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Financing Education in Africa through Diaspora Bonds

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Abstract

One of the challenges facing many African countries today is the decline in the budgetary allocation to education despite the increase in the enrolment of students in public schools. This review article seeks to address the potential of financing education in Africa through diaspora remittances, with special reference to Nigeria. It reviews the evidence that suggests "Diaspora Bonds" are a significant alternative source of domestic funding. Informed by the successful exploration of the patriotic devotion of large Indian and Israeli emigrant populations, the article critically evaluates the potentials and limitations of a Diaspora Bond Policy. Drawing on findings from recent studies on diaspora bonds, the paper recommends that the Nigerian government explore the option of Diaspora Bond towards meeting the country's educational priorities in line with the Sustainable Development Goal 4. The paper also triggers the awareness of governments in African countries on the need to

further explore alternative sources of funding for education and development of other critical sectors of the economy.

Keywords: *Diaspora Bonds, Funding, Education Finance, Africa*

Introduction

Recently, scholarly literature in Africa have focused on the provision of quality education and learning for all (Akinyemi, 2013; Olaniran, 2018; Ilie & Rose, 2018; Uleanya, Rugbeer & Olaniran, 2019; Motala, 2019). While there is a broad consensus about the need for national governments to devote a significant portion of their national budget to education, little research exists on exploring alternative funding sources, such as diaspora bonds, to promote educational development locally. The purpose of this study, therefore, is to explore the potential of diaspora funds in financing education in Africa, with special reference to Nigeria.

Ensuring quality education and lifelong learning for all is the fourth of 17 Sustainable Development Goals (SDGs) (UNESCO, 2015), and this is not what the government alone can deliver. One of the challenges facing many African countries today is the decline in the budgetary allocation to education despite the increase in the enrolment of students in public schools (Mohamedbhai, 2011). This must be seen not only as a challenge but also a call to action by countries in Africa to look beyond public budget in the provision of basic and functional education and literacy, as no meaningful development can take place in a nation where majority of the citizenry is illiterate (Olaniran, 2018).

Diaspora Bonds, according to Mugo (2015), are one of the realistic strategies that any government can adopt to raise funds for development projects, including the provision of qualitative education for all. The Global Partnership for Education (GPE) (2016) states that achieving SDG 4 will demand higher levels of sustained funding. Therefore, African governments must double their efforts in achieving the SDGs, especially goal number 4 on quality education. Undoubtedly, increased financial investment in education is vital in building strong educational systems that can yield maximum outcomes in terms of access, equity and quality learning. As Amel Karboul, member of the Education Commission Leadership Team, rightly pointed out during her 2017 TED talk titled, "The Global Learning Crisis and What To Do About It", national governments should accept and deliver on their primary responsibilities of funding education domestically (Karboul, 2017). Karboul argues that domestic financing remains the backbone of educational investment. Whilst this seems to be key in solving the current global education funding crisis, it can be argued that tangible results will only be achieved through effective and accountable financing mechanisms that are either aid-dependent or not. The growing concern, however, is the declining state of aid (Steer & Wathne, 2009) to education that has placed a huge demand on developing countries like Nigeria to create and catalyze different innovative and alternative funding pathways that sufficiently meet their educational needs and capacities.

Studies have revealed various alternative and sustainable funding sources that can be harnessed to finance education (Eckwert & Zilcha, 2012; Holliday & Gide, 2016; Oke & Bukar, 2018; MbahNnadi, Nwachukwu, & Onoh, 2019). These include private investors, corporate bodies, foundations, and citizens contributions. Given its proven success in raising large-scale revenue, diaspora bonds is a fundamental source of finance that offers governments a flexible mechanism and alternative model to augment their domestic expenditure and funding deficit for national development efforts, especially the provision of quality education across all levels. The paper, therefore, explores the dynamics and prospects of diaspora bonds as an alternative source of education finance. It also highlights some limitations which can serve as impediments if proper care is not taken, while calling on African governments to see this as a call to action. Given the paucity of literature on education financing through diaspora bonds in Africa, this paper addressed the following research questions:

1. What are diaspora bonds?
2. How can the diaspora bonds be explored to finance education in Nigeria?
3. To what extent can diaspora bonds assist Nigeria in meeting the SDG 4?

It is expected that the paper contributes new knowledge and scholarship about the available alternatives to financing quality education for all, both at the basic and higher levels. Furthermore, this paper provokes better understanding of the need for the Nigerian government to create platforms for its citizens in the diaspora to contribute to policy making and implementation regarding education delivery. Such platforms create more openness and transparency on the part of the government and enables the diaspora community to see the need to invest in education and other critical sectors of the economy.

