the Education Commission

Background Paper

The Learning Generation

Financing Basic Education in Nigeria

What are the Feasible Options?

Chukwuka Onyekwena, Eustace Uzor, Tirimisiyu Oloko and Adedeji Adeniran

Centre for the Study of the Economies of Africa

FINANCING BASIC EDUCATION IN NIGERIA: WHAT ARE THE FEASIBLE OPTIONS?

CSEA

Centre for the Study of the Economies of Africa

Quality research for sound policies

ACKNOWLEGDMENTS

This report was commissioned by The International Commission on Financing Global Education Opportunity (The Education Commission, Washington DC) and executed by the Centre for the Study of the Economies of Africa (CSEA) under the supervision of Paul Isenman and Liesbet Steer.

The report was written by the CSEA's research team led by Chukwuka Onyekwena, with key contributions from Eustace Uzor, Tirimisiyu Oloko and consultancy services by Adedeji Adeniran (University of Witwatersrand). We appreciate the advice and reviews by Nwanze Okidegbe and Menachem Katz.

The report employed both secondary and primary data sourced from Lagos and Kaduna states. We would also like to acknowledge the various contributions from the following people: Ubale Salisu (Kaduna State Ministry of Education), Sani Kayode (National Coordinator, ESSPIN), Oluwafunmilayo Olalusi (ESSPIN, Lagos), and Tayo Odekunle (ESSPIN, Kaduna).

The report builds on contribution of many stakeholders, but the findings, interpretations and conclusions expressed herein are those of the authors and do not necessarily reflect the views of all the contributors or the institutions or governments they represent.

Acronyms and Abbreviations

AIBEP	Australia Indonesia Basic Education Program
AMC	Advance Market Commitment
BPP	Bureau of Public Procurement
BRICS	Brazil, Russia, India, China and South Africa
CBN	Central Bank of Nigeria
CSR	Corporate Social Responsibility
DACF	District Assembly Common Fund
DFID	United Kingdom's Department International Development
DNGOs	Domestic Non-Governmental Organizations
ECDE	Earlier Child Development Education
EFA	Education for All
EDOREN	Education Data, Research and Evaluation in Nigeria
ESP	Education Sector Plan
FNDE	National Fund of Education Development
ESSPIN	Education Sector Support Program in Nigeria
EVF	Education Venture Fund
FCUBE	Free, Compulsory and Universal Basic Education
FGD	Focus Group Discussion
FGN	Federal Government of Nigeria
FPE	Free Primary Education
FUNDEF	Fund for the Maintenance and Development of Basic Education and Teacher Appreciation
GETFund	Ghana Education Trust Fund
GoK	Government of Kenya
IDPs	International Development Partners
IFFIm	International Financing Facility for Immunization

IGR	Internally Generated Revenue
JSS	Junior Secondary Schools
LGEA	Local Government Education Authority
LPPTS	Lagos State Post Primary Teaching Service
MTSS	Medium-Term Sector Strategy
NCPP	National Council on Public Procurement
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OOSC	Out of School Children
PNAL	National School Meals Programme
PNLD	National Textbook Programme
PPA	Public Procurement Act
PPP	Public Private Partnership
PPPRA	Petroleum Products Pricing Regulatory Agency
PTA	Parents/ Teachers Association
SBMC	School Based Management Committee
SDGs	Sustainable Development Goals
SE	Education Salary
SmoE	State Ministry of Education
SSSMB	Senior School State Management Board
SUBEB	State Universal Basic Education Board
SURE-P	Subsidy Reinvestment Programme
UBE	Universal Basic Education
UBEC	Universal Basic Education Commission
UBE-IF	Universal Basic Education – Intervention Fund
UK-DFID	United Kingdom's Department International Development
UNDP	United Nation Development Programme

UNESCO	United Nation Children Fund
USAID	United States Agency for International Development
VAT	Value Added Tax

Table of Contents

List of Figures

List of Tables

List of Boxes

EXECUTIVE SUMMARY

1. This study assesses the feasible options for basic education financing in Nigeria. Insights from financing strategies in comparable countries in Africa and the BRICS provides a perspective for the assessment of the current financing approach in Nigeria and identifying lessons that can be learnt. An exploration of innovative and feasible financing options and their lack of awareness and consideration in selected states in Nigeria highlights the extent of the challenges to financing. Short-term measures to financing basic education that would involve the restructuring of the current public expenditure were examined.

2. The goal of providing free education to all children in Nigeria under the UBE law of 2004, is grossly challenged by the growing population and economic uncertainties. The prevailing insufficient funds to finance basic education in Nigeria is particularly evident in the huge number of Out of School Children (OOSC), which is the highest in the world. This prompts the need to explore global best practices in financing education, in view of drawing lessons for Nigeria. An examination of comparator countries in Africa and the BRICS shows that irrespective of the financing structures (centralized or decentralized), increased funding for education can be achieved with clear legislations that specify the percentage share of total annual budget that will be spent on education. The adoption of a clear-cut legislative approach to financing education can improve education finance in Nigeria.

3. Despite the existence of various innovative education financing options and the feasibility of their application in Nigeria, their awareness and exploration has been very limited in the country. Financing options such as Education Venture Fund (EdVF), Equity-Focused Impact Investing, and Public Private Partnerships which are essentially feasible, can be harnessed to increase funding to basic education in Nigeria. However, the effective utilization of these innovative approaches depends on the ability of the government to support their implementation by the private sector.

4. While the national framework delineates financing responsibilities to the three tiers of government, in practice, there is significant overlap of responsibilities with variations across states. The federal government plays a dominant role in education financing via statutory allocations and direct transfers, while state-level participation is limited. Despite the insignificant share of donor funding, their presence in states is associated with improved outcomes. In general, the financing supply chain is complex and unclear to many stakeholders in the education sector.

5. Household expenditure on both private and public schools is significant, and by far greater than the amount spent by the federal government and state governments on basic education. Unit cost analysis of public and private schools indicate that on average, public schools cost more than private schools. However, in terms of quality, parents perceive private schools to be of

better quality. An analysis of private education in Lagos state shows that private schools are more predominant at the pre-primary and primary school level of the basic education ecosystem, with low and medium-cost schools comprising a significant proportion of total private schools. Most private schools are however, unregulated and largely unknown by the government.

6. Case studies of education financing in Lagos and Kaduna states clearly show that while both states have made some progress in the past few years, their total expenditure on education as share of total budget and GDP is still considerably below the education financing benchmarks recommended by UNESCO and the Dakar Framework. A similar situation is obtainable across other states in Nigeria, albeit with significant variations. Strengthening SBMCs across schools as well as improving their coordination with PTAs will significantly improve accountability and funding support received by schools.

7. Short term measures to increase education financing could involve restructuring the current public expenditure mechanisms, which includes fossil fuel subsidy, public procurement, and reprioritization of resources in favor of basic education. Strong political will and decisiveness on the part of the government are key determinants of their successful implementation.

8. The study recommends a streamlining of the existing financing structure to enhance clarity and functionality of basic education. Innovative financing options for basic education need to be extensively explored, and the political will of government is required for its successful implementation. Government can consider strengthening the regulation of private schools (particularly low and medium cost schools), and promote the roles of SMBCs and their coordination with PTAs. The present government's emphasis on promoting transparency and reducing wastages in the public sector provides an opportunity to reprioritize spending and provide more funds for basic education.

1 Introduction

9. Over the past years, basic education in Nigeria has experienced mixed performance. On the positive side, school enrolment has increased and gender disparity in primary education has been reduced significantly in line with MDGs targets. However, educational outcomes remain weak on various indicators of quality and equity. For example, quality of education in Nigeria was ranked 124th out of 144 countries on the Global Competitiveness Index in 2015. Also, van Fleet et al. (2012) finds that 58.3 percent of primary school children in Nigeria are not meeting the expected levels of literacy and numeracy skills. Specifically, 65.7 percent of the students cannot read, while 51 percent lack basic arithmetic skill.

10. While several factors accounted for this dismal performance, inadequate finance is no doubt paramount. Between 2010 and 2014, the expenditure on education only accounted for 0.5 per cent of the national GDP and 8.8 percent of the federal government spending (Nwoko, 2015). This is grossly below both UNESCO's recommendation of between 4 to 6 percent share of GDP and the Dakar Education for All EFA's recommendation of 20 percent of national budget. Apparently, while all levels of education in Nigeria remain underfunded, basic education level remains more underfunded. While there is no specific estimate of the overall financing gap in Basic Education for Nigeria, the EFA Global Monitoring Report for 2014 shows that Nigeria needs to spend an additional US$1.6 billion annually on primary school teachers' salaries alone to achieve Universal Primary Education by 2020[1]. Data from Central Bank of Nigeria (CBN, 2015) shows that while general government expenditure (federal, state and local) on non-basic education increased by NGN194.7 billion between 2008 and 2012, universal basic education (UBE) funding increased by a modest NGN19.1 billion.

11. The deficiencies in financing are reflected in the persistent supply-side constraints in Nigeria's Education sector. In basic education, inadequate funding is evident in the number of OOSC and shortages in school infrastructure. Nigeria presently has the highest levels of OOSC (8.7 million) in the World (See Nwoko, 2015). Similarly, estimates on classroom/facilities at the primary and junior secondary level points to a shortfall of around 60 percent and 67 percent respectively (Digest of Education Statistics, Nigeria, 2010). Given these and other apparent challenges that constrain outcomes at the school level, it becomes imperative for policymakers to design strategies towards mobilizing more resources.

12. This study examines the various options towards meeting the financing gap facing basic education in Nigeria. The present financing architecture for basic education in the country recognizes the state and local governments as the main providers, with federal government participation limited to auxiliary role. However, with weak capacity for internally generated

[1] Nigeria alone accounts for two-fifths of the US$4 billion needed annually by sub-Saharan Africa (SSA) to pay the salaries of additional teachers needed to achieve Universal Primary Education by 2020.

funds and the revenue allocation, sub-national governments are facing huge financing constraints. Moreover, decades of democratization have imposed more developmental roles on sub-national governments without commensurate increase in revenue stream. The implication is that basic education financing has received insufficient attention from the public sector.

13. Furthermore, the limited resources have not been optimally utilized for development. Analysis of government allocation over the last decade shows that fossil-fuel subsidy has been one of the largest expenditure items in the budget. In addition, enormous resources are annually lost due to leakages in public-procurement and outright corruption. In fact, Global Competitiveness Index (2015) ranked Nigeria as 134th of 144 countries on the indicator of wastefulness of government spending. In essence, meeting the financing gap for basic education will require the restructuring of public expenditure. Equally important, there is need to develop new and innovative financing options for sub-national governments to effectively finance basic education.

1.1 Objective of the study

14. The broad objective of this study is to assess the financing options for basic education in Nigeria. More specifically, its sub-objectives are to:

i) Assess the current financing strategies in Nigeria vis-à-vis comparable countries in Africa and the BRICS;

ii) Examine innovative approaches to financing basic education in selected states in Nigeria;

iii) Explore the potential for financing basic education through restructuring the current public expenditure.

The rest of the paper is structured as follows: Section 2 assesses the global best practices and feasible options of innovative financing basic education in Nigeria. Section 3 provides an overview of existing financing structures and strategies for basic education in Nigeria, and insights from case studies of Kaduna and Lagos. Section 4 discusses the options for financing basic education through the restructuring of public expenditure. Section 5 concludes the report with key policy recommendations.

2.0 Global Best Practices in Basic Education Financing and feasible options for Nigeria

15. The global campaign for increasing mobilization of funding for basic education is not unanticipated, especially for the purpose of fulfilling the basic human right of free and compulsory Universal Basic Education. Article 26 of the 1948 Universal Declaration of Human Rights states that: "Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory…." However, rising population and high global economic uncertainties have limited the ability of various countries to meet this important global objective. Despite the effort of international donors and

multilateral agencies to bridge the funding gap for basic education in developing countries, education financing gap is still wide in several countries, including Nigeria.

16. In the face of insufficient funding for education, innovative financing sources have been identified as possible avenues with potentials to augment the traditional sources of education finance. Burnett and Birmingham (2010) show that success in other fields coupled with financing shortfalls in education has led to considerable interest in innovative finance in education. The idea of innovative financing for education was introduced by the Leading Group on Innovating Financing for Development in 2010, and it involves generating funds from both domestic and international non-government sources. In the report submitted by the Writing Committee commissioned by the Task Force on Innovative Financing for Education created by the Leading Group, nine innovative financing mechanisms were identified and broadly categorized as fund raising bases, and high-profile and awareness-raising levies. The broad fund raising bases include: Tax on international financial transactions, Local currency education bonds, Education venture fund, Diaspora bonds, Voluntary contribution from migrants, and Debt-for-education swaps. On the other hand, the high-profile and awareness-raising levies include: sport levy, public-private partnership, and micro-donations from individual bank transactions.

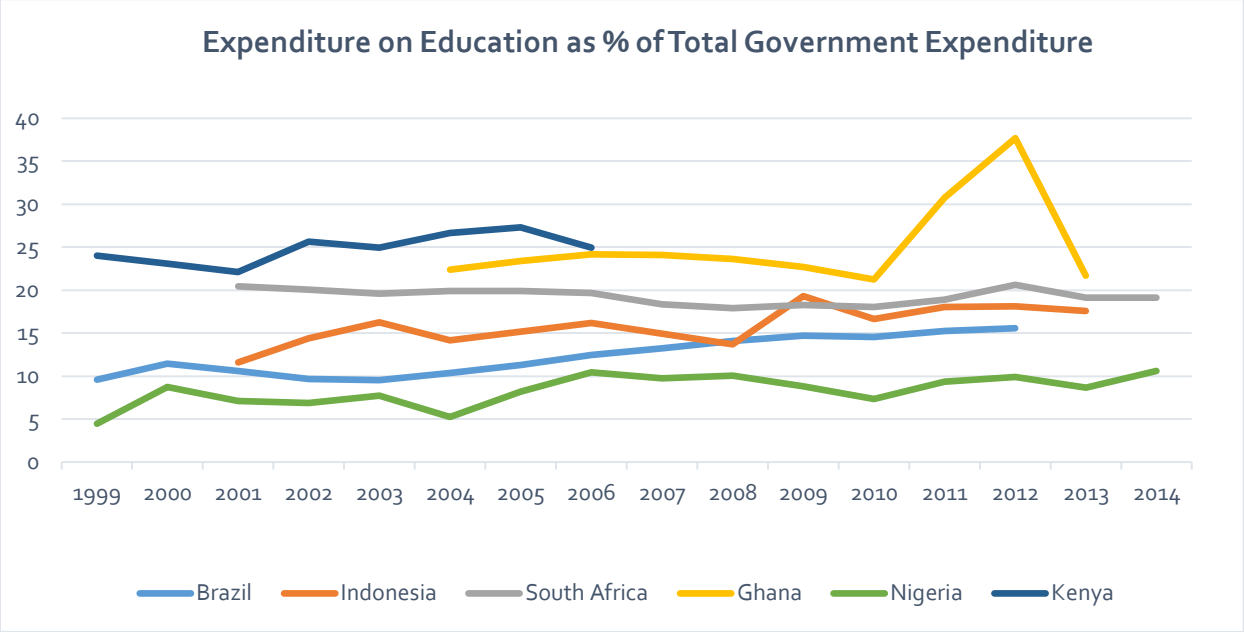
17. The global best practice for basic education financing comprises a combination of both traditional and the innovative financing options. However, the degree of adoption of the innovative financing appears to vary across countries. In this section, we review the education financing strategies of some selected countries in Africa and BRICS that are performing well in terms of basic education funding with the aim of drawing lessons for Nigeria.

