other children like him, are precisely the ones for whom this plan is meant. Indeed, the intention of the study is that those children in Nigeria today who seem destined to grow up and become not what their talent or ambition leads them to, but what their despair will ever allow them to.

Conclusion

Even as the plan is radical and path-breaking, once the initial framework is put in place, implementation promises to be simple and without too many hassles. The narrow focus on the future income tax payments by the beneficiaries has two major advantages. On the one hand, it can easily be tracked at a centralised level. On the other hand, it provides a ready and quantifiable measure of the success attained by each individual beneficiary, allowing for proportionate reward to the benefactor, and without leeway for subjectivity and controversy.

There is no doubt that if this model can be made to work well, it is potentially a transformational and game-changing idea, one that could transform the lives and fortunes of those children in our midst today leading the bleakest, most hopeless lives. Finally, even as the study have focussed on Nigeria, this is a model with relevance beyond Nigeria; to begin with, to other similarly placed countries (Brazil, South Africa and India come readily to mind), and also to the chronically underprivileged in the developed countries — for instance, the children of the Roma in Europe, or even African-American kids in the inner-city ghettos in the U.S.

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