Private Sector Investment in Education and Training: A Case of Tertiary Education in Kenya

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Abstract

This paper assesses the current status of private sector participation in education investment and makes policy recommendations. A cross-sectional research design was used in this study. An in-depth descriptive analysis of private sector investment in technical and university education in Kenya was carried out. A sample of 137 private tertiary education institutions was surveyed in 2003/04. Key informants who responded to the questionnaire included principals and senior managers of the sampled institutions.

More than three quarters of private institutions of higher learning and less than a quarter of commercial colleges are affiliated to other institutions either locally or abroad. However majority of private institutions were single-campus institutions with a considerable number starting their operations after 1990. Private investment in tertiary institutions has been increasing rapidly since 1990. In choosing the location, investors considered factors such as the catchment area, accessibility, availability of facilities and infrastructure.

Despite investment in education being a long-term investment, majority of private investors did not own the land on which business premises were located. This was mainly due to high cost of land in areas considered to be favourable for locating a private institution, and unsupportive policy and legal framework. Most institutions offered soft courses that were female-dominated, as opposed to technical and engineering oriented courses. Foreign student enrolment was very low, though the country is a net importer of education with an estimated Ksh 25 billion being spent annually by Kenyan students abroad. Sole proprietorship, partnerships and religious organizations were the main investors in private education.

Data available was not comprehensive and accurate enough for the calculation of net present value and internal rate of return that would have enabled a comparison of alternative investment choices. However, a rapid increase in the number of private tertiary institutions in the 1990s and after year 2000, and prevailing optimism on future investment climate by key players suggest that private investment in tertiary education is profitable. The study identified barriers to entry into private education investment to include poor investment incentives, inadequate access to credit, access to land, inadequate infrastructure, and regulations for setting up a private institution.

In order to enhance private sector investment in tertiary education, the legal and regulatory regime should be reviewed with a view to spelling out the role of public-private partnerships in education development and making the registration process more efficient. Private sector participation in statutory bodies that deal with various aspects of education and training is important for them to be able to play their rightful role in education investment and also to encourage fair practices in the governance of education and training.

1. INTRODUCTION

1.1 Background

In Kenya, the existing and projected supply of public education is insufficient to meet the increasing demand for education and training at all levels. While the government recognizes that basic education should be a priority for funding, it is generally evident that public resources are inadequate to guarantee adequate access and coverage of education demand by the target population. Private education is heterogeneous and spontaneous compared with public education, and covers a wide spectrum of institutions.

Over the years, public expenditure resources have either remained the same or have shrank in real terms. Although the education budget is high (34 percent of aggregate public expenditure and 7.9 percent of GDP in 2002/3), the expenditures are skewed to personnel emoluments and primary education, leaving limited resources for other education sectors such as secondary education; Early Childhood Development (ECD); middle level tertiary education; Technical, Industrial, Vocational, Entrepreneurship and Training (TIVET) and university education.

On the other hand, demand for education and training in Kenya is high but it is neither met in coverage nor in provision of quality inputs such as adequate teaching and learning materials. Therefore, it is apparent that provision of post-primary education (secondary schools, middle level colleges, tertiary and university education) is mainly left to the private sector[1]. When public education fails to meet the demand for education and training at whatever level, or when quality instruction is wanting, demand for private education and training is bound to increase.

Private investment in education is of policy concern due to the following reasons:

(i) The degree of private investment in education can be seen as either an indication of weakness in the public education system and/or inadequate supply of public education to meet the demand for education and training at all levels, therefore committing parents to establish or choose private institutions. On the other hand, the amount of fees and other contributions to private investment in education indicate the purchasing power of households and willingness to spend in private education.

(ii) The Government, within the financing policy framework of cost sharing, embraces the role of "partnership" among individuals, private sector, development partners, and other stakeholders in education provision. However, there is limited data and information on the sector, and appropriate policy framework has not been developed.

(iii) Private institutions of learning may be seen as complementary and not in competition with public institutions in provision of education. All forms of private investment in education require a regulatory framework, curriculum development accreditation, and must be captured in national statistics for overall planning on human resource development.