18. A review of the performance of Nigeria in terms of education funding shows that Nigeria spends below 10 percent of the total government expenditure on education (see Table 1 below)[2]. Similarly, government spending on education and education expenditure as percentage of GDP are extremely low compared to other African and emerging economies, as shown in table 1. The low level of government expenditure in the education sector may be attributed to the lack of political commitment on the part of the federal and state governments.

19. Disaggregated data on education finance in Nigeria (see Appendix A) shows that the federal government and 19 states out of the 36 state governments allocated below 10 percent of their budget to education. 9 states allocated between 10 and 20 percent, while only 4 states allocated above 20 percent. This would suggest that government at various levels has to intensify its commitment towards education financing for Nigeria to achieve the desired global education targets of the SDGs and EFA.

[2] The values in the table represent the spending of Federal and State governments on education (See Appendix A for the summary of allocation of government expenditure for Nigeria in 2013).

Figure 1: Education financing in Nigeria and selected African and BRICS Countries



Source: UNESCO Institute of Statistics Database

Table 1: Education Funding in Selected Countries (2012-2014)

Countries	Global Education Funding Requirement (%)	
	Dakar Framework & Education for All: At least 20% of the National Budget	**Dakar Framework:** At least 5% of GDP
Brazil	15.57	5.91
Ghana	29.70	6.93
Indonesia	17.84	3.39
Kenya*	20.56	5.51
Nigeria	9.71	0.50
South Africa	19.63	6.14

Source: UNESCO Institute of Statistics Database; Nigeria National Budget; and NBS
*Reported figures for the year 2010.

2.1 Why the need for Innovative Financing for Basic Education?

20. Innovative financing for education is the global initiative for mobilizing funding for educational expenditure from unconventional sources. This appears necessary as the funding gap grows wider and unmatchable by the conventional funding sources of government and donors. In 2010, EFA Global Monitoring Report estimates the financing gap to meet the EFA goals in low-income countries at around 16 billion dollars annually, with the Sub-Saharan Africa alone accounting for 11 billion dollars of this gap. This substantial financial gap could hardly be filled by the conventional sources; it could not be sufficiently met through the Official Development Assistance (ODA), as the traditional donors may not possibly increase their funding to education.[3] . Hence, funding from unconventional sources is required. However, with the adoption of innovative financing for education, the objective is not only to mobilize more funding to bridge the financial gap for education, but also to provide a means of raising the profile of education; improving the effectiveness, efficiency and equity of educational spending; supporting conflict-affected countries; and promoting innovation in education (see Burnett and Birmingham, 2010). And with the convincing outcomes of innovative financing in health sector, it is believed that innovative financing for education at all levels and for basic education in particular would enhance achievement of the global targets for education.

21. Generally, innovative financing could be obtained through taxes and other government actions or through voluntary contributions (Burnett and Birmingham, 2010). In Rose et al. 2013, innovative financing could be obtained by tapping into either profit or philanthropic motives or a mixture of both and by expanding the existing funds through a range of instruments that allow for more efficient delivery of financing. Experience from the health sector has revealed that government-induced innovative funding mechanisms such as the International Financing Facility for Immunization (IFFIm), Advance Market Commitment (AMC), Debt swaps for health, Tax on airline tickets, and philanthropist-induced mechanisms such as Massive Good and RED have contributed immensely in mobilizing funding for the achievement of the global health targets.

22. Unfortunately, despite the large financing gap in the education sector, less attention has been paid to the option of innovative financing, over the years. Evidence from the review of basic education funding in selected countries (See Section 2.1) reveals that most countries still rely on the conventional sources of funds – which are not sufficient to finance the present day basic education demand. Given the increasing challenge in the provision of quality basic education for all children, the adoption of innovative financing for education is desirable for all countries, irrespective of their current status in the financing of basic education. On the other hand, there

[3] Leading Group on innovative financing for development, 2010, 2+3=8: Innovating in Financing Education

should be no expectation that innovative financing would substantially reduce government or household funding. Rather innovative financing can help foster the early stages of innovation and its scale-up

2.2 Review of Basic Education financing in selected African and Emerging Economies

23. While Brazil, South Africa and Indonesia have decentralized education financing structures, Ghana and Kenya have centralized structures. In Brazil, the provision and financing of primary education is the responsibility of the municipalities and states while the federal government is responsible for the tertiary education. Unlike many other countries, municipalities in Brazil are largely independent of the states in which they are located. Thus, states and municipal governments run separate and parallel education systems throughout the country. However, the federal government transfers funds to the Federal District, States, and the municipalities through the National Fund of Education Development (FNDE), for the implementation of special programmes such as the National Textbook Programme (PNLD) and National School Meals Programme (PNAL). Other sources of education finance include the Fund for the Maintenance and Development of Basic Education and Teacher Appreciation (FUNDEF), the Social Contribution Education Salary (SE), including micro-level funding such as PTA and the host community contribution (see Ferraz et al., 2012).

24. In South Africa, the funding of basic education is decentralized, with the Provincial government responsible for its finance (that is, personnel and non-personnel expenditure/school allocation - legislated at 80:20 proportion) while the Central government plays a regulatory role and provides minimum support as may be determined by the Minister of Education. On the overall, the contribution of South African government to education financing is impressive (see Table 1 above). The major source of basic education financing in South Africa is the government, and school fees was only introduced upon the inefficiency of the "no fee schools" policy.

25. Education financing in Indonesia is decentralized as lower levels of government are responsible for the provisions (including finance) of education in the country. Financing of Basic Education in Indonesia is largely controlled by Districts which spend about 79 percent of the total allocation on the payment of salaries and allowances. The rising funding for education in Indonesia has been attributed to the constitutional amendment passed in 2002, in respect of the "20 percent rule". The "20 percent rule" is a constitutional mandate for governments at Central and Districts levels to allocate at least 20 percent of their budget to education. The rule's mandate was fully met for the first time in 2009, when the government allocated more than 20 percent of the state's budget to education (World Bank, 2013). Other funding sources include the school operational assistance grant (*bantuan operasional sekolah*, or BOS) and foreign aid such as Loans and Grants from Australia Indonesia Basic Education Program (AIBEP), World Bank and Asian Development Bank (ADB).

26. Ghana operates a centralized education financing structure where the central government allocates funds directly to different levels of education through the Ministry of Education. However, funding of Basic Education is accorded priority in pursuance of the government's Free, Compulsory and Universal Basic Education (FCUBE) Programme. Between 2004 and 2006, the total education funds allocated to Basic Education averaged 45.23 percent, while Senior Secondary and Tertiary education levels received 19.5 percent and 21.16 percent respectively in similar period. Other funding sources for basic education includes: Ghana Education Trust Fund (GETFund) and District Assembly Common Fund (DACF) – which are both extensions of government revenue. The GETFund is expected to be financed from 20.0 per cent of revenue from the Value Added Tax (VAT) while DACF is to be financed from 20 percent of the central government revenue allocation to the District Assemblies. Similarly, internally generated revenue and intervention funds from donor agencies such as the World Bank, ADB, UNESCO, UNDP, UK-DFID, USAID, etc. also provide very important funding support for basic education in Ghana.

27. Similar to Ghana, financing of Basic Education in Kenya is the responsibility of the central government, while supplementary financing is provided by the Parents, Communities, NGOs and International Donors. While Kenya's Free Primary Education (FPE) only maintains that no child should be sent home due to non-payment of levies, parents are not excluded from financing basic education, which allows a cost sharing system. Essentially, the Government of Kenya (GoK) in collaboration with development agencies pays the salaries of teachers and provides critical learning materials and operational expenses for all children enrolled in primary schools. Parents are expected to provide examination fees for Standard 8 pupils, school uniforms, school meals, boarding facilities, health care and transport, to and from school (Concern Worldwide, 2010). However, while the available data shows that funding of basic education as percentage of total government expenditure by Kenya is relatively high (24.96 per cent, as of 2006), the cost sharing arrangement has promoted segregation of children in public schools based on their socioeconomic background.

2.3 Lessons for Nigeria

28. The experience of countries with a decentralized education financing structure such as Brazil and Indonesia shows that increased funding for education can be achieved with clear legislations that specify the percentage share of the total budget that will be spent on education. For instance, in both Brazil and Indonesia, their constitution clearly provides that 25 per cent and 20 per cent of their respective total budgets will be spent on education. This approach reflects the adequate prioritization of the education sector and prevents political economy factors from adversely influencing the size of financial resources that is allocated to the sector. The experience of South Africa and Kenya also reveal that Free Basic Education does not imply that parents cannot contribute towards the education of their children in specific areas such as the provision of school uniform, feeding, and writing materials. Given that public finance for basic

education is limited, the state governments in Nigeria may consider tasking parents to provide for specific basic education needs of their children. This is not entirely out of place as household's private out-of-pocket spending on education accounted for 40 per cent of education finance in 2013, notwithstanding the 2004 UBE Law in Nigeria which provides for free basic education.

29. The experience of countries with decentralized education financing reveals that clear-cut legislations that allocates specific percentage shares of the total budget to education is key to sufficiently increasing education finance. The high performance of Kenya and Ghana in terms of education finance points out that the form of education financing structure used by a country seems not to play a significant role in increasing education finance. Limited use of innovative education financing in the high performing countries reviewed suggests that Nigeria can significantly improve its education finance by improving the clarity of existing education financing structures and combine them with some innovative options.

2.4 Innovative financing for Basic Education and the feasible options for Nigeria

30. Despite the apparent potential of innovative financing mechanisms to mobilize supplementary funding for the education sector, their application in Nigeria have largely been limited. Although, the global rate of adoption of innovative financing for education is still low, some of these mechanisms have been in operation in some countries. Examples include Debt Swap for Education, which has led to debt swap between countries such as Germany and Indonesia, Jordan and Pakistan, France and Cameroon, Mauritania and Tanzania, and between Italy and Guinea. United States, India, Israel and Lebanon are notable examples of countries using Diaspora Bond for Education; while the use of Public-Private Partnerships (PPPs) in Education have been successful in the UK, Pakistan and Afghanistan. In the context of Nigeria, mechanisms such as Diaspora Bond and Debt Swap for Education are not presently feasible sources of raising education finance. However, Education Venture Fund (EdVF), Equity-focused Impact Investing, and PPPs are promising feasible options that can be harnessed to increase the funding available for basic education in Nigeria.

2.4.1 Education Venture Fund

31. Education Venture Fund (EdVF) seeks to mobilize funds to promote innovation in the education sector through private sector-led initiatives such as private giving, philanthropy and donor funds (Leading Group, 2012). Unlike public education finance, one of the key advantages of venture capital in the education sector is the ability to finance risky and innovative education projects and initiatives that can deliver high social impact. As such, EdVF can be used to experiment and develop industry standards for education service delivery, especially in improving classroom learning. In particular, EdVF can be used to raise learning achievement in mainstream classrooms; teach children from remote and underserved communities; provide open learning opportunities for secondary school students, and tackle adult illiteracy via work plan training (Burnett and Birmingham, 2010).

2.4.2 Equity-Focused Impact Investing for Education

32. Impact Investing is an investment approach that uses the incentives and tools of commercial capital deployment to actively improve social and environmental well-being[4]. Equity-Focused Impact Investing for Education refers to the use of tools of commercial capital deployment to promote access to education to vulnerable categories for an expected future return. Impact capital is different from commercial private capital as it seeks to reach the most vulnerable beneficiaries; and it is also different from private philanthropic capital in that it seeks to apply market-based innovations to ensure financial sustainability, if not financial profit. Examples include, LearnZillion.com, Graduation Alliance and Learning.com.

33. It is obvious that Impact investing is not a pro-free education mechanism; in fact, it advocates for low cost basic education and increasing participation of private investors in the provision of basic education to enhance quality education delivery. Impact investors in education focus mainly on the quality of education by providing low cost innovative educational service to private schools and they often invest part of their profit to enhance access to education by less privilege pupils. Understandably, adoption of Impact Investing for education financing would depend on the overall economic performance of the country and the investors' assessment of the profitability of impact investment in education.

2.4.3 Public-Private Partnership in Education

34. The term public-private partnership (PPP) is a generic word used to designate a broad range of relationships between the public and private sectors. As noted by Patrinos et al (2009), the main reason for public sectors' participation in the provision of education services, especially at the basic education level, is to prevent market failures and promote equity in access. The private sector, however, complements public sector efforts by providing additional funding, promoting leadership, and driving innovation in education service delivery. As such, some of the key benefits of using PPPs in the basic education space include reinvigorating the public education system, and creating a culture of efficiency, effectiveness, and the use of technology.

35. Two forms of PPP arrangements exist in the basic education sector. In the first scenario, education services are publicly provided, with private participation limited to school management (Managed and Charter schools[5]) and philanthropy/CSR via the provision of scholarships and educational inputs. In Nigeria, the transfer of most primary and secondary schools to faith-based organizations by the Anambra state government, is perhaps, the most recent instance of Managed Schools in Nigeria. In the second PPP arrangement, education

[4] D. Capital Partner, 2013. Impact Investing in Education: An Overview of the Current Landscape. ESP Working Paper, No. 59.

[5] Given better private sector management, 'Managed and Charter schools' are mainly used by the government to revamp and improve the performance of public schools. The notable difference between both types of management is that while Charter Schools are contracted out to private sector operators for management, Managed Schools are operated by for-profit educational management organizations, with the aim of revamping failing school performance (see Patrinos et al, 2009).

services are provided privately, but with government's participation limited to the provision of vouchers to subsidize the attendance of children from low-income households. Empirical evidence from both developed and developing countries[6] show that schools that are privately managed but publicly funded are associated with better school-level outcomes (see Shutz et al, 2007). In the context of developing countries, PPPs are largely used to improve the access of children from poor households to high-quality education[7]. Figure 2 shows the financing framework for the provision of education services in a PPP.

Figure 2: Financing and Provision of Services in Public-Private Partnerships (PPPs)

Private	**Public**	
• Private schools • Private Universities • Home Schooling • Tutoring	• User Fees • Student Loans	**Private**
• Vouchers • Contract/Managed Schools • Charter Schools • Contracting out	• Public Schools • Public Universities	**Public**

Source: Adapted from World Bank (2006) in Patrinos et al (2009)

36. In the context of developing countries such as Nigeria, PPPs have largely been a response to global initiatives to increase the school enrolment of school-age children and improve the quality of education. The limited availability of high quality education data to make evidence-based policy decisions on these issues created the imperative for government to enter into PPPs with private service providers and Development Partners. PPPs have thus played a key role in the development of the country's Educational Management Information Systems (EMIS) at both the federal, state, local government and the school-level. Undoubtedly, the establishment of EMIS through PPPs have supported strategic decision making in the education sector that are based on evidence.