Conceptualising Education Financing

The provision of qualitative education for all is the responsibility of governments worldwide (Digital Learning Network, 2015). Education financing is described as a process of allocating financial resources to the provision of basic and higher education in a country for enhanced socio-economic status. Basic education, in many countries, is seen not only as a right but also a responsibility for any government to provide for the citizenry (Roser & Ortiz-Ospina, 2016). Many African governments rely significantly on external sources to finance key sectors of the economy, including education (AFDB, 2013). Diaspora bonds is one of the external sources of funding that many governments in Africa explore to finance development projects, besides the usual annual budgetary allocation.

In Nigeria, education financing is derived, through the federal, state and local governments, from different public and private sector sources as well as from external aid (Olaniran, 2013). The federal government provides funding for education through the constitutionally determined Federation Account Allocation Committee (FAAC), a statutory 2% of proceeds from tax and oil revenue which is disbursed to states and earmarked for development expenditure only (Steenbergen, et al., 2016). It directly funds secondary and tertiary institutions through debt relief grants, local/international donor grants and the Tertiary Education Trust Fund (ETF). The state and local governments, on the other hand, finance provincial development projects, payment of primary teachers' salaries and other recurrent expenditure, which is hugely dependent on federal allocation and internally generated revenue (Afolayan, 2014).

Given that the FAAC revenue which forms the most substantial source of finance for basic education in Nigeria depends heavily on oil exportation, a continuous decline in global oil prices is significantly affecting overall FAAC funding for Nigeria's states. As a result of this, budgetary allocation to education has continually failed to meet public expectations or regulatory standards. For example, the allocated revenue to education in the 2016 federal budget plunged to ₦403.6 billion naira from ₦655.47 billion naira and ₦521.27 billion naira in 2014 and 2015 respectively (Steenbergen,et al., 2016). At 12.5 percent of total federal expenditure and 1.7 percent of its Gross Domestic Product (GDP) (World Bank, 2015), Nigeria's public investment in education is considered insufficient in mounting core reforms that can meet the country's educational priorities and human capital needs. Clearly, the government's inability across all levels to increase domestic expenditure to education through budgetary allocations over the years can be attributed to misallocation of investment issues and structural dysfunctionality as a result of limited sources of federal revenue generation beyond crude oil and tax proceeds. A comparative analysis of the country's education budget from 1999 to 2016 showed the average total allocation to education is just 8.5 percent, an input that is significantly below the 26 percent of the national budget as recommended by the United Nations Educational Scientific and Cultural Organisation - UNESCO (Ismail et al., 2017).

In addition, the unpredictable variations in aid to education in Nigeria in recent times call for the urgent need to expand finance structures that will enhance long-term sustainability rather than being aid-dependent. According to OECD's Africa Development aid-at-a-glance data (2017), the total net official development assistance (ODA) provided to Nigeria from donor organisations, foreign governments and multinational agencies that form the OECD's Development Assistance Committee (OECD-DAC), reduced from USD2.516 Billion in 2013 to USD2.432 Billion in 2015. These financial shortfalls demonstrate the "aid ineffectiveness" that was captured in a 2010 Fast Track Initiative (now GPE) midterm evaluation report on Nigeria, which concluded that "external aid is, and is always likely to be, only a very marginal source of finance for public expenditures on primary education in Nigeria" (EDOREN, 2015:4). Therefore, to close learning gaps and improve educational outcomes across all levels of the Nigerian educational system, there is a huge need to increase governmental domestic expenditure on education; a gap that can be filled using a financing mechanism such as the diaspora bonds.