The study recognizes that private investment in education through communities, profit-making institutions, households, religious organizations, and financial institutions has a critical role to play in the expansion and rehabilitation of physical infrastructure. In the 2001/02 fiscal year,

[1] In this study, private sector in education refers to all non-government investments in education (private education institutions, contribution from individuals, communities, non-governmental organisations and households).

budgetary allocation (excluding personnel emoluments) to primary school education was 1.6 percent of the education budget while the total for university education was 12.3 percent. However, in 2003/04 primary school allocation (excluding personnel emoluments) was 14.7 percent compared to 10.1 percent for university education. The fact that government financing to education is currently skewed towards primary level education means that the private sector must be encouraged to contribute significantly to financing tertiary education.

1.1.1 University education

University education forms the apex of Kenya's formal education and training. In addition to preparing high-level manpower for national development, university education is charged with undertaking research, development and dissemination of knowledge. In Kenya, there are 23 universities - 17 private universities and 6 public universities (Government of Kenya, 2004). Unlike public universities, private universities have increased significantly from 8 in 1999 to 17 in 2003, therefore contributing significantly towards enhancing access to tertiary education in Kenya.

The demand for university education in Kenya is high, as evidenced by the huge expenditure on university education abroad. Available information shows that Kenya spends more than Ksh 16 billion per year on Kenyan students studying abroad (Gachukia, 2003). The Government of Kenya (1988) through what is known as the Kamunge Committee recognized the need to increase access to university education and recommended that the establishment of private and harambee university institutions be encouraged but controlled and guided to ensure they offer courses relevant to the needs of Kenya and maintain acceptable standards.

Enrollment in public and private universities totals about 67,000 students. Annual intake into public universities is about 10,000. In addition, public universities enroll about 4,000 self-sponsored students annually, who mainly study in the evenings, weekends and during school holidays (part-time). The universities have expanded intake considerably in recent years.

Enrollment in the universities has been increasing steadily since the establishment of the University of Nairobi in 1970. By 1980, the University of Nairobi could not cope with the demand for university education, hence the establishment of other public universities (Moi, Kenyatta, Egerton, Jomo Kenyatta, and Maseno) and the rise of private universities. Total enrollment in public universities grew from 3,443 in 1970 to 9,044 in 1984 and to 43,038 in 1994. Table 1 shows the trend in enrollment in university education from 1995 to 2004. Total enrolment in private universities increased by 18.0 percent between 1999/00 and 2003/04 compared to an increment of 40.6 percent in public universities within the same period.

The number of candidates who met public university minimum (grade C+ in KCSE) entry qualification were about 59,000 in the year 2004. Public universities could only admit about 16.9 percent of this number. Another 5.1 percent were expected to join private universities. These figures point to an existence of high demand for university education. Some of those who do not secure admission to local universities join middle level colleges and foreign universities. Low transition from secondary to university has been explained by lack of adequate financing, boarding and teaching facilities. Students seeking admission to foreign universities is on the increase largely due to a combination of factors, including: inadequate access/low student-places in local universities; types of courses offered; quality of education and training; cost of education; and course duration, among others. Students in public universities pay fees of about Ksh 40,000. Self-sponsored students pay fees that range from Ksh 100,000 a year for arts courses to Ksh 400,000 in medicine. All students have to pay examination fees.

Table 1: Enrollment in universities, 1995-2005

Year*	Public	Private	Foreign	Total
1995/96	39,902	4,784	2,903	47,589
1996/97	39,428	5,964	4,318	49,710
1997/98	38,526	4,970	4,835	48,331
1998/99	40,570	6,991	5,337	52,898
1999/00	41,268	8,085	5,108	54,461
2000/01	42,508	8,212	5,123	55,843
2001/02	48,436	8,887	NA	57,323
2002/03	59,593	9,129	NA	68,722
2003/04	63,174	9,541	NA	72,715
2004/05**	81,491	10,050	NA	91,541

Source: Government of Kenya, 2003b, 2004, 2005
NA – Not Available; *Sometimes sources report slightly different figures; ** Provisional

1.1.2 Teacher education and training

Pre-service education and training for primary school teachers is offered through 28 public and 8 private colleges, in a two-year residential course. About 15,730 students were enrolled in public colleges (about 48.3 percent of whom were female), and about 2,222 (12.4 percent) in the private primary teacher training colleges in 2002 (Table 2). Annual output of qualified teachers is about 10,000. The public colleges operate below their capacity of approximately 18,000. The public colleges also provide a three-year in-service up-grading programme, both residential and distance learning, catering for serving teachers.