37. As evidenced by the number of children enrolled in private schools, private sector participation in the provision of basic education in Nigeria has remarkably increased within the past decade. However, this has not necessarily translated to more PPP arrangements between the private sector and the public sector. While PPPs such as the EKO Project and partial subsidization of faith-based schools exists in Lagos and Anambra state respectively, the government (federal and state) has mainly limited private sector participation to providing education inputs through the procurement process ('contracting out', see figure 2).

[6] PPPs have been successfully used in North America, Latin America, North Africa, and Middle-East.

[7] See Berrera-Osorio, F (2007) The Impact of Private Provision of Public Education: Empirical Evidence from Bogota's Concession Schools. World Bank Policy Research Working Paper, No. 4121, Washington DC.

38. The ability of Nigeria's public sector to leverage the capacity of the private sector to meet the excess demand of basic education, given the limited supply of public schools and funding, will be central to increasing student enrollment and improving the quality of education. Already, there is evidence that shows that PPPs are a useful way to increase funding for constructing and upgrading school infrastructure (Patrinos et al, 2009). Going forward, for government to effectively utilize PPPs in bridging infrastructural gaps at the school-level, it has to develop suitable contracting models beside the public procurement process. Such frameworks, which are already being used in OECD countries, will allow the private sector to build and maintain high-quality school infrastructure on a long-term basis (25-30 years). In comparison to the public procurement systems, this method of financing school buildings are cost-effective, efficient and beneficial, and is currently used by European countries.

2.5 Government driven incentives for the private sector in financing basic education

39. In general, government can play a significant role in incentivizing private sector participation in Nigeria's basic education sector, especially given that the sector has a high-risk and low Return on Investment (ROI) profile, compared to other sectors like real estate and financial services. Private sector driven financing such as Education Venture funds can be incentivized by government through the provision of risk capital and tax incentives. Brander et al (2010) and Lerner and Tåg (2013) shows that such initiatives were central to the growth of venture funds which invested in business start-ups with low profitability and high social impact in emerging and developed countries[8].

40. EdVF stands as feasible means of mobilizing private capital to promote innovation in education in Nigeria. The Federal and state governments can provide risk capital under a matching funding arrangement with private investors interested in making high social impact in basic education. Subsequently, pooled funds can be invested in priority areas such as ECDE and low-cost private schools, with profits shared in such a way that incentivizes private sector participation[9].To enhance the sustainability of such public-private financing arrangements, government's share of the profit can be ploughed back to designated 'Revolving Funds' for future investments. Australia's Renewable Energy Venture Capital (REVC) and Innovation Investment Fund (IIF) are leading examples of how government can mobilize private capital for investment into high social impact sectors by providing incentives (Australian Government, 2012). A similar incentive structure can also be applied to mobilize funds for Equity-focused Impact Investment for Education.

41. Other notable forms of incentives can be used by the government to promote increased private sector participation in the basic education sector. Generally, taxes[10] and red tape can be

[8] Brander et al (2010) examined the impact of government-sponsored venture capitalist on the success of 21852 enterprises in the United States, Europe, East Asia, Australia, Brazil, Canada, India, and Israel, while Lerner and Tåg (2013) compared government's role in the development of venture capital market in the United States and Sweden.
[9] In the Austrian Model, the profit sharing ratio between the government and the private sector is 1:9.
[10] This could take various forms, ranging from tax credits to reducing Capital Gains Tax.

reduced for businesses that invests in specific areas of basic education, including those that carry out their Corporate Social Responsibility (CSR) in the sector. Lower tax regimes for high-cost private schools can also be used to incentivize their collaboration with low and medium-cost private schools, including public schools. This cross-learning can improve the transfer of better teaching techniques to the other schools, and thus improve school-level outcomes. Grants and interest free loans can also be used by the government to support start-ups and social entrepreneurs that have developed innovations proven to enhance classroom teaching as well as student performance. In sum, with the right political support and incentive structures, various governments in Nigeria can engender increased participation of the private sector in basic education financing.

Box 1: Assessing the feasibility of various financing options for basic education in Nigeria

Complementary insights on education financing were provided through a focus group discussion/workshop that included participants from the World Bank Group (Nigeria Office), UBEC, ESSPIN, EDOREN, USAID, education researchers and private sector actors[11].
In the experience of UBEC, lack of political will and prioritization of basic education is the main factor constraining increased funding for basic education in several states across Nigeria. UBEC's experience with Kano since 2007 state is a particular case in point.

According to UBEC, while a past Governor of Kano State paid counterpart funding only twice between 2007 and 2011 to assess UBEC's matching grant, his immediate successor paid all outstanding counterpart funds amounting to 2.2 billion naira to access an equivalent amount in matching grant, in three weeks. With this sizable amount of financial resources (4.4 billion naira) deployed into the construction of classrooms/facilities in Kano State, UBEC's recent monitoring report indicates that the main issues in Kano's basic education will no longer be classrooms, but demand-side issues such as getting children to attend schools. Further discussions revealed that the experience of UBEC with Kano state is not isolated. A more recent example is Cross-river state where the present Governor paid-off a backlog of counterpart funds to access UBECs matching grants up to 2015. This finding suggests that despite the limited fiscal space to increase education finance in states across Nigeria, strong political will and prioritization of basic education by state governments is key to increasing the funding for basic education.

Presently, the role of private sector-led financing mechanisms such as Education Venture Fund and Equity-focused Impact Investing for Education in providing alternative sources of finance for basic education in Nigeria is limited. However other growing sources of private capital, including Corporate Social Responsibility (CSR), private giving, and philanthropy are

[11] The event was held in Abuja on April 26, 2016 (see a separate report on the FGDs/Workshop for more in-depth information.

expected to play an increasing role in providing additional funds for public basic education in the future.

Private schools, especially medium-cost and high-cost schools, are recognized as key drivers of innovation and quality in basic education. However, access is still largely comprised of children from privileged socio-economic backgrounds. Introducing state-level policy interventions such as 'vouchers' for talented children that come from poor households, will be key to bridging existing gaps in access at high-cost and medium-cost schools.

Given the untapped financing potential of the private sector in Nigeria, state governments must do more to partner with venture funds, social impact investors, as well as social entrepreneurs in providing social capital and innovation to low-fee private schools who mainly serve children of poor households.

3.0 An Assessment of the Current Financing Structures and Strategies for Basic Education in Nigeria

42. This section provides an overview of basic education financing structure in Nigeria. The focus is on highlighting key political economy and institutional issues surrounding the provision of basic education financing.

43. Under the 1999 Constitution, the basic education sector in Nigeria is managed by the three tiers of public administration, the federal, state, and local government. Thus, all levels of government have defined legislative jurisdiction with equivalent responsibilities, including financing (World Bank, 2015, Santcross et al, 2009). While the national framework for basic education delineates the responsibilities of each level of government based on the legislative responsibilities (see table 2 below), in practice there is a significant overlap of responsibilities, albeit with significant variations across states. For instance, World Bank (2008) identified three distinct categories of state-level basic education management in Nigeria: Basic education under the management of State Universal Basic Education Boards (SUBEBs) as envisioned by the 2004 Universal Basic Education (UBE) Law; Primary education fully under SUBEBs with partial responsibilities in Junior Secondary Schools (JSS); and primary education under SUBEB, with JSS under Senior School State Management Board (SSSMB).

44. In the two case study states – Lagos and Kaduna States, primary education was found to be fully under SUBEB management, as stated by the UBE Law. However, in Lagos State, the management of JSS is under the purview of Education Districts created by a separate legislation, the Lagos State Post Primary Teaching Service (LPPTS) Law of 2005[12]. A similar situation exists

[12] Osinbajo, Y. (2009) Analysis of Federal and Lagos State UBE Legislation. Education Sector Support Programme in Nigeria (ESSPIN), Assignment Report, Report Number: 231.

in Kaduna State where JSS is managed by Zonal Education Offices under the supervision of the State Ministry of Education (SmoE).

Table 2: Basic Education Management Responsibilities across Levels of Government

Sub-Sector	Federal Government	State Government	Local Government
1. **Early Childhood Management Care and Development** 2. **Primary** 3. **Junior Secondary**	- Policy Allocation of Resources through UBEC - Maintenance of Standards (inspection & monitoring) (FIS)	- State Governments contribute counterpart funds to match the Federal Government Grant. - State Governments also pay for education from their Statutory FGN allocations. - Policy Implementation through SUBEBs. - SMoEs are responsible for policy formulation and inspectorate services. - The allocation of other education resources and responsibilities varies across states, based on their amendments to the UBE law.	- Pay teachers' salaries through its allocation from the FGN. - Management of Primary Schools.
Special Education	- Policy - Co-ordination - Monitoring	- Implementation	- Implementation
***Source: FME, January,2007 in Gershberg et al, 2015*, with authors modifications**			

45. In terms of basic education financing in Nigeria, Nwoko (2015) notes four main sources of funding: direct fiscal transfers from the federal government[13], state governments, local governments, and private individuals, including third sector stakeholders such as Domestic Non-Governmental Organizations (DNGOs) and International Development Partners (IDPs). The overlap in fiscal responsibilities between the various tiers of government makes it exceedingly difficult to accurately track aggregate spending on education as a whole[14]. In practice, one of the key drawbacks of Nigeria's decentralized basic education financing architecture is the apparent disconnection between the magnitude of responsibility and fiscal capacity. For instance, although the role of LGAs in the management of basic education has been considerably reduced overtime, given the provisions of the UBE Law, LGA budgets still constitutes the largest part of public spending on education. This imbalance is largely due to the

[13] Mainly through the Universal Basic Education Intervention Fund (UBE-IF) and the Education Trust Fund (ETF))
[14] This complexity is further exacerbated by Nigeria's particular brand of fiscal federalism and the lack of data on education expenditure at individual states and local government areas (LGAs)

high proportion of recurrent education expenditure[15] related to personnel cost which is the responsibility of LGAs.

46. Prior to the introduction of the UBE Law in 2004, the Federal Government of Nigeria (FGN) only provided funds for primary education on an ad hoc basis, while State and LGAs allocated funds to primary education on the ratio of 1:9 (World Bank, 2008). However, the introduction of the UBE Law in 2004 expanded the role of the FGN in financing basic education, mainly through the provision of matching grants to states through the Universal Basic Education Commission (UBEC)[16]. UBEC matching funds are tied to each basic educational level according to the following sharing formula: 5 per cent to Earlier Child Development (ECDE); 60 per cent to Primary and 30 per cent to Junior Secondary, while the remaining 5 per cent is used by UBEC to manage grant disbursement. Importantly, the matching grants are distributed equally to all states under a 50/50 counterpart funding arrangement via State Universal Basic Education Boards (SUBEBs), irrespective of states educational needs. It is noteworthy that this funding arrangement has changed slightly since 2009, as funding for items such as instructional material and teacher development are now provided separately by UBEC. This measure was put in place to improve states' access to the aforementioned funds without corresponding counterpart funds. Table 3 outlines the current formula for distributing UBE Intervention Fund (UBE-IF) to states in Nigeria vis-à-vis the previous allocation formula.

Table 3: Fund Allocation Formula for Distributing UBE-IF

Component	Previous	Current
Matching Grants to States	**70%**	**50 %**
School Feeding Program*	**5%**	**-**
Education Imbalance Grant	**14%**	**14 %**
Good Performance Grant	**5%**	**5%**
Grant for Provision of Education to Children with Special Needs	**2%**	**2%**
Instructional Materials	**-**	**15%**
Teacher Professional Development	**-**	**10%**
UBE Implementation Fund	**-**	**2%**
UBE Monitoring Fund	**2%**	**2%**
UBEC Salaries and Overhead	**2%**	**-**

Source: UBEC in Gershberg et al, 2015; World Bank, 2008

[15] Available data show that around 80 per cent of public spending on education in Nigeria is recurrent. In 2012 and 2013, the figures stand at 79 per cent and 80 per cent, respectively. Remarkably, 90 per cent of the recurrent expenditure is related to personnel costs (World Bank, 2015).

[16] The matching grant derives from 2 per cent of the consolidated federal revenue. This consists of all revenue raised by the FGN.

* The School Feeding Program was piloted in five states in 2005, and was distributed equally among states from 2006

47. Despite the low level of funding of basic education in Nigeria at the state level (World Bank 2003, Anibueze and Okwo, 2013), about NGN 62.2 billion in matching grants, representing approximately 22.5 per cent of total matching grants provided by UBEC were not assessed by state governments between 2005 and 2015 (UBEC, 2015). As noted in Gershberg et al (2015)[17], some of the factors responsible for the delayed and non-assessment of UBEC-IF matching grants by states include: the non-contribution of counterpart fund, slow utilization of FGN-UBE intervention funds, low commitment to basic education on the part of some state governments, as well as political economy interests at the highest level of state administration. Evidence from state governments[18] however reveals that other factors equally limit the ability of state governments[19] to access matching grants from UBEC. Factors such as the limited flow of cash usually experienced at the beginning of the fiscal year and the considerable delays in the approval of State budgets were important cases in point.

48. Overall, available evidence on public basic education finance in Nigeria indicates a heavy dependence on federal government statutory and direct fiscal transfers, with limited state role in providing basic education finance. As argued by Nwoko (2015), states tend to prioritize financing tertiary institutions over basic education. In part, this undoubtedly relates to their limited fiscal space for increased spending. For instance, Internally Generated Revenue (IGR) across states in Nigeria is currently estimated at an average of 19 per cent, with significant variations across states. In Benue State for example, IGR as a percentage of total state budget stands at a low of 1 percent, while total IGR in Lagos is 41 per cent[20]. The significant decline in Nigeria's total federally collected revenue since 2014, given the slump in crude oil prices, best illustrates the imperative for respective state governments to broaden their funding base for basic education.