Prospects of an Education Diaspora Bond Policy

Studies have confirmed the capacity for diasporans to contribute to the socio-economic development of their societies (Ketkar & Ratha, 2011; Ratha & Plaza, 2011; Plaza, 2013; Diaw, 2017; Akkoyunlu & Stern, 2018). As Ratha and Yousefi (2014) posited, "the potential for mobilizing diaspora savings for financing education, healthcare and infrastructure in countries of origin is massive". Diaspora bonds are defined as "bonds issued by a country to its own diaspora to tap in their wealth in the adopted developed countries" (World Bank, 2010). According to Ratha (2011), there are several innovative financing mechanisms which include loans buy down, student loans, risk financing, global solidarity levies, debt swaps, and social yield notes, among others. However, diaspora bonds are considered one of the safest innovative funding options with long-term and low-risk investment opportunities to generate sustainable capital, particularly to fund Education (Bellinger, Terway & Burnett, 2016). Diaspora bonds are fixed income investment offerings issued to raise funds from diaspora communities, usually for large capital development projects. These bonds are secured in the form of short loans from diaspora investors and are usually paid back in domestically denominated currencies with low yields and long-term maturities. Creating education diaspora bonds, as innovative financing instruments, enables governments to augment their domestic expenditure and meet budgetary allocations for national development efforts, most significantly the provision of quality education across all levels. (Kektar and Ratha, 2011). As indicated in Figure 1, India and Israel, two countries with a massive population of emigrants like Nigeria, have successfully mobilised funds from diaspora communities to finance development efforts domestically. Despite that, it is pertinent to note that the ability of these countries to enact effective diaspora bond policies is informed by an intrinsic element of nationalistic solidarity and ideological identification of Jewish and Indian diaspora with their countries of origin, a unique feature which will significantly determine the degree of transferability of the policies to a country like Nigeria.

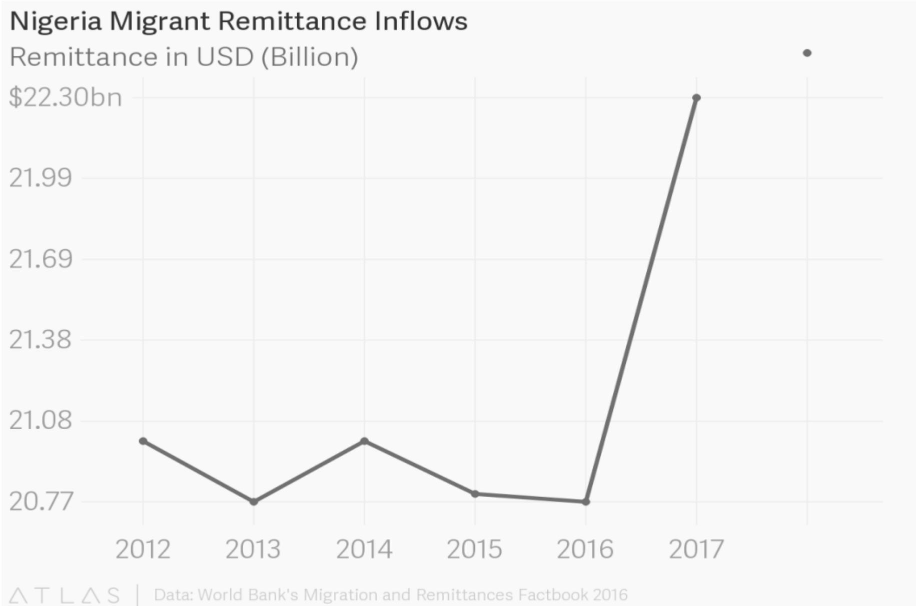
Aside from Israel and India (as revealed in Table 1), it is worthy to note that many countries like Ethiopia, Liberia, Ghana, Morocco, Sri Lanka, Jamaica, Rwanda, Sierra Leone and Grenada have issued or attempted the issuance of diaspora bonds with little or no success recorded (Kektar and Ratha, 2010). Kayode-Anglade and Spio-Garbrah (2012) argue that these futile attempts at diaspora bonds issuance are attributable to the lack of trust in the operational capacities of the host countries. This realisation, therefore, calls for adequate risk assessment, enhanced managerial systems and strong credit enhancement strategies to ensure successful issuances in African countries, including Nigeria.

TABLE 1: Comparison of Diaspora Bonds Issued by India and Israel

COUNTRY	TOTAL AMOUNT RAISED (USD)	PERIOD/YEAR (S) ISSUED	SECTORAL FOCUS	OUTCOMES
INDIA	11.3 billion	1991 1998 2000	Economic Development and Growth	Infrastructural projects in the areas of Housing Transportation Energy Telecommunications Water Resources Desalination
ISRAEL	32 billion	1951	Balance of Payments during financial crisis.	Access to International Capital

Owing to Nigeria's huge remittance receipts from significant emigrant populations abroad, diaspora bonds hold enormous potential for domestic resource mobilisation. Projected to rise to $22 billion in 2017, Nigeria's remittance figure totalled $20.77 billion in 2016, the highest in Africa and the third highest in the world (World Bank, 2016), 27 percent of which came from highly skilled emigrants in the US and UK (Kektar and Ratha, 2011).