There is a quota entry system (in principle) in admission to training colleges to provide for regional balance. Minimum entry requirement is a "C plain" grade (compared with minimum entry requirement of a "C+" for university entrance (though this has remained at "B" grade due to resource constraints). Some students from disadvantaged areas are admitted with lower qualifications. Recruitment criteria have no special emphasis on subject grades, resulting in poor output (low quality of trainees) especially in science subjects.

At secondary school level, teachers are trained in two public diploma colleges, as well as the faculties of education in four public universities and one private university, offering bachelor of education programmes.

Table 2: Enrolment in public and private primary and diploma teacher training colleges

Type of institution	1999		2000		2001		2002		2003	
	M	**F**	**M**	**F**	**M**	**F**	**M**	**F**	**M**	**F**
Public primary teachers (P1)										
By gender	3,484	3,194	6,990	7,326	8,310	7,399	8,140	7,590	8,279	8,515
Sub-total	6,678		14,316		15,709		15,730		16,794	
Private primary teachers (P1)										
By gender	1,069	1,113	1,158	1,306	1,243	1,268	1,089	1,133	1,044	1,178
Sub-total (percentage)	2,182 (24.6%)		2,464 (14.7%)		2,511 (13.9%)		2,222 (12.4%)		2,222 (11.7%)	
Primary sub-total	***8,860***		***16,780***		***18,220***		***17,952***		***19,016***	
Diploma teachers										
By gender	1,113	788	1,204	817	1,213	916	1,313	912	1,185	935
Sub-total	1,901		2,021		2,129		2,225		2,120	
TOTAL	**10,761**		**18,801**		**20,349**		**20,177**		**21,136**	

Source: Government of Kenya, 2004
Notes: Proportion of enrolment in private primary teacher colleges.

Teacher-training diploma colleges recorded an enrollment of 2,225 students in 2002, an increase from 1,901 in 1999, with 41 percent being female students. There are also training programmes for pre-primary school teachers. In principle, the minimum entry requirement is a graduate certificate in primary education. However, majority of trainees currently have secondary education certificate. There are indications that less than half of the over 40,000 pre-school teachers currently in service are trained.

1.1.3 Technical, Industrial, Vocational and Entrepreneurship Training

Besides general programmes, the Kenyan education system also provides a wide range of vocational and apprentice programmes. This is a vital sub-sector that provides parallel opportunities either as alternatives to the general education or as after-school training geared towards preparing students for either self-employment or the world of work. The objectives of TIVET include: providing increased training opportunities for school leavers that enable them to be self-supporting; developing practical skills and attitudes, which lead to income-generating activities in urban or rural areas through salaried or self-employment; providing technical knowledge and vocational skills necessary for the growth of agriculture, industry and commerce; and producing people who can apply scientific knowledge to the solution of environmental problems. Figures 1 and 2 show the distribution of TIVET institutions across ministries and private sector.

While there are over 800 private and public TIVET institutions in the country, the enrolment levels and output quality is quite low, though the actual enrolment remains unknown (Kaane, 2003). Some of the factors responsible for this include the high cost and negative attitudes towards TIVET by prospective students, parents and society in general. Over 100,000 students annually are enrolled in some form of TIVET institution annually, including private sector training institutions (Government of Kenya, 2003a).

Figure 1: TIVET institutions under the Ministry of Education, Science and Technology