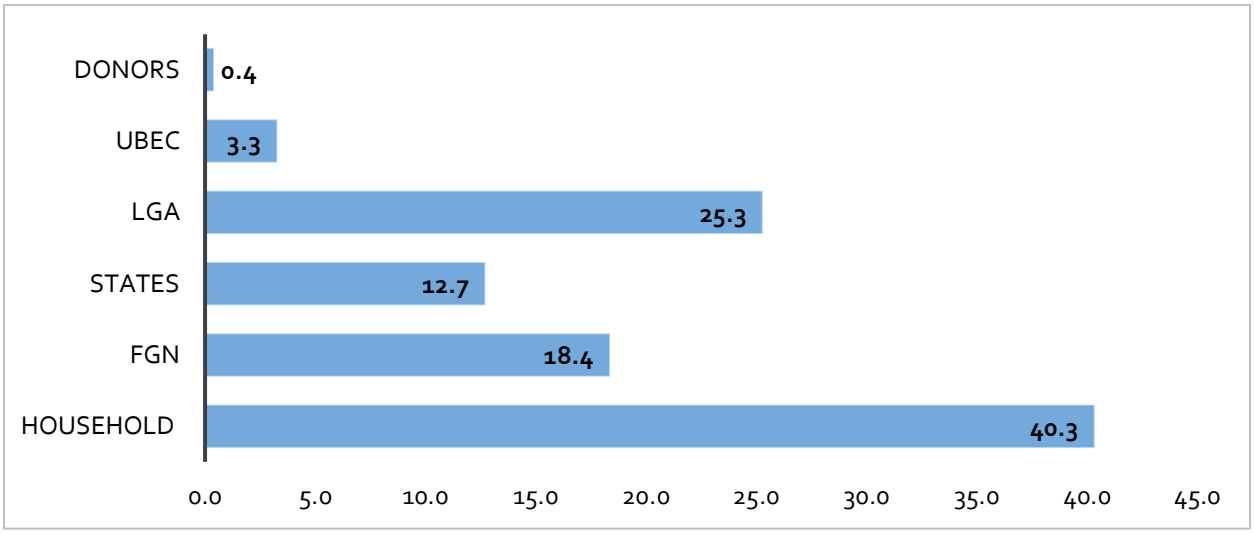
3.1 Household Expenditure on Private and Public Education in Nigeria

49. Household spending on both public and private education is a significant sub-component of Nigeria's education financing architecture, especially at the basic education level. A breakdown of total education finance in 2013 highlights the central role of households. In particular, 40 per cent of total education sector expenditure, representing 931.6 billion naira (5.8 billion USD) was contributed by households' out-of-pocket spending (World Bank, 2015). In particular, households spend 38 per cent of their total education expenditure on basic education (354 billion naira), with 43 per cent comprising fee payment. State actors: FG, State, LGAs and UBEC accounted for 18 per cent, 13 per cent, 25 per cent, and 3 per cent of total education finance, respectively (World Bank, 2015). Donor contribution to education finance was

[17] See also: Jones et al (2014) and Bennell et al (2007)
[18] See Schiffer et al, 2013; Humphreys and Crawford, 2014; and Jones et al, 2014
[19] Even states with political will and capital
[20] World Bank, 2015

insignificant, at 0.4 per cent. Other sources of education finance such as community contribution, SBMCs, and Alumni Networks were not captured in the analysis. The very large proportion of financial resources spent by households on education is indicative of the enormous horizontal and vertical financing gaps that exist across all levels of education in Nigeria (see figure 3).

Figure 3: Sources of Education Sector Finance in Nigeria (all levels), 2013*(in per cent)



Source: World Bank, 2015, with author's modifications.

* Estimates are from CBN, OECD, Nigeria, Subnational budgets, Federal Government, and General Household Survey Panel 2012/2013.

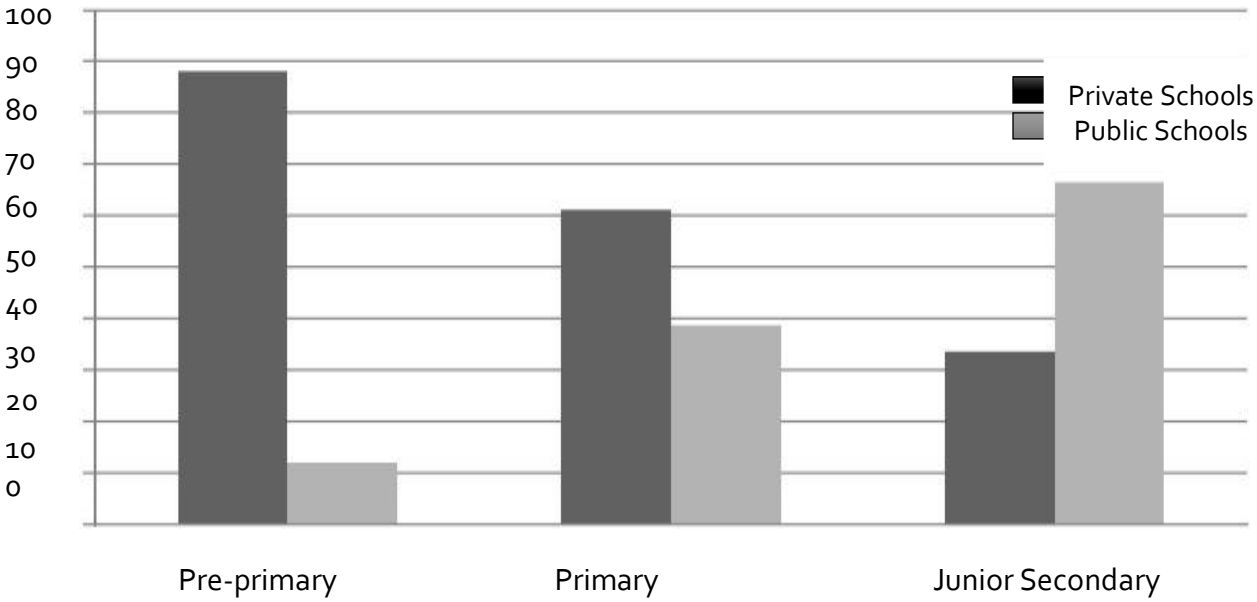
50. To an extent, the high-level of household expenditure on education (public and private) may be attributed to the level of importance parents attribute to the education of their children in Nigeria[21]. However, this varies across states and geographical location, with households in the Southern part of Nigeria spending significantly above their counterparts in Northern Nigeria. Other interrelated factors that have been identified as key drivers of household education expenditure are: the perceived lower quality of public education compared to private education, and the limited number of existing public schools in relation to the huge number of students ready for enrolment, as well as the large class size of public schools.

51. In fact, a field study of the factors that determine school choice in Lagos state conducted by Tooley and Yngstrom (2014) identified perceived levels of overpopulation in public schools, teacher absenteeism, and lack of concern for small children as some of the key reasons for parents' choice of private schools over public schools. In view of these factors, private schools have emerged within the past decade to bridge these gaps, especially in the areas of increased access and quality. Depending on the geopolitical area and income profile of the household,

[21] This may also explain the widespread use of private tutors in places such as Lagos state. Again, qualitative data is not available to draw strong conclusions.

parents enroll their children to one of these categories of private schools: private[22] (low-cost, middle-cost, and high-cost private schools), community, and religious schools. In Lagos state for instance, private schools serve an estimated 1.4 million students, representing 57 per cent of all enrollments in Pre-Primary, Primary, and Secondary education (Härmä, 2011). Figure 4 shows that private education providers dominate the ECDE and primary level of education compared to the junior secondary level.

Figure 4: Percentage share of total enrolment by level of education in Lagos State*



Source: Gibson et al, 2012.

* Estimated from Lagos State Private School Census (2010-2011)

52. Private schools are largely located in the cities of Southern Nigeria, given the high demand for high-quality education, while community schools are mainly located in rural areas, especially the southern Nigeria. Religious schools such as Qur'anic, Islamiyah and Tsangaya/Almajiri Schools are mainly situated in Northern Nigeria. Anambra state in South-east Nigeria is perhaps an exception in this regard, as the government has formally handed over most primary schools to faith-based institutions such as the Catholic and Anglican Churches[23]. Since the transfer of ownership to faith-based organizations in the state, anecdotal evidence indicates that on

[22] According to Tooley and Yngstrom (2014), low-cost schools are defined as schools that charge NGN1-25,000 fees per year, while Middle Cost Schools charge NGN26, 000-NGN 50,000 in fees. High Cost schools are defined as schools that charge NGN50, 000 and above in fees per year.

[23] Anambra State was the best performing state in Nigeria in the West African Senior School Certificate Examination (WAEC) in 2013 and 2014. Also, in 2015, the state occupied the second position. Similarly, in the 2015 National Senior School Certificate Examination (NECO), the state performance was the best in Nigeria. At the primary school level, Anambra state maintained a lead above all other state in Nigeria in the Common Entrance Examination for 2013 and 2014 (See WAEC and NECO websites).

average, educational outcomes has remarkably improved. Also, the state has continuously outperformed all other states in Nigeria during various nationwide examinations at the primary and secondary school level. Much more empirical research work is needed to understand the difference in academic performance of students in mission schools and their counterparts in public schools, especially in the context of Anambra State.

53. Significant disparities[24] persist in the unit cost of spending on basic education in both private and public schools across states and geographical regions in Nigeria. For instance, while the national average unit cost of public basic education currently stands at 21,344 naira per student, it ranges from 35,043 naira in the South-South to 17,491 naira in the North West. One of the key highlights of the unit costs analysis conducted by World Bank (2015), is the fact that public schools – public and household costs combined – are more expensive than private schools. This clearly points to significant inefficiencies and lack of value for money in the current public education finance architecture. Although the literature on the superiority of private schooling over public education in Nigeria is mixed, it is important to note that while private schools account for only 20 per cent of total basic education enrollment, household spending represents 40 per cent of total spending on education.

54. In view of the significant role played by private schools in Nigeria's basic education and the fact that parents spend a huge proportion of total household expenditure on them, the government needs to increase its participation in the private school space. This is imperative as evidence (see Gibson et al, 2011; Härmä, 2011) indicates that low-cost and medium-cost private schools are mostly unapproved, and are mainly used by households of lower socio-economic status.

3.2 Case Studies of Education Financing in Nigeria

55. This section provides a review of the various sources of finance available for basic education in two Nigerian States. The States assessed are: Lagos state and Kaduna State. The analysis also attempts to determine the extent to which identified financing options can meet the financing requirement for basic education in those States. The states cover a wide range of financing options for basic education as well as the challenges facing education financing in Nigeria such as education budget utilization and the assessment of direct allocations from the Federal Government of Nigeria (FGN).

56. The case studies seek to provide a full picture of basic education financing from the State Government to the Local Government and to the School level. State Field visits were limited to primary and junior secondary schools, although secondary data captured the spending for pre-

[24] These disparities arise from the unequal distribution of resources across states in Nigeria, especially given that monthly financial allocations received from the federal government are not sensitive to the educational needs of states.

primary education as well as the expenditure for senior secondary education. The analysis presented in this report is far from complete owing to the data gaps on education finance at the State and LGA levels. Appendix B describes the methodology that was used to conduct the case analysis.

3.2.1 Case Study of Kaduna State

57. Education financing in Kaduna state are guided by an Education Sector Plan (ESP), spanning from 2009-2020. The ESP comprises both a long term strategy document and a Medium-Term Sector Strategy (MTSS) that links the ESP to the budget process. These frameworks specify the objectives and priorities of the state and align them with budget for achieving them. The MTSS and ESP are subject to a Joint Annual Sector Review by key education stakeholders in the states as well as development partners (Lagos SMoE, 2010; Kaduna State SMoE, 2012).

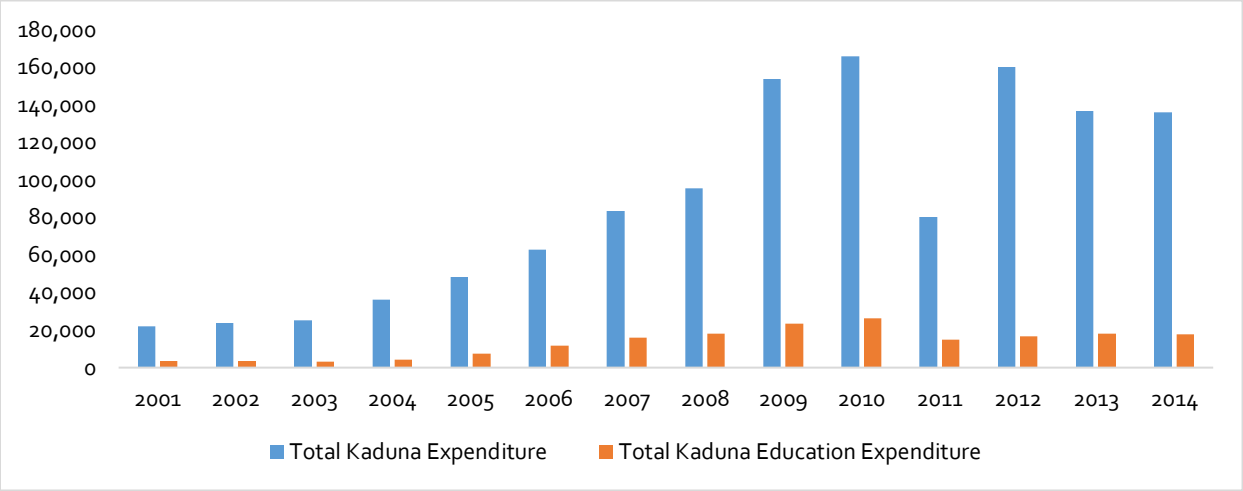
58. The structured public financial management system in place for the education sector reflects the political will of both Kaduna and Lagos state governments to ensure proper educational management. To a large extent, this level of commitment can be attributed to the technical support of the basic education sector provided by the United Kingdom's Department International Development (DFID), Education Sector Support Programme in Nigeria (ESSPIN), which works in six focus states, including Kaduna and Lagos.

59. A review of the Annual Education Performance Reports published by Kaduna State SMoE from 2009 to 2015 show that data on basic education financing for local governments are largely unavailable. However, data on state-level education expenditure are reported, albeit in a format that is scattered and not disaggregated across levels of basic education. For instance, education expenditure in junior secondary schools is lumped together with the senior secondary level of education which is beyond the 9-year basic education specified by UBE law.

60. Available data on education expenditure in Kaduna state indicates that although the state is yet to meet any of the education financing benchmarks specified by UNESCO, it has made remarkable progress in education financing. For instance, while UNESCO requires 20 per cent of total budget to be spent on education, education sector spending in Kaduna varied from 18 per cent of total state budget to 19 per cent, between 2011 and 2014, respectively. Education expenditure as percentage of Kaduna State's GDP also doubled from 2 per cent in 2011 to 4 per cent in 2014, 1 percentage point below the 5 per cent recommended by the Dakar Framework.

61. Although total education expenditure as a percentage of total state expenditure in Kaduna state averaged 15.3 per cent between 2001 and 2014, the ratio has been declining in recent years. Figure 5 shows that even though total expenditure in Kaduna state declined between 2010 and 2011, it leveled off and remained stable in the years that followed. The decline in education spending was driven by a decrease in total government revenue. As expected, capital spending on education was the most affected by the reduction in total state government revenue.

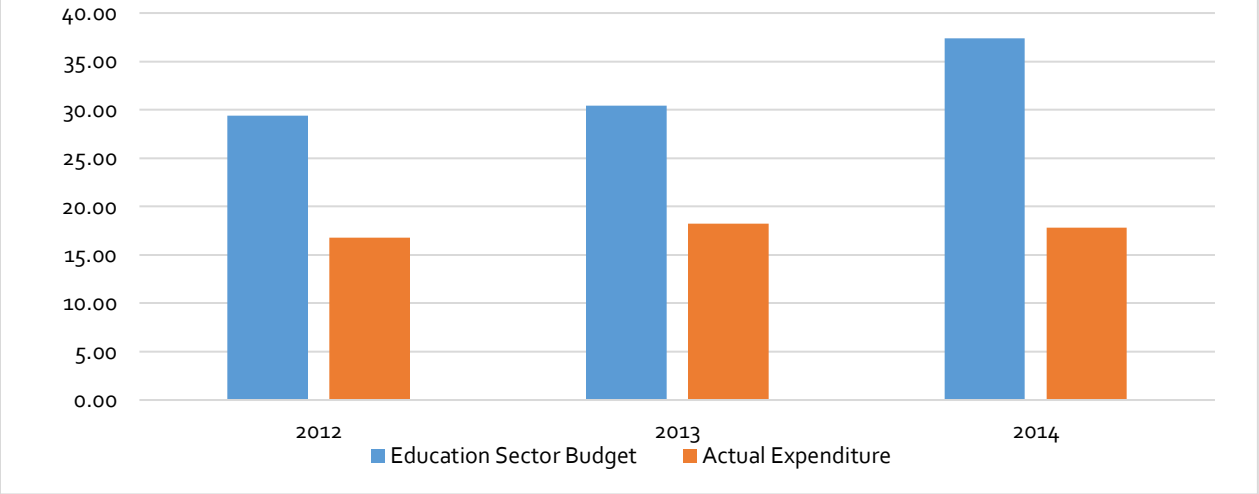
Figure 5: Total Expenditure and Total Education Expenditure in Kaduna (naira' billion)



Source: Kaduna SMoE, Annual Education Sector Performance reports for various years.