With an approximate population of 17 million Nigerians living abroad, their remittance is an indicator of the diaspora stock, income and savings amounting to about $300 billion that can be tapped into annually for development (Plaza & Ratha, 2011).



Source: World Bank's Remittances and Migration Fact-Book 2016

With such promising prospect of a reliable source of external finance, Nigeria can successfully raise revenue to finance a broad aspect of educational development that requires a large amount of capital and can help achieve significant and measurable results such as provision of upper secondary, higher education and youth training (Kektar and Ratha, 2009). Okonjo and Ratha (2011) notes that patriotism appears to be a paramount factor in raising development finance using diaspora bonds. With a sense of solidarity and loyalty towards their homeland, emigrants of developing countries are motivated to contribute to infrastructural development that will be beneficial to their families. However, the successful issuance of diaspora bonds for educational development in Nigeria is dependent on a combination of soft and hard factors (Chima, 2017). Even with its significant diaspora population and huge remittances from abroad, Nigeria needs good credit rating, transparency rating and financial market development index rating to entice investors and reduce risk perception (Kayode-Anglade and Spio-Garbrah, 2012).

Limitations of An Education Diaspora Bonds Policy

The possibility of enacting a successful policy for diaspora bonds is tied to various technical, political and sociocultural factors. Since diaspora bo-nds represent a fundamental vehicle for emigrants to convey their interest "to do good in their country of origin through investment" (Kektar & Ratha, 2010:p 131), the success of the bonds in countries like Israel (Famoroti, 2017) can be largely attributed to the intimate relationship maintained with the citizens abroad and the sense of patriotism they display in return. However, in the case of Nigeria, this can be seen as a great challenge as Nigerians in diaspora have a "national identity crisis" (Olowokere, 2016; Ogunyemi, 2018). Olowokere (2016) further argues that several Nigerians living abroad hold a travel passport of their country of residence and, when needed, will rather present this for identification purposes. This lack of a meaningful national identity and the corresponding odd cultural perception can inform the weak conceptualization of a diaspora bond policy, causing flaws right from its conception. Plaza and Ratha (2011) note that major African countries with large emigrant populations like South Africa and Egypt (Kektar & Ratha, 2011) face constraints like political risks and high levels of perceived corruption in harnessing the potential of diaspora bonds. This is both a challenge and a call to action for African leaders to rethink good governance such that their citizens in the diaspora can be proud of the place they previously home.

Conclusions

Diaspora bonds have come to stay as a veritable alternative means of funding education and other infrastructure projects. This is evident in countries like Israel and India where diaspora bonds have helped in boosting their economies. This review paper has drawn a strong connection between the diaspora bonds and provision of qualitative basic education in Nigeria.

Harnessing the capabilities and resources of Nigeria's huge diaspora base will depend upon an effective diaspora engagement strategy that can track and document the welfare and accomplishments of emigrants, particularly the highly skilled in high-income countries. To accomplish this, the federal government should initiate special house sittings at the upper legislative chambers to review and pass the bill for the Establishment of the Nigerian Citizens in Diaspora Commission (NCDC) with the responsibility of building a database of Nigerians in the diaspora. The government of Nigeria must also ensure that diaspora groups are represented within the NCDC with other government representatives who will meet periodically to collaboratively decide on educational projects to fund based on the specific areas of interest of potential investors. Periodic consultative sessions can be hosted with broad diaspora groups through the Nigerian High Commission offices in key developed countries. Furthermore, an Education Sector Support Diaspora Bond (ESSDB) should be issued to raise external finance for education and to present investment opportunities for emigrants. Based on current realities within the Nigerian educational system, more attention should be given to developing teacher training institutions and almajiri (nomadic) education in the nation's north eastern region, which has a vast population of out-of-school children.

To make ESSDB attractive to potential investors, the federal government must increase its credit ratings to boost levels of confidence in its financial management systems and also bolster investor protection by registering with regulatory agencies like the US Securities and Exchange Commission. Moreover, a continuous inflow of finance from the ESSDB as a sustainable and predictable source of funds should be based on key long-term sectoral collaborations. In this regard, the budget planning office should work in partnership with the federal ministries of education and finance to set up an 'Education Diaspora Trust Fund" coordinated by the minister of education. This will surely help in ensuring that proceeds from the ESSDB are judiciously allocated to the projects that enhance provision of education and lifelong learning for all as enshrined in the Sustainable Development Goals (SDGs).

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