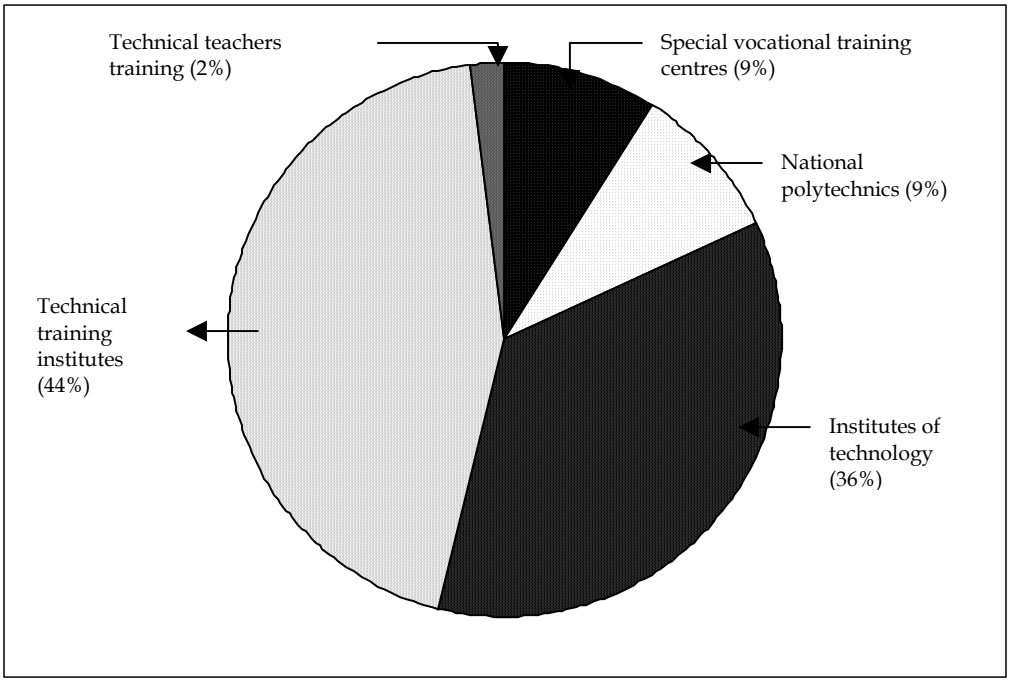


Figure 2: TIVET institutions under other ministries and private sector

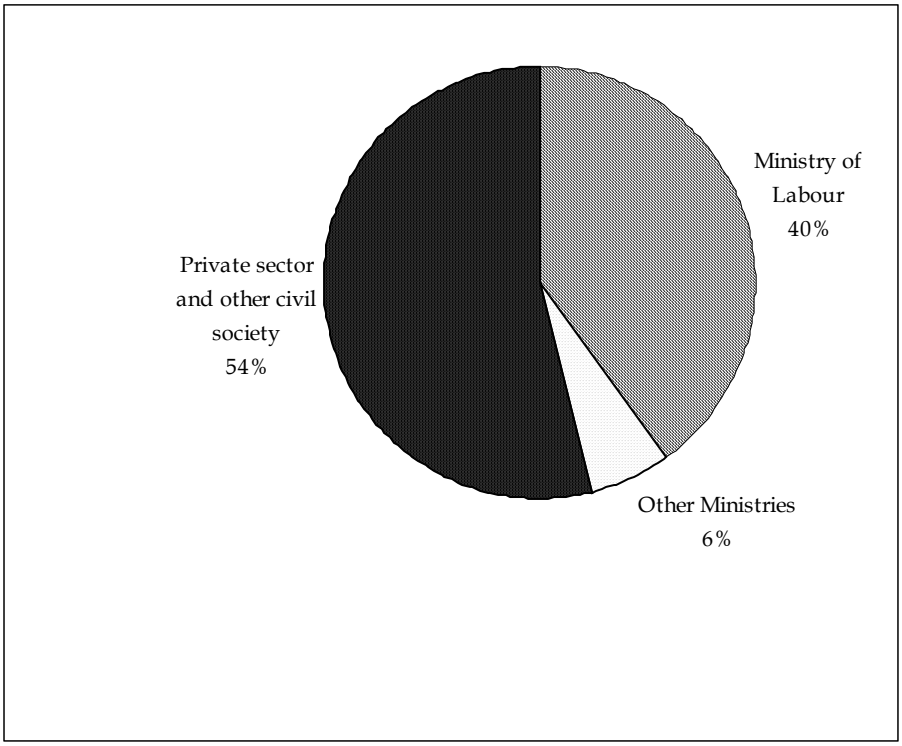


Table 3: TIVET institutions in Kenya

Under Ministry of Education, Science and Technology	Percentage (%)	Under other ministries and private sector	Percentage (%)
Technical training institutes	44	Private sector and other civil society	54
Institutes of technology	36	Ministry of Labour	40
National polytechnics	9	Other ministries	6
Special vocational training centers	9		
Technical teachers training	2		

1.2 Study Objectives

The aim of this study is to asses the role of private sector provision of education at tertiary level (technical and university) in Kenya, and identify and examine the critical, analytical and policy issues facing private investment in tertiary education in Kenya. The study was motivated by major concerns over the infrastructure for training within the public TIVET system, the perennial under-funding in the sector, and the colossal sum of money used in tertiary education outside the country. Public-private partnership in the provision of educational services calls for more private sector involvement in educational services delivery.