Apart from the declining rate of total education spending in Kaduna State, the rate of budget utilization is also remarkably low. Figure 6 below shows that education budget utilization has been consistently below 60 per cent since 2012.

Figure 6: Education Budget Utilization in Kaduna State (2012-2014)*



Source: Kaduna SMoE Annual Performance Report, 2015.

* Education Sector Budget represents 'budgeted figures' while the Actual Expenditure are 'budget releases'

62. Qualitative data collected from Kaduna and Lagos state during the field survey supported the fact that both states largely depend on federal revenue for basic education finance, with very limited scope for funding from other innovative sources. In reference to basic education finance in both states, the following question was asked during the field qualitative data collection: "In your opinion, what are the key sources of funding for basic education?" Respondents across all levels of education management: State, LGAs and Schools, pointed out federal revenue from various sources such as UBEC-IF, statutory allocations to LGA as the main source of basic

education finance. Table 3 lists the sources of basic education finance in Kaduna state by order of importance across three levels of educational management – State government, LGA, and Schools.

Table 4: Ranked List of Basic Education Finance in Kaduna State by Level of Educational Management

Director of Planning, Research and Statistics	Executive Chairman	Executive Secretary; HOD, Accounts and Finance	Head Teacher	Principal
State Ministry of Education (SmoE)	State Universal Basic Education Board (SUBEB)	Local Government Education Authority (LGEA)	Primary Schools	Junior Secondary Schools
List the key sources of basic education finance in order of importance				
1. LGA Allocation 2. UBEC-IF 3. State Budget 4. Donor Partners 5. Philanthropists **6.** Communities	1. LGA Allocation 2. UBEC-IF 3. State Budget 4. Donor Agencies	1. LGA Allocation 2. UBEC-IF 3. State Budget 4. Donor Agencies 5. SBMCs 6. PTA* 7. Philanthropists	1. State Budget 2. LGA 3. PTA 4. SBMC	1. State budget 2. LGA 3. PTA 4. SBMC
Source: Qualitative data from field survey in Kaduna State * The interview at the school-level revealed that the current political administration has discontinued Parents Teachers Association (PTA) in Kaduna State Note: Specific donor partners identified by respondents during the series of interview are: DFID-ESSPIN (especially in capacity building); World Bank; Global Partnership for Education (GPE); Japan International Cooperation Agency (JICA); UNICEF; and the Chinese Government.				

63. One of the key issues apparent in table 4 is the limited knowledge of basic education finance at the school-level. In all the schools interviewed at the urban and sub-urban areas, Heads of primary and junior school appeared not to have a clear understanding of the funding structure for their respective schools. Also, as indicated in table 4, the higher levels of educational management such as SMoE and SUBEB, tend to prioritize revenues from federal and state budget over micro-level funding like SBMCs contributions and PTA levies. This is particularly intriguing considering the fact that these basic education finance sources provide key educational materials for learning at the school level. In fact, evidence from school-level interviews suggests that shortage of funds in primary and junior schools mainly affects the supply of critical teaching materials such as chalks.

64. Evidence from the survey of Head Teachers and Principals in Kaduna state indicates that the state government recently discontinued the PTAs in primary and secondary schools. In comparison to other states in Nigeria, this policy action appears to be an isolated case. The

establishment of SBMCs [25] across many primary and secondary schools in Kaduna state may be the underlying reason behind this decision. As PTA members are also part of SBMCs, the Kaduna government may not see the need for PTAs to exist side-by-side with SBMCs. Another likely reason is the informal and unconstitutional nature of PTA's in Nigeria, compared to SBMCs that were approved to be established in all basic education schools by the National Council on Education (NCE) in 2006.

65. The central argument in favor of integrating PTAs into SBMCs is the imperative to strengthen accountability mechanisms at the school level, given ongoing governments' plan to commence the direct allocation of budgetary allocations to schools for improved infrastructural development. Another reason for the discontinuation of PTAs in Kaduna state may be the fact that PTA members naturally have a transient interest in school management, given the limited maximum number of years their children are expected to attend such schools. Mainstreaming PTAs into SBMCs is thus seen as a way to ensure continuity in school management at the community level, as envisioned by the UBE law.

66. One of the main weaknesses of mainstreaming PTAs in SBMCs is the likely loss of school-level accountability that may be inevitable. With the expanded membership of SBMCs which comprises traditional and religious leaders, it is highly likely that power dynamics may limit the active participation of parents in the decision making process. Already, Humphrey and Crawfund (2014) have pointed out that some SBMCs are treating parents disparagingly and punitively, including overtly threatening them with fines for non-compliance on issues decided by SBMCs. In view of the role of PTAs in promoting accountability at the school-level, their discontinuation in Kaduna state may further weaken the chain of accountability at the school-level. Also, given the free basic education being implemented by the present Kaduna state government, the recent discontinuation may likely exacerbate current funding constraints at the school-level. As noted by one of the Head Teachers in Kaduna North LGA during an interview, one of her wishes is to see the return of the PTA in her school. Evidence from the interview of Principals and Head Teachers in Kaduna state suggests that to maintain accountability in terms of fund utilization and student performance, the level of coordination between SBMCs and parents should be strengthened.

67. In terms of other financing options that are being used by Kaduna state, respondents in the field survey were asked to rate the revenue potential of the various sources of basic education finance and the extent to which they meet the education financing needs. Overall, respondents rated the revenue potential of federal and state revenue as medium, considering the slump in crude oil prices, which has significantly reduced the size of total federally collected revenue. The revenue potential of other funding sources, including donor funding, was rated as low. Apart from the aforementioned sources of basic education finance (see table 3), evidence from the field survey data shows that respondents across all level of educational management

[25] SBMC's consist of all community stakeholders – traditional rulers, religious leaders, Head teachers (Secretary of SBMCs), and members of the PTA (See Akunga, 2008)

in both Kaduna and Lagos state are not aware of other innovative sources, in particular: Diaspora Bond for Education; Education Venture Fund; Equity-focused Impact Investing for Education; and Debt-Swaps for Education. The lack of awareness is not entirely unexpected as subnational governments in Nigeria cannot borrow funds externally without the exclusive approval of the federal government through the federal parliament– National Assembly. Considering the nature of these financing options, the federal government may need to take the lead, especially as Nigeria has fiscal space for external borrowing.

3.2.2 Case Study of Lagos State

68. Like in Kaduna State, the education sector in Lagos State is guided by the Education Sector Plan (ESP, 2009-2018) and the Medium-Term Sector Strategy (MTSS) documents. The ESP comprises four key areas: Access and equity, curriculum relevance, policy, planning and management, and education finance. The MTSS, which is a medium-term operational document, links the ESP to the annual budget cycle of the Lagos State Government. Annually, the ESP is evaluated by key education stakeholders in Lagos States through the Joint Annual Sector Review[26]. The review is carried out for two broad reasons. The first reason is to more effectively support the annual budget preparation for the education sector and the second is to appraise the extent of the progress recorded in the objectives set-out in the ESP. (Lagos State Ministry of Education, 2010).

69. The structured framework for educational management in Lagos state is largely driven by a combination of strong political will on the part of the Lagos state government and the technical support of DFID's ESSPIN, especially in capacity building. Notwithstanding, more needs to be done to improve the availability of public education finance data at the local government areas. Education budget and expenditure documented in the Annual Education Sector Performance Report Series also requires disaggregation by levels of education to encourage more meaningful and in-depth analysis. This will go a long way in establishing the actual size of financial resources spent at the various levels of education.

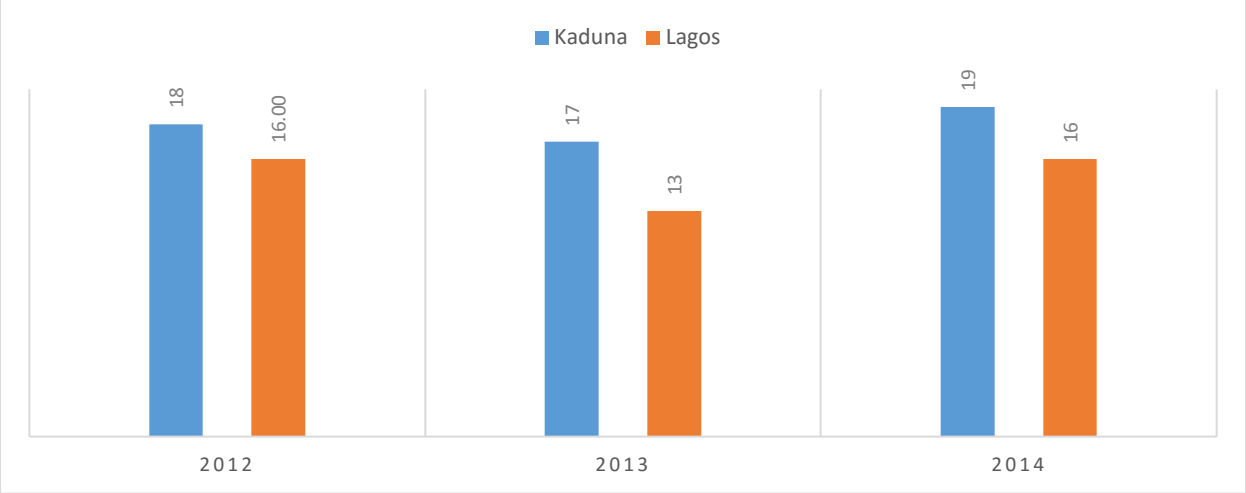
70. Compared to Kaduna State, total expenditure on education in Lagos is significantly lower. Specifically, whereas education expenditure as share of Kaduna State's GDP averaged 2.75 per cent between 2012 and 2014, the figure was approximately 0.43 per cent for Lagos state between 2011 and 2013. Similarly, between 2012 and 2014, the share of total budget spent on education was higher in Kaduna State (18 per cent), relative to 15 per cent in Lagos State. Figure 6 shows that over the period, budget figures for Kaduna States' were consistently above that of Lagos state. However, in terms of actual budget releases as share of total state expenditure, figure 8 indicates that Lagos has significantly improved its budget releases and actual expenditure in the education sector.

71. As identified earlier, one of the factors that have stymied the progress of Kaduna state in education financing is the low level of budget utilization. Similarly, capacity and funding

[26] The Joint Annual Sector Review in Lagos was first held in 2009

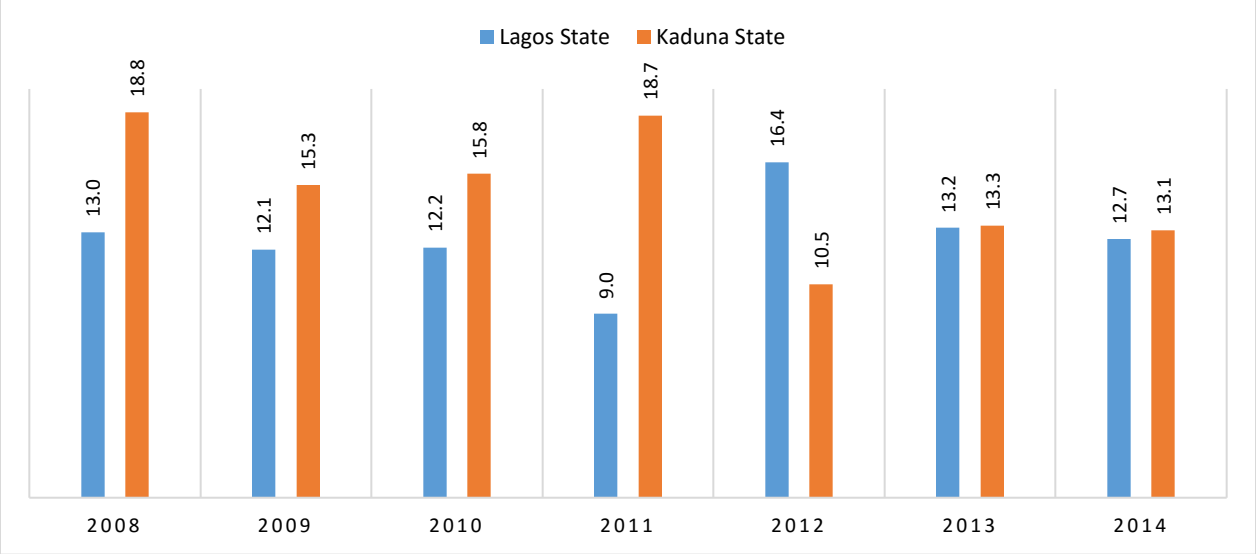
constraints, on the part of Kaduna state government has also limited the states' ability to fully access the resources made available by UBEC through matching grants. A comparative review of unassessed UBEC matching grants in both Lagos and Kaduna state between 2005 and 2015, points to a general challenge in matching grants with 50 per cent counterpart fund, albeit with significant variations across states. For instance, while Lagos state has not assessed NGN 0.44 billion of UBEC matching grant, approximately NGN 1.39 billion has not been accessed by the Kaduna state government. Undoubtedly, the technical support of ESSPIN has been instrumental to improving the level of federal funds accessed by states governments such as Lagos.

Figure 7: Education Budget as share of Total State Budget (Lagos and Kaduna State)



Source: Lagos and Kaduna SMoEs Annual Performance Annual Performance Reports (2014)

Figure 8: Actual Total Expenditure as share of Total State Actual Expenditure



Source: Lagos and Kaduna SMoEs Annual Performance Annual Performance Reports (2010, 2012, 2014)

72. Actual public education expenditure as a share of GDP and total expenditure in Nigeria averaged 1.7 per cent and 12.5 per cent respectively, between 2010 and 2012 (World Bank, 2015). Equivalent statistics for Lagos state showed that it performed significantly below the national average, in terms of education expenditure as share of GDP (0.4 per cent). However, compared to Nigeria in terms of public education expenditure as share of total expenditure, it spent an equal amount. In contrast, for both indices on education spending, Kaduna state outperformed Nigeria (2 and 15 per cent respectively).

73. It is important to note that while Lagos state clearly underperformed in terms of public education spending within the period, the non-government sector, including corporate entities, households and donors play a significant role in bridging the financing gap for basic education in the state. For instance, anecdotal evidence from past studies (see Gershberg et al, 2015; World Bank, 2015; ESSPIN, 2009) points to the significant role played g by SBMCs in mobilizing community resources to support the well-functioning of primary and secondary schools. This role was corroborated by Head teachers and Principals in schools surveyed in this present study, although this largely depends on the active involvement of SBMC members in school management. Similarly, the 'Adopt-a-School Programme' of the Lagos state government allowed Corporations such as MTN Foundation, Oando Nigeria Plc, Etisalat and Guaranty Trust Bank to entirely renovate and provide instructional materials to 'adopted' schools, as part of their Corporate Social Responsibility (CSR). While the use of CSR in social sectors such as education and health has a long history, there is presently no data that shows the cost of these initiatives as well as how committed resources relate to student educational outcomes at the school level.

Box 2: Private Basic Education in Lagos State

Lagos state is a unique example of how private basic education service providers can play a critical role in bridging apparent gaps in access, equity, and quality in basic education. Evidence from household-level and census surveys indicates that parents in Lagos state generally favor private schools over public schools across all quality criteria, irrespective of the poverty profile of the household (Harma, 2011; Tooley and Yngstrom, 2014). Remarkably, the only reason why parents allowed their children to attend public secondary schools was due to lack of affordability of private secondary education.

Indeed, private schools are a significant part of the Lagos state school system. The Lagos Private Schools Census 2010-2011 report indicated that a total of 12,098 private schools account for 57 per cent of total enrollment – 1,408,420 students - from pre-primary to secondary education in the state. On average, the census report shows no gender discrimination in terms of enrolment. In fact, gender disaggregated enrolment data seem to show a near perfect gender balance, on average.

Private schools are mostly predominant at the Early Childhood Development and Education (ECDE) and Primary levels of basic education. A large number of the private schools are unapproved and unknown to the state government. However, the participation of private education service providers at the secondary school level is limited (see Figure 4 above). As mentioned earlier, the low demand for private secondary education is largely driven by their unaffordability, as well as the fact that they are significantly resource intensive. Despite the multiplicity of private schools across all levels of education, proper government regulation and supervision in the sector appears to be insufficient. For instance, out of all the private schools in Lagos state, 74 per cent are unapproved – without operational licenses, while 37 per cent of teachers in the ecosystem are unqualified to teach.

The breakdown of private schools in Lagos state by fee structure indicated that 28.3 per cent are low-cost schools, while 36.4 per cent and 35.4 per cent are medium and high-cost schools respectively. The fact that a combination of medium and high-cost private schools seem to be significantly higher than low-fee schools raises the issue of access, especially for households living below the poverty line (households with incomes of up to 309 naira, or around $1.5). However, a field study commissioned by DFID Nigeria in 2012, in two slum areas of Lagos state, showed that even for such households, parents preferred their children to attend to private schools than public schools. Specifically, the study found that over 70 per cent of households in the slum areas had their children in private schools, with around 90.1 per cent attending ECDE/Pre-Primary education. Also, 69.8 per cent of all children at all schools where in private schools, indicating a burgeoning low-fee private school market.

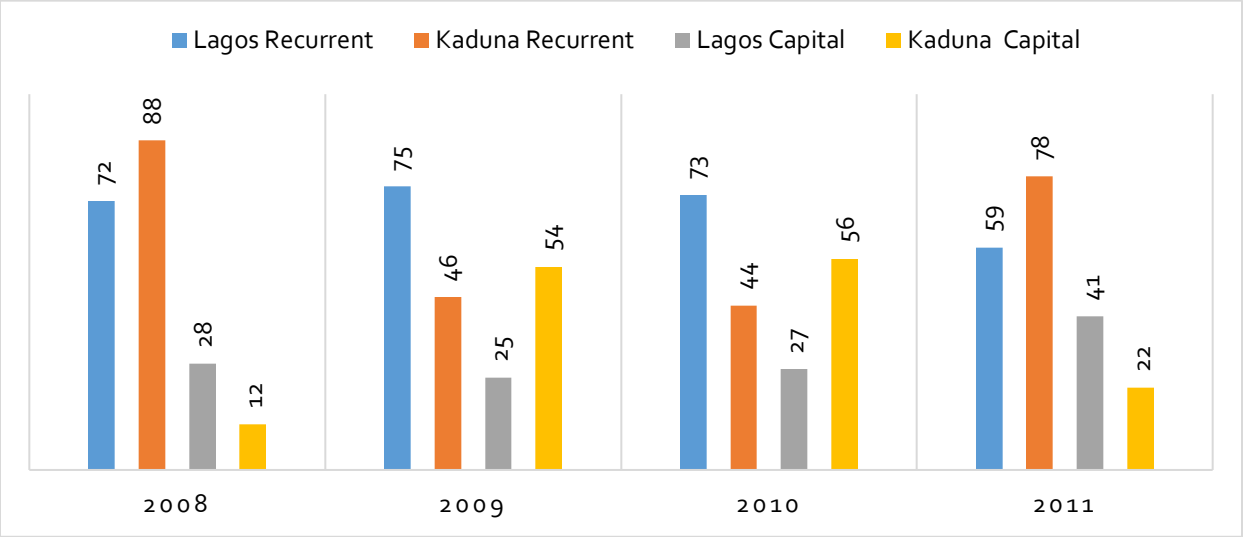
Some of these findings have significant implications for government policy, especially in the areas of improving educational outcomes, access, and creating a financing model for low-fee educational service providers, as they mainly serve households of lower socio-economic status. In this respect, 65 per cent of private education service providers intend to request for loans in the next three years, amounting to around $2.5 billion. A disaggregation of this figure shows that the low-cost schools have the least private financing opportunity - at $78.2 million, while the high-cost has the most at $2.184 billion. For medium cost schools, the financing opportunity for stands at $212 million (Bayley, 2014).

The aforementioned findings on private education raise pertinent questions for educational planners in Lagos, and Nigeria more broadly. How can government improve the access of poor households to the high quality education provided by the medium and high-cost private schools? What role can the state government play in enhancing the education outcomes of children that attend low-fee paying schools? What financing arrangements can the government put in place to attract 'outside' funding for low-fee paying private schools?

To answer these questions, governments at the federal, state, and local government level, including donors, may have to substantially invest more in collecting and synching school level data on financing and outcomes in private schools across states in Nigeria. State and non-state actors will also need to cooperate more in terms of sharing data, as well as scaling up initiatives such as the Lagos Private School Census, which was carried out DFID-ESSPIN.

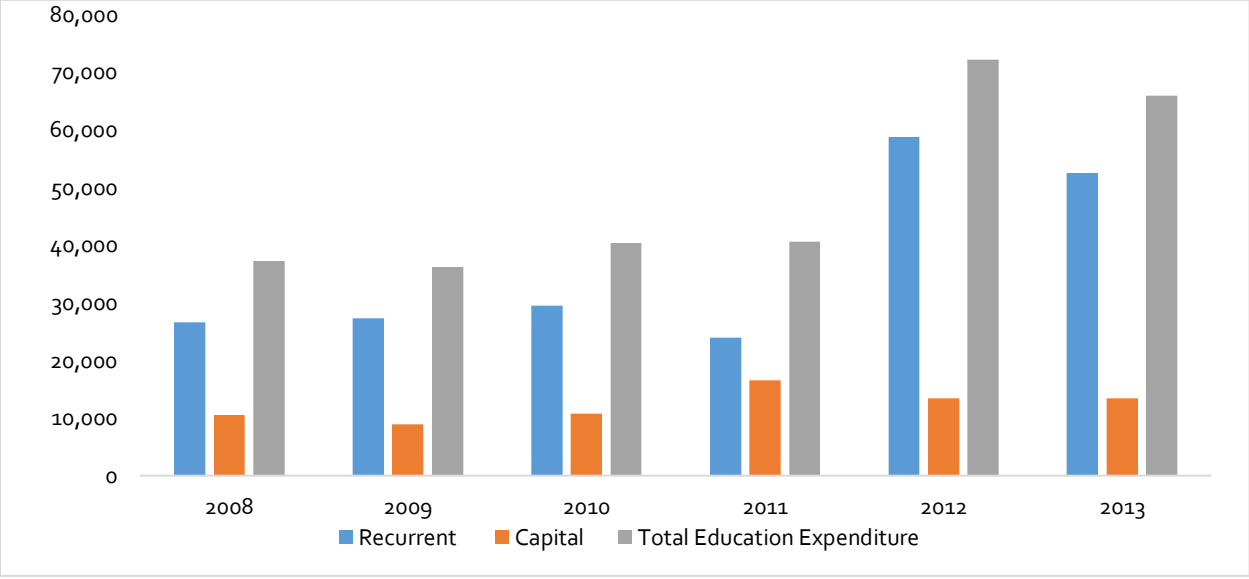
74. Overall, modest progress has been made in increasing education spending as well as improving the governance frameworks around the utilization of allocated funds. However, figure 9 and 10 show that a rather significant share of education expenditure is still spent on recurrent items such as teacher's salary and overhead expenses, irrespective of the state. Figure 9 presents recurrent and capital spending for education for Lagos and Kaduna state between 2008 and 2011 while Figures 10 and 11 show the recurrent and capital expenditure as share of total education expenditure for Lagos (2008-2013) and Kaduna state (2001-2011), respectively.

Figure 9: Recurrent and Capital Education Expenditures as share of Total Education Expenditure in Lagos and Kaduna State (2008-2011, percent)



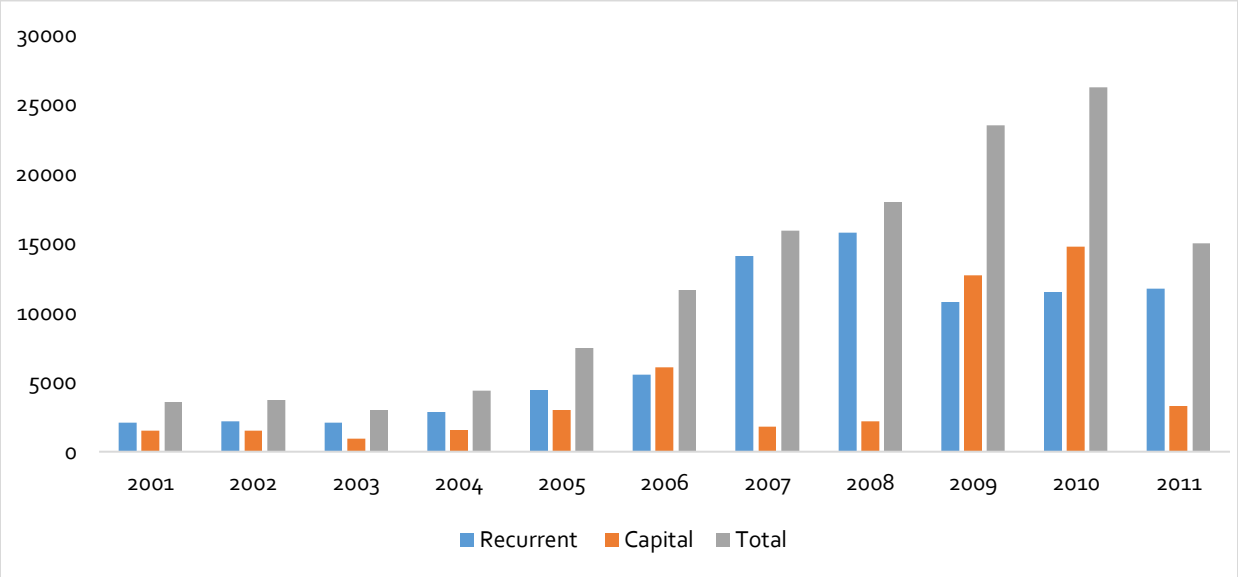
Source: Lagos and Kaduna SMoEs Annual Performance Reports (2010, 2012, 2014)

Figure 10: Recurrent and Capital Education Expenditures and Total Education Expenditure in Lagos State (2008-2013, naira' million)



Source: Lagos SMoEs Annual Performance Reports (2010, 2012, and 2014)

Figure 11: Recurrent and Capital Education Expenditures as Share of Total Education Expenditure in Kaduna State (2001-2011, naira' million)



Source: Kaduna SMoEs Annual Performance Reports (2007, 2010 and 2012)

75. In both Kaduna and Lagos state, the main challenge facing federal, state, and LGAs basic education finance is the recent slump in crude oil prices which has significantly reduced the size of revenue available to the education sector, as a whole. In terms of donor funding in the basic education sector, respondents suggest that the key constraint to donor funding is the centralized funding arrangement at the federal level, which limits the access of states to donor funds.

4.0 Financing Basic Education through Restructuring of Public Expenditure

76. This section highlights broader financing strategies to meet the financing gap in basic education in Nigeria. As preceding discussion reveals, Nigeria currently faces enormous financing requirements towards achieving the desired educational outcomes, which makes it imperative to develop innovative financing options. Mobilizing the innovative financing options requires developing new institutional and policy frameworks as well as building the technical capacity within the public sector. This implies that the innovative financing options will be more viable in the long run. In the short-term, substantial resources could be mobilized through better utilization of existing public-sector revenue. World Bank (2014) noted that developing countries can realize considerable resources through strengthening public expenditure with measures which reduce waste and promotes efficient resource allocation. Along this line, this section examines key areas that government could target to mobilize resources for basic education. The first sub-section focuses broadly on overall government expenditure. Specifically, we discuss the inefficiencies associated with fossil fuel subsidy and public procurement as well as the potential

of resources for basic education through reforming the public expenditure. The second subsection discusses key areas of inefficiencies in the present framework for financing education in Nigeria, which should equally be part of the reform process.

4.1 Fossil Fuel Subsidy

77. Fossil fuel subsidy has been a major component of government expenditure over the past years. Table 5 shows the trend in budgetary allocation for subsidy by the general government. Between 2008 and 2014, more than NGN7 trillion was spent on fuel subsidy, which represented 12.7 percent of general government expenditure over the period. In 2011 alone, subsidy accounted for 21 percent of budgetary allocation, making it the largest expenditure unit by the public-sector. Comparatively, the expenditure on UBE accounted for a modest 0.61 percent of the government's general expenditure over the same period. This implies that considerably higher priority is given to fuel subsidy than other key development sectors.

78. The paradox in Nigeria's case is that the amount of subsidy increases with rising international oil prices, while reduction in oil prices does not completely eliminate the government expenditure on subsidy. For example, when the oil price is rising, the government pays more subsidy as the country largely relies on imported refined oil because of the limited capacity of domestic refineries. Similarly, in periods when prices are declining, as in the past 20 months, government has continued to provide subsidy to cover the distribution margin due to "uniform territory pricing" model in practice. In essence, there is limited scope to increase budgetary allocation to various development sectors, including basic education, irrespective of boom-bust cycle in the oil market.

Table 5: Budgetary Allocation for Fossil-Fuel Subsidy

Year	Allocation for Fossil-Fuel Subsidy (in billion naira)	Subsidy (% of General Government Expenditure)	UBE(% of General Government Expenditure)
2008	637	10	0.70
2009	399	6	0.63
2010	797	11	0.62
2011	1761	21	0.78
2012	1570	19	0.75
2013	971*	11	0.41
2014	971*	11	0.41

Data source: subsidy is taken from IMF (2014), UBE and general government expenditure is from CBN (2015).
* The subsidy figure for 2013 and 2014 are from Reuters (2014).

79. Government subsidization of oil in Nigeria has been justified on its welfare-improving effect. For example, Siddig et al. (2014) examines the scenario where there is full and partial removal of fuel subsidy in Nigeria and finds that, in the absence of viable transfer policy, real income of households' will decrease. Apart from Umar and Umar (2013) which finds that welfare-

loss from fuel subsidy removal is larger for the middle 40 per cent of the income distribution, compared to the top and bottom 20 per cent, there is limited evidence to show the extent of welfare loss for different income groups, especially the poor and vulnerable. Indeed, this lack of clarity makes it difficult for government to cushion the effect of subsidy removal on the poorest groups with appropriate transfer tools. For instance, after the partial removal of fuel subsidies in 2012, the government invested broadly on social intervention programmes such as healthcare (maternal and child) and mass transportation programmes, through the Subsidy Re-investment Programme (SURE-P).

80. A survey of business-owners and professionals by Center for Policy Alternatives (2011) reports that 84 percent of the respondents are against fuel subsidy removal due to the adverse effect it portends for costs of living and of doing business. Moreover, fuel subsidy is widely considered as a social safety net for the poor, given that government lacks the administrative capacity to implement an alternative policy that will directly target them. This explains the persistent resistance of labour unions and civil society to past attempts at removing fuel subsidy.

81. However, these benefits from subsidy come at a huge cost of displacement of resources to important development areas and have become a major source of inefficiency in public expenditure. Some key inefficiencies associated with fuel subsidy in Nigeria include its limited positive impact on the poor (see Cordy et al., 2015), and the susceptibility to corruption and rent-seeking activities (See IMF, 2012).

4.1.1 Financing education through fuel subsidy reforms

82. Given the financial burden of the fuel subsidy payments, and the huge opportunity costs in terms of financing more pro-poor sectors, several attempts to discontinue them have been made in the past. However, the adverse effect of its removal on petroleum pump prices and inflation, as well as public sentiments on the transparency of the utilization, has made the removal unpopular among the civil society and public in general. Thus the attempted subsidy reforms in 2012 was met with wide spread opposition from the public and various civil society groups. On the part of the government, while the executive arms of government (at the federal and state) were in support of subsidy removal, the legislative arm were clearly against it (IMF, 2013).

83. Interestingly, the recent oil price crash which has reduced the burden of subsidy on government, presents an opportunity for fuel-subsidy reforms. Already, the proposed 2016 appropriation has a subsidy allocation of NGN 60 billion which is lowest in real terms in the past decade. Also, the pricing template for petroleum and kerosene between January and April, 2016 as released by the Petroleum Products Pricing Regulatory Agency (PPPRA) reveals that only the

distribution margin remains in the subsidy component[27]. Evidently, the deteriorating oil prices have helped government to substantially reduce subsidy.

84. Conditional on the existence of political will to ensure utilization, fuel subsidy removal can provide substantial funds to reduce the financing gap in education. From Table 5, a conservative allocation of 25 percent designated for subsidy payments to basic education would have provided about 250 billion naira annually for the period 2011-2014, which is substantially higher than the present annual UBE grant for all the states in Nigeria. Thus the 25 per cent reallocation would have injected about $1.5 billion dollars annually into Nigeria's basic education, which will nearly cover the annual cost of primary teachers' salaries ($1.6 billion) required for Nigeria to achieve Universal Primary Education by 2020.

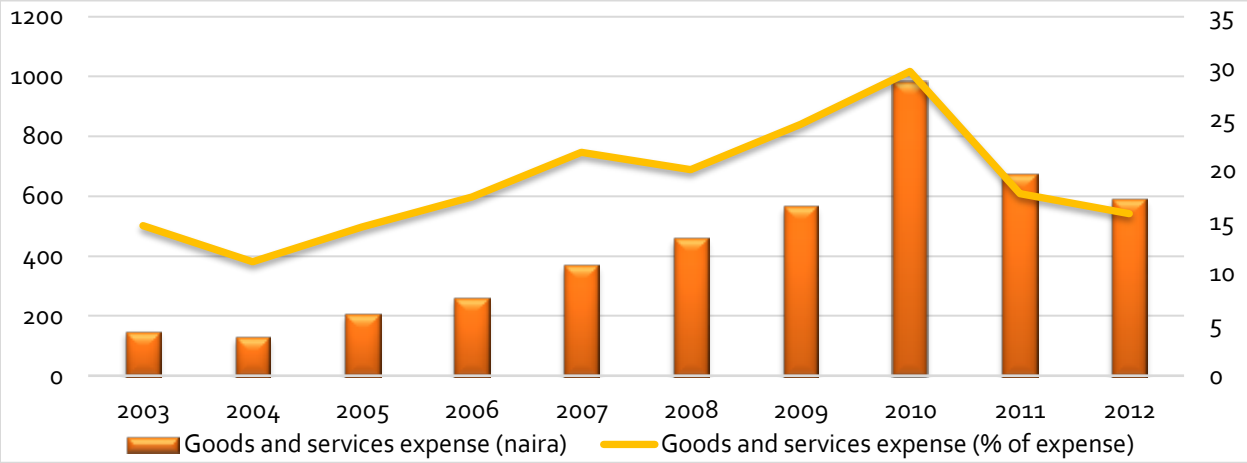
85. However, the fact that mobilized savings from the past subsidy reform effort did not have significant impact on basic education presents some sense of pessimism to the debate. For example, SURE-P which was introduced to cushion the adverse effect of subsidy removal in 2012 made no provision for basic education at both the federal and state levels[28]. An extensive study by Center for Social Justice (2014) showed that federal government interventions were focused on: community service, women and youth empowerment, maternal and child health care, public work, vocational training and mass transit programmes. A further case study of four states (Rivers, Kano, Sokoto and Lagos) revealed that only Sokoto State allocated some of its subsidy savings to basic education. In essence, more efforts are required by stakeholders in the education sector to lobby for improved prioritization of the sector in extra-budgetary allocations.

4.2 Public Procurement

86. Public procurement broadly refers to the process of acquiring goods, services and civil works by a procuring entity using public funds (World Bank, 1995). Globally, it is estimated that public procurement constitutes about 18.4 percent of the world GDP (Mahood, 2010). In Nigeria, public procurement has been increasing over the years, as the demand for public goods in the areas of health, education and infrastructure grows. Figure 12 shows the size of public procurement in Nigeria, based on the amount of goods and services purchased by the public sector. Between 2003 and 2012, public procurement increased by more than 300 percent. In addition, public procurement represents about 19 percent of government expenses over the period.

[27] See http://pppra.gov.ng/pricing-template-pms-2/

Figure 12: Size of Public Procurement in Nigeria (in billion naira)



Data source: World Development Indicators, 2014

87. A number of inefficiencies have been noted in public procurement process in Nigeria. For example, a detailed assessment conducted by federal government and the World Bank noted that prior to 1999, the country lost an average of USD10 billion annually to procurement fraud. Sources of these leakages include: inflation of contract costs, lack of competition in contract award processes, over-invoicing, manipulation of procurement process in favor of political cronies, re-awarding of completed projects, among others. More recently, Kaufman et al. (2005) in a survey of Nigerian firms finds that 90 percent paid bribes during the procurement process. Inadequacies in the procurement process also impact negatively on the quality of service delivery, which adds to future maintenance cost. Essentially, poor procurement system in Nigeria is a major source of waste in the public expenditure.

88. Given this state of public procurement, reforming it will substantially mobilize resources needed for basic education and other key development sectors. Already, government has started the reform process with the passing of Public Procurement Act (PPA) in 2007, which established the National Council on Public Procurement (NCPP) and the Bureau of Public Procurement (BPP). These efforts provide clear legal and institutional frameworks to develop a viable procurement system. In fact, BPP (2013) estimated that, at the end of 2012, about NGN420 million value improvement saving was recorded as a result of the procurement reform.

89. Despite this progress, non-compliance remains a notable concern. Jacob (2010) noted that government has been unwilling to fully implement the PPA, as it uses the loopholes to reward cronies. Also, many salient aspects of the reform have been neglected. For example, NCPP, the highest decision making organ according to the PPA, is yet to be constituted. More worrisome is the fact that existing reform initiatives have been limited to federal government, as the state and local governments continue to operate without any statutory provision guiding procurement. Given the important role that sub-national governments play in financing basic

education, introducing procurement reform at that level will be vital. Although fiscal federalism gives subnational governments' fiscal autonomy in Nigeria, the federal government could use moral suasion to encourage sub-national governments to initiative procurement reforms. However, the most important role lies with the general public and civil society organizations to increasingly demand for reform from governments at all levels.

4.3 Improving Efficiency of Current Resource in Education

4.3.1 Prioritizing basic education and containing the recurrent Expenditure

90. Given that the state of basic education is a major determinant of the level of OOSC, the present distribution of government expenditure across levels of education in Nigeria may need to be revised. With Nigeria ranking as the highest OOSC's in the world, there is need for government to prioritize basic education spending. Recent evidence on federal government education expenditure shows that while spending on non-basic education increased by 277.9 per cent, from 119.5 billion naira in 2012 to 332.3 billion naira in 2014, total spending on basic education declined by 6.1 per cent from USD 67.4 billion naira to 63.2 billion, in the same period (see Nwoko, 2015). Increased financing for basic education could be used to reduce infrastructure deficit in the sector, as well as stimulate demand for basic education through the provision of incentives such as the school feeding program, especially in Northern Nigeria. Thus a policy change that would reallocate additional financial resources to basic education would contribute considerably to reducing the OOSC. Increasing financing on basic education would have the effect on the supply side such as through reducing the infrastructure gap and stimulate demand for education through the provision of incentives such as the school feeding program

91. The demand for educational infrastructure and other capital expenditure at basic education level has no doubt become more crucial given the current enrolment trend. Especially, there is need to introduce modern technology as a cost cutting mechanism to accommodate increasing enrolment, without hampering the quality. However, recurrent expenditure continues to dominate education sector expenditure at all levels of government, while capital expenditure fluctuates over the years. As shown in Table 6, 81.5 percent of federal government outlays to education sector are allocated to recurrent expenditure. At the state level, recurrent expenditure accounted for 58.3 percent of the education sector budget. This suggests a lack of priority to capital expenditure, which have negatively affected quality of education in Nigeria. In essence, efficiency in the use of existing resource for education can be enhanced through containing recurrent expenditure, while according more priority to capital expenditure.

Table 6: Classification of Budgetary Allocation to Education Sector (Billion Naira)

Year	Federal Government		State Governments	
	Recurrent	Capital	Recurrent	Capital
2008	164	48.8	146.39	88.32
2009	137.12	43.4	140.77	93.48

2010	170.8	87.9	154.1	101.9
2011	335.8	35.4	130.1	82.4
2012	348.4	47.6	128.94	135.56
Total	1156.12 (81.5%)	263.1 (18.5%)	700.3 (58.3%)	501.66 (41.7%)

4.3.2 Restructuring Universal Basic Education Commission Funding

92. The present constitutional arrangement for funding basic education in Nigeria recognizes the state and local governments as the main providers, with federal government assisting in order to ensure uniform standard across the country. As its contribution, the federal government allocates 2 percent of its Consolidated Revenue Fund annually to Universal Basic Education Commission (UBEC) funding, which is distributed to states based on existing revenue sharing formula. However, state must provide at least 50 percent of the process total cost of the designated project costs to access the grants.

93. Table 7 shows the amount of distribution of UBEC matching grant between 2005 and 2015. Overall, NGN 289.9 billion have been disbursed through the grant over the years. However, about NGN 62.2 billion are currently un-accessed by the state governments. Equally worrisome is the observation that the number of states not accessing the grant have markedly increased from one in 2007/8 to 27 in 2015. According to Suleiman (2015), the rising spate of un-accessed matching grant is caused by the low priority most states accord basic education delivery. The un-accessed funds also underscore the lack of priority towards capital expenditure, given that the grants are already earmarked for capital projects.

94. This rising trend of un-accessed UBEC grant represents a major source of waste in the education sector, especially given the huge shortfalls in financing the provision of instructional materials and classrooms. It is therefore crucial for federal and state governments to design more appropriate framework that will eliminate bottlenecks to accessing the grants. For example, the contribution of state governments could be directly deductible from the federation account or state governments might earmark a percentage of their annual budget to the counterpart funding.

Table 7: Unutilized Basic Education Funds (Billion naira)

Year	Matching Grant	Disbursement of matching Grant	Un-accessed Matching Grant	Number of State Not Accessing the Grant
2005/6	38.4	38.4	0	0
2007/8	55.5	55.5	0	1
2009/10	42.7	42.7	0	0
2011/12	63.8	54.9	8.9	10
2013	38.1	23.7	14.4	14

2014	35.2	10	25.3	27
2015	16.2	-	16.2	-
Total	289.9	227.7	62.2	

Source: UBEC, 2015.

4.4 Rationale for Channeling Resources from the Reform towards Basic Education Financing

95. Restructuring the public expenditure in the areas highlighted will no doubt boost resources needed to finance development, especially education. While many sectors will be competing for the mobilized resources, there are compelling reasons to prioritize basic education. First, in the sectoral allocation, basic education is at present grossly underfunded compared to other levels of education. Moreover, there is increased pressure to improve access and quality of basic education, as part of the SDGs. Without a change in priority, the quality of basic education will further deteriorate, given the huge and widening financing gap.

96. Second, basic education is a viable social protection policy for poor households. As Siddig et al. (2014) observed, if subsidy removal is combined with transfer of income to poor households, their welfare will be improved. However, in the absence of reliable data, policies such as direct cash transfers are very difficult to implement. Government can address this problem by increasing funding for basic education, where evidently, access to high quality education remains a challenge for poor households[29].

97. Third, given the high spillover effect that basic education has on other development areas such as health, gender parity, and poverty, prioritizing resources in favor of education represents an effective way to utilize limited resources. According to the EFA Global Monitoring Report (2014), if all students in low-income countries leave primary school with basic reading skills, 171 million people could be lifted out of poverty, while also reducing the probability of infant mortality by 5 to 10 percent. Basically, prioritizing basic education will significantly reduce the amount of resources required in other sectors, thereby mobilizing more saving for the government.

5.0 Conclusion

98. This study has examined the various options available for bridging the financing gap for basic education in Nigeria. The study finds that the higher performance of comparator countries such as Ghana and South Africa in education finance is largely related to a clear financing framework for education, and strong commitment to basic education. These are clearly lacking in Nigeria, where the financing architecture for education is remarkably complex, and the political will to support increased funding for education is weak. The complexity of the structure was manifested in the survey, where key stakeholders at the school level such as Head teachers

[29] van Fleet et al. (2012) finds that while children from the richest 20 percent households complete an average of 9.7 years of schooling, those from bottom 20 percent have only 3.5years.

and Principals have limited knowledge about the financing structure of basic education, and as such, may not likely channel their funding requests to the appropriate educational authorities

99. Basic education financing in Nigeria still depends heavily on revenue from the federal government via statutory allocations and direct fiscal transfers. The limited role of states is directly related to the tight fiscal conditions under which they operate, and the fact that basic education is largely not prioritized by state executives in total spending. Survey evidence on two states in Nigeria (Lagos and Kaduna) shows lack of awareness of other innovative sources of education financing such as Education Venture Fund; Equity-focused Impact Investing for Education; and Public-Private Partnerships. While these approaches are feasible in Nigeria, they have not been adequately explored. Thus in the absence of innovative financing approaches and the inherent challenge of limited funds, primary and junior secondary schools tend to rely on PTAs and SBMCs for the funding of critical teaching materials such as chalks.

100. Household private financing on both private and public education has emerged as a significant subcomponent of Nigeria's education financing architecture, especially at the basic education level. While high-cost, medium cost, and low-cost private schools have emerged to bridge supply-gaps in the public provision of basic education in the past few years, evidence from survey and school census data indicates that most low-cost and medium-cost private schools are usually not approved by the education authorities, and are mainly used by households of lower socio-economic status.

101. Given that exploring innovative financing approaches is a long-term pursuit, the short term measures could involve a holistic restructuring of public expenditure such as reforming fossil-fuel subsidy, strengthening the public procurement process, and reprioritization of resources. These approaches offer feasible opportunities to reduce inefficiencies and leakages, and potentially provide more resources for financing basic education.

5.1 Policy Recommendations

102. The existing financing structure of basic education needs to be significantly streamlined to enhance clarity and functionality. A less ambiguous financing supply chain would provide better understanding of the gaps in funding and thus improve policy decisions. This will create more spaces for end users and other education stakeholders to hold the authorities accountable for basic education financing.

103. Innovative approaches to financing education need to be extensively explored. The federal and state governments need to collaborate more with the private sector to explore opportunities for raising non-traditional funds and participation in basic education financing. With strong political support, especially at the state level, the government can create platforms and appropriate mechanisms that will stimulate private sector-led initiatives in basic education. Also, with the ongoing efforts to directly channel funds to schools through SBMCs, state governments need to strengthen SMBCs and their coordination with PTAs in order to promote accountability.

104. State governments should consider increasing the regulation of private schools to improve the provision of high-quality education, particularly at low and medium-cost private schools. Also, since low-fee private schools mainly serve children from low socio-economic backgrounds, state governments should consider investing in some aspects of private education, such as teachers' professional development.

105. With the evidence that donor presence are significant drivers of improved performance in basic education, state governments can strengthen their partnership with donors. In addition, the federal government can collaborate with donors to promote a needs-based system of intervention where the choice of states for donor intervention reflects the regional disparities in education outcomes in Nigeria.

106. Given the emphasis of the present government in promoting transparency and curbing wastages and corruption in the public sector, it is timely to consider the pursuit of reforms in public expenditure that would reprioritize spending and provide more funds for basic education. The additional basic education financing from these reforms could significantly reduce the huge number of OOSC in Nigeria.

Clarion call

This report has shown that it is extremely unlikely that Nigeria will achieve increased financing for basic education through traditional budgetary allocation and statutory fiscal transfer, given the country's deteriorating fiscal situation. As such, increasing education finance through non-traditional sources and effectively utilizing existing resources should constitute the central platform for providing education for all children in Nigeria, in the post-2015 development era.

The federal government needs to urgently re-channel a substantial part of savings made from the on-going public sector expenditure reforms, such as fuel subsidy payments and curbing corruption, to basic education. While this will boost basic education finance in the short and medium term, there is also an urgent need for the government, both at the federal and state level, to strengthen the institutional framework for private sector involvement in basic education financing. Perhaps, one of the initial steps in this regard will be to establish PPP units in State Ministries of Education. Furthermore, developing electronic payments infrastructure that can be used to aggregate micro-level education funds from stakeholders such as school alumni and private individuals, will significantly contribute to supporting increased private sector and community participation in basic education financing. The private sector, especially institutional and social investors, are especially encouraged to invest in aspects of the basic education ecosystem that promotes equity and gender balance in access. The report therefore calls for strong actions in the above-mentioned areas.

References

Anibueze, U. and Okwo, F. (2013). Counterpart Funding of the Universal Basic Education in Nigeria: Implication for Counseling. IOSR Journal of Humanities and Social Science, 17 (2), 11-16. In: Gershberg, A. et al (2015) Comparative Review of Basic Education Reforms: Part 2 – Country Case Studies. Education Data, Research and Evaluation in Nigeria (EDOREN) and Universal Basic Education Board (UBEC). Revised Report.

Australian Government (2012) Review of Venture Capital and Entrepreneurial Skills. Final Report prepared by Treasury and the Department of Industry, Innovation, Science, Research and Tertiary Education.

Bayley, S. (2014) Deepen Interventions – Program Structure. DEEPEN Developing Effective Private Education in Nigeria Forum, Lagos State, Nigeria.

Brander, J. A., Du, Q., and Hellman, T., F. (2010) The Effects of Government-Sponsored Venture Capital: International Evidence. NBER Working Paper No. 16521

Burnett, N., and Birmingham, D. (2010) Innovative Financing for Education. Education Support Program (ESP) Working Paper Series (No 5) Open Society Institute and Results for Development Institute, Washington, DC.

Central Bank of Nigeria (2014), "Statistical Database", Available at: http://statistics.cbn.gov.ng/cbn-onlinestats/ (Accessed March, 2016).

Central Bank of Nigeria (2015), "Statistical Bulletin", Available at: https://www.cbn.gov.ng/documents/Statbulletin.asp. (Accessed March, 2016).

Center for Social Justice [CSJ, 2014), "Analysing SURE-P In Action: A Report on the Implementation of SURE-P", CSJ, Garki, Abuja.

Nwoko, C. (2015), "Financing Education in Nigeria Opportunities for Action", Country Case Study for the Oslo Summit on Education for Development. #Edusummitoslo, Education For Development.

D. Capital Partner, 2013. Impact Investing in Education: An Overview of the Current Landscape. ESP Working Paper, No. 59.

EFA Global Monitoring Report (2014), "Teaching and Learning: Achieving Quality for All", UNESCO, Paris 07 SP, France.

Ferraz, C., Finan, F., Moreira. D. B., 2012. Corrupting learning: Evidence from missing federal education funds in Brazil. Journal of Public Economics, 96, 712–726.

Gershberg, A., Rai, S., Ezegwu, C., Nnodu, I., Anthony, O., Panguru, K, Z., Olumayowa, A., Nugroho, D., Hearle, C., Elacqua, G., and Alves, F. (2015) Comparative Review of Basic Education Reforms: Part 2 – Country Case Studies. Education Data, Research and Evaluation in Nigeria (EDOREN) and Universal Basic Education Board (UBEC). Revised Report.

Gibson, A., Barlow, S., Cunningham, R., and Harma, J (2011) Support to Low Fee Private Sector Education. Scoping Mission Report, DFID Nigeria.

Harma, J. (2011) Lagos Private School Census 2010-2011 Report. Education Sector Support Programme in Nigeria (ESSPIN). Report Number: LG 501.

IMF (2012), "*Regional Economic Outlook: Sub-Saharan Africa: Sustaining Growth amid Global Uncertainty*, World Economic and Financial Surveys (Washington)." (Washington)

IMF (2013), "Case Studies on Energy Subsidy Reform: Lessons and Implications" (Washington), Available at: http://www.imf.org/external/np/pp/eng/2013/012813a.pdf.

Jacob, O. A. (2010). Procurement law in Nigeria: Challenge for attainment of its objectives. *U. Botswana LJ*, *11*, 131.

Kaduna State Ministry of Education Annual Performance Reports (2009). Annual Performance Report.

Kaduna State Ministry of Education Annual Performance Reports (2015). Annual Performance Report.

Lagos State Ministry of Education Annual Performance Reports (2010). Annual Performance Report.

Leading Group, 2010. 2+3=8: Innovating in Financing Education. Report of the Writing Committee to the Task Force on Innovative Financing for Education

Leading Group, 2012. Innovative financing for Education: Moving Forward. International Expert Report, February, 2012.

Lerner, J., and Tåg, J. (2013) Institutions and Venture Capital. Journal of Industrial and Corporate Change, Vol. 22, No. 1, Pp. 153-182.

Patrinos, H., A., Berrera-Osorio, F., and Guaqueta, J. (2009) The Role and Impact of Public-Private Partnerships in Education. Report Number 47949, World Bank, Washington DC.

Rose P., Steer L., Smith K. and Zubairi, A. (2013). Financing for Global Education: Opportunities for Multilateral Action. Centre for Universal Education at Brookings.

Siddig, K., Aguiar, A., Grethe, H., Minor, P., & Walmmsley, T. (2014). Impacts of removing refined oil import subsidies in Nigeria on poverty.*Energy Policy (Article in Press)*.

Suleiman, D. (7th October, 2015). *Nigeria: States Not Doing Enough to Ensure Effective UBE Delivery*, Interview/E. Sunday. The Guardian, Available at: http://allafrica.com/stories/201510080539.html, Accessed: April 2016)

Santcross, N., Hinchliffe, K., Williams, A., Adediran, S. and Onibon, F. 2010. Mid-Term Evaluation of the EFA Fast Track Initiative Country Case Study: Nigeria Cambridge/Oxford, UK, Cambridge Education/Mokoro/Oxford Policy Management. In: Gershberg, A., Rai, S., Ezegwu, C., Nnodu, I., Anthony, O., Panguru, K, Z., Olumayowa, A., Nugroho, D., Hearle, C., Elacqua, G., and Alves, F. (2015) Comparative Review of Basic Education Reforms: Part 2 – Country Case Studies. Education Data, Research and Evaluation in Nigeria (EDOREN) and Universal Basic Education Board (UBEC). Revised Report.

Schütz, G., West, M., R., and Woessmann, L. (2007) School Accountability, Autonomy, Choice and the Equity of Student Achievement: International Evidence from PISA. Education Working Paper No. 14. Directorate for Education, OECD, Paris.

The International Institute for Sustainable Development (2012), "A citizens' Guide to energy subsidies in Nigeria", (Geneva, Switzerland), Available at: https://www.iisd.org/gsi/sites/default/files/ffs_nigeria_czguide.pdf

Tooley, J. and Yngstrom, I. (2014) School Choice in Lagos State. Report submitted to DFID Nigeria.

van Fleet, J., Kevin, W & Lauren, G (2012), "Africa Learning Barometer". Centre for Universal Education, Brookings Institution. Accessed March, 2016. http://www.brookings.edu/research/interactives/africa-learning-barometer.

World Bank (2013), "Finance for Development: Post-2015". Washington DC: World Bank.

World Development Indicators (2014), Washington DC: World Bank. Retrieved March, 2016. Available at: http://data.worldbank.org/data-catalog/world-development-indicators.

World Bank (2008) Nigeria: A Review of the Costs and Financing of Public Education. Report No. 42418-NG.

World Bank (2013). Spending more or spending better: Improving education financing in Indonesia. East Asia and Pacific Region, Report No. 73050-ID.

World Bank (2015) Governance and Finance Analysis of the Basic Educator in Nigeria. Report No. ACS14245.

OECD/Asian Development Bank, 2015. Education in Indonesia: Rising to the Challenge, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264230750-en

Umar, H., M. and Umar, M., S. (2013) An Assessment of the Direct Welfare Impact of Fuel Subsidy Reform in Nigeria. American Journal of Economics 3(1), 23-26.

UNESCO/IBE, 2010. Brazil, World Data on Education. 7th Edition, 2010/11.

Appendices

Appendix A: 2013 Budget Allocations to Education in Nigeria

Government	Total budget (Naira Billions)	Education (Naira Billions)	Education Share in Total (In Percent)
Anambra	110.9	10.2	9.2
Akwa Ibom	470.1	N.A.	N.A.
Adamawa	95.0	N.A.	N.A.
Abia	134.1	2.5	1.9
Bauchi	137.3	5.7	4.2
Bayelsa	285.9	28.4	9.9
Benue	130.9	29.3	22.4
Borno	184.0	21.0	11.4
Cross River	151.4	19.6	12.9
Delta*	437.2	26.7	6.1
Enugu	82.9	4.5	5.4
Ebonyi	104.3	9.8	9.4
Edo	149.5	26.7	17.9
Ekiti	93.6	16.1	17.2
Gombe*	93.5	16.2	17.3
Imo	197.7	N.A.	N.A.
Jigawa	115.0	8.3	7.2
Kaduna	176.4	13.2	7.5
Kano	235.3	24.1	10.2
Katsina	112.8	25.9	23.0
Kebbi	119.9	9.2	7.7
Kogi	130.9	7.2	5.5
Kwara	94.4	7.6	8.1
Lagos	499.1	64.3	12.9
Nasarawa	108.0	4.2	3.9
Niger	83.8	N.A.	N.A.
Ogun	211.9	43.4	20.5
Ondo	151.0	10.5	7.0
Osun	150.1	16.3	10.9
Oyo	152.2	49.3	32.4
Plateau	133.5	7.4	5.5
Rivers	490.3	47.8	9.7
Sokoto*	100.8	9.8	9.7

Taraba*	73.9	4.7	6.4
Yobe	86.6	16.4	18.9
Zamfara	104.3	5.7	5.5
Federal	**4,990**	**432.8**	**8.7**
Total	**10,332**	**1,025**	**9.9**

Source: Various News Reports and Calculations by the Office of the Chief Economic Adviser
Note: * 2012 Budget

Appendix B: Case Study Qualitative Data Collection Methodology

A team of researchers were tasked with completing field visits and data collection for the states: Lagos and Kaduna. The choice of states – Lagos and Kaduna was to reflect Nigeria's regional structure, which also has implications for education financing and educational performance, considering wide geographical disparities. Also, two LGAs, one in the urban area and the other in a suburban area, were selected in each State to mainstream differences in the likely level of funding options available to each LGA.

The Data was collected during a two-week period, although official communication was established earlier in the States. Data collection was conducted at the State, LGA, and School level. The main sources of data were semi-structured interviews, annual reports on education financing published by the State Ministries of Education (SMoEs) and the Universal Basic Education Commission (UBEC).

Senior education officials in each state were interviewed. In particular, interviews were conducted with the Directors of Planning, Research and Statistics in SMoEs and State Universal Basic Education Boards (SUBEBs) for both Lagos and Kaduna. Head Teachers and Principals of Primary and Junior Secondary Schools where interviewed while the Education Secretaries of respective LGAs, or their representatives[30], were interviewed. The full cooperation of all the education stakeholders was achieved during the field survey, except for Lagos State. However, the core data required for the case analysis was collected.

[30] For instance, in Kachia LGA Kaduna State, the Education Secretary was represented by the Head of Department (HOD) Human Resources and the HOD of Administration and Supply.

Centre for the Study of the Economies of Africa (CSEA)

No.4 Dep Street off Danube Street,

Maitama Abuja

Website: www.cseaafrica.org

Email:enquiries@cseaafrica.org

Tel:+23492914820, +23492914822

the
Education
Commission

The International
Commission
on Financing Global
Education Opportunity

educationcommission.org