2. LITERATURE REVIEW

2.1 Education Financing Mechanisms

Over the years, there has been pressure to shift financing of tertiary education from the public sector towards more reliance on private sources. Increasingly, concern has also been raised on how tertiary education institutions price and place their services (LeBel, 1999). Chang and Hsing (1996) in a study on enrolment responses to tuition changes in private tertiary institutions in USA observed that the short-run effect of shifts in finance from the public to the private sector, in which tuition increases make up public sector shortfalls, are likely to reduce enrolments. The study noted that tuition elasticities rose from –0.261 to –0.557 while income elasticities of demand increased from 0.493 to 1.093. However, despite rising income increasing the income elasticity of demand, the study recommended that any shift to private sector funding should proceed only gradually.

In a framework of shifting tertiary education financing from the public to the private sector, three models are on trial. *First* is to provide a form of lending that could be done through parental or proxy graduate collateral, as in income-contingent loans; *second*, is the use of graduate tax; and a *third* alternative is the creation of an education voucher system (Mingat & Tan, 1992; Friedman, 1962). The World Bank advocates for the first model, also referred to as the standard model, as subsidies to higher education. The main argument for higher education loans is that private returns on higher education are higher than social returns and therefore the beneficiaries should meet the cost of higher education (Psacharopoulos, 1994, Manda, *et al.*, 2002). Higher education loan programmes have relatively succeeded in Kenya despite some management hiccups. However, this income contingent lending has worked poorly in many other cases, partly due to the variance in future earnings against which lending decisions must be made, and partly because interest rates have not reflected the level of risk *premia* (LeBel, 1999). Lending for tertiary education is therefore likely to be considered as a risky business by the private sector loan suppliers. In the Kenyan case, the loan supplier is again the public sector, which largely gives more weight to social and equity considerations rather than future economic ability to repay the loan.

Graduation taxation model, as expounded by Lincoln and Arthur (1993), is largely untested. This model advocates for a non-means tested grant for students, and recipients are obliged to pay an additional low rate of tax throughout their working life. Graduation taxation is likely to reduce pressure on income-contingent lending and general taxation.

The voucher system, first proposed by Friedman (1962), is a widely used tool for achieving greater choice in education institutions in USA at the elementary and secondary school levels. The voucher system, when applied, would embody an element of public support for education, and on the other hand introduce competition among institutions. Many countries have not considered the voucher system as an option in financing tertiary education. Experiments with the voucher system at the elementary and secondary school levels have produced graduation rates at competitive cost levels, and at competitive private and social rates of return. However, in developing countries, the voucher system can only remain as an alternative to income-contingent lending and graduation tax models (LeBel, 1999).

As tertiary education anticipates shifts in funding from the public to the private sector, the human capita investment model could provide a formula to assign the optimal funding proportions. For instance, if 60 percent of the benefits of a first level university degree are private, then this should represent the funding proportion that should be met through tuition and fees paid by the students and or parents, the rest (40%) should come from external sources. If the employers derive the 40 percent, then they represent the funding source of the balance, and if it is the public that derives the 40 percent benefits, then public subsidies should fund this

balance (LeBel, 1999). To determine the appropriate mix between tuition and fee charges versus loans will depend on the consumption and investment proportions of the benefits derived from a given level of education. For instance, if 80 percent of the benefits of first-level university degree are investment in nature, then it is reasonable to provide up to 80 percent of the funding charges through lending. As is the case with private versus social (public) benefits, rates of return studied should be used to establish the proportions, with the non-pecuniary returns representing consumption aspects of education while pecuniary returns account for the balance.

Macro-economic variables and private investment

A study on private investment behavior showed that macroeconomic stability and policy credibility are prerequisites for improved economic performance and increased rates in private investment (Bwonda, 2000). The study showed a strong and negative impact of uncertainty on private investment, meaning that the fiscal policy of the Government of Kenya could directly affect the cost of capital depending on the government's revenue and expenditure patterns. To minimize the adverse effects of fiscal deficit on investment, policy measures that encourage a sustainable fiscal balance are necessary. Sound macroeconomic policies directed towards a sustainable low cost of capital are likely to increase private investment in tertiary education.

2.2 Regulatory Framework for Education

Regulatory framework in education refers to the set of tools and/or instruments that the government uses to influence the actions of individuals, firms and other organizations involved in the education sector and the actions of the government itself. From such a broad perspective, the regulation framework goes beyond written legislation and could be found in other official central and local authority mandates and policies. In the words of LaRocque, Norman (1999), regulatory framework includes the rules that govern:

- How providers are established;
- The level and manner in which providers are subsidized;
- The taxation and customs treatment of providers;
- How providers are governed and managed;
- The operational flexibility that providers have;
- Information disclosure requirements on providers;
- Regulation of the teacher-labour market, including teacher registration and contracting arrangements; and
- The process of review and quality assurance of providers.

Private markets alone cannot ensure that educational objectives are met. This calls for public intervention to safeguard agency issues (social benefits), information issues, capital markets and equity concerns. To do so, an efficient regulatory framework design is necessary. A well-designed regulatory framework can foster the achievement of educational objectives, and *vice versa*.

Generally, three sets of policy instruments or tools are at the disposal of governments when responding to market failure. These are:

(i) Purchase goods and services for people or subsidize a service or activity. This may include paying living allowances to students, subsidizing schools' operating expenditures, or providing vouchers to students to attend public and private schools.

(ii) Governments can own the providers of services. For example, governments generally own the majority of schools and universities.

(iii) Governments can mandate or require firms or individuals to do or not do certain things. This can include putting in place health and safety requirements for schools, limiting fees that can be charged by schools, requiring particular governance structures for schools, requiring that students attend school between certain ages, etc. From these policy instruments, policy makers, in designing the regulatory framework, determine the optimal 'mix' of policy tools to use to address the identified market failures.

2.3 Comparison of the Regulatory Framework in Kenya and West African Countries

The choice of four West African countries is based on availability of information on private investment in education and successful implementation. At a macro level, regulatory frameworks in Senegal, Côte d'Ivoire and Mauritania differ significantly from that in Gambia and Kenya. The regulatory approach in the three countries is a reflection of the laws inherited from their colonial masters (France). In all the three countries, the regulatory framework sets out the legislative principles that govern the private education sector. The legislation is supported by a series of *décrets* (similar to regulations passed by Order-in-Council or *gazette* notice as in Kenya) and *conventions* or memorandum of understanding (negotiated with specific sector groups), which explicitly define the 'rules of the game' for the operations in the education industry (LaRocque, 1999).

Gambia's regulatory framework, which reflects its common law heritage, has adopted a much less codified approach to setting out its regulatory framework in education. In Kenya, private universities and institutions offering degree programmes are regulated through the Commission for Higher Education (CHE), a wholly government-owned educational standards control and monitoring organization. Currently, the organization has no adequate representation from the private education markets and seems to be preoccupied with 'chartering' and issuing letters of interim authority as specified in the University Act (210B). The Education Act Cap 211 mostly addresses public institutions and does not address the investment climate. Commercial colleges have been regulated through legal notices, Public Heath Act, registrar of societies office and various by-laws of respective local authorities, with the Education Act acting as a governance and administrative tool.

There exists differences across countries in their statutory recognition of the private education sector. Côte d'Ivoire and Senegal explicitly recognize the role of the private sector in legislation (LaRocque, 1999), while Kenya and Gambia are silent. In Côte d'Ivoire, *Loi 95-696* provides the foundation for private sector participation in education. One of the underlying principles is that education is a public service, but that private institutions may be granted the right to offer that public service. In Senegal, Article 3 of *Loi 91-22* recognizes the role of the private sector in education and training.

The five countries differ in the way issues that concern private education provision are handled. In Senegal and Côte d'Ivoire, specific units or agencies are responsible for private sector issues while in Mauritania, the responsibility rests with an adviser to the Minister of Education on private education matters. Responsibility for private sector issues in Gambia rests with the Department of State for Education, although there is no division with specific responsibilities in

that regard. In Kenya, the situation is similar to that of Gambia in that the Commission for Higher Education lords over private universities though its mandate is not limited to private institutions.

2.3.1 Role of the private education sector in West Africa

The private sector share of the education market ranges from 4 percent in Mauritania to 21 percent in Gambia, with Senegal and Côte d'Ivoire at 15 percent and 19 percent, respectively. At some education levels, the private sector is dominant. For example, in 1999 the private sector accounted for nearly all of the early childhood education market and 28 percent of the middle school market in Senegal, all of the professional education market and 36 percent of the secondary school market in Côte d'Ivoire and 76 percent of the senior secondary market in Gambia. The number of students in the private sector ranged from 15,000 in Mauritania to over 400,000 in Côte d'Ivoire, while the number of private providers ranged from 80 in Mauritania to over 800 in Senegal.

2.3.2 Evidence of growth of private education sector in West Africa

In West African countries where deliberate efforts have been made through the right 'mix' of policy and regulatory framework, major gains have been recorded on enrolments (LaRocque, 1999; Tooley, 1999). For instance, the number of students in private schools in Gambia grew by nearly 50 percent between 1993-1996. Between 1991/92 and 1995/96, the share of the private tertiary education market grew from 3 percent to 23 percent and between 1987/88 and 1997/98, the number of students in private schools in Senegal grew by over 75 percent.

2.3.3 Lessons for Kenya

Four main lessons from the West African experience would be relevant to Kenya's creation of a good environment for private sector investment in education and private education markets:

(i) The explicit recognition of the private sector's role in education and training in the overarching legislation in Senegal and Côte d'Ivoire.

(ii) The favourable resourcing policies that exist in a number of countries. For example, Gambia provides free land as well as tax and customs exemptions to schools. Senegal subsidizes recognized providers. Côte d'Ivoire provides both subsidies to recognized providers and sponsors 'public' students to attend private schools.

(iii) Specific units within the relevant government ministry handle private sector issues as observed in Senegal, Côte d'Ivoire and Mauritania.

(iv) The absence of limits on private school fees in most countries despite public support.

Except the fourth element, the rest are not evident in Kenya. This would mean that private investors in education do not have similar opportunities like those of West African countries. West Africa governments have introduced demand-side financing techniques and a supply-friendly policy and legal framework that have led to an increment in educational access, particularly for girls, the poor and students from rural areas (LaRocque, 1999).

For example, the Communauté Urbaine de Dakar offers scholarships to students studying at both private and public institutions (both domestic and external). Annual funding is around US$ 700,000. In Kenya, the Higher Education Loans Board (HELB) loan (Ksh 660 million in 2002/03 or US$ 8.25 million at current dollar rates), though limited, has recently been extended

to needy full time students in private universities. The Côte d'Ivoire government sponsors students to attend private institutions at the secondary and tertiary levels. In 1997, some US$ 10.3 million was paid to sponsor over 160,000 students to attend private schools. The Department of Social Welfare in Gambia currently operates a scholarship scheme for needy children – 150 scholarships are provided each year. The Third Education Sector Project saw the introduction of a new scholarship scheme targeted at low-income girls. In Kenya, non-government scholarships to students in private institutions are available but minimal. The sponsors include religious organizations, private firms and community-based organizations.

The regulatory frameworks for education in the four West African countries have encouraged the growth of private investment in education and, to some extent, helped advance the objectives of increasing equity, access, quality and efficiency in education. Of interest is the policy mix in these countries, which provides a practical platform for the private education sector to become established and to flourish. If Kenya's policy and legal framework on private education markets were to borrow from the West African experience, it is likely that private sector investment in education would continue to increase. Of specific mention here is the need to explicitly make policy and legal provision for public-private partnerships. However, this is not to mean that the regulatory framework in the West African countries is perfect. In fact, the framework has been found to be weak in encouraging private foreign investment in education.

3. STUDY METHODOLOGY

3.1 Sources of Data

Both secondary and primary data sources were utilized during the study. Secondary data was obtained from various government publications, including Economic Survey (various issues), Ministry of Education, Science and Technology statistics on tertiary education in Kenya, and both international and local literature on private education.

3.2 Research Instruments

Primary data was obtained by administering a structured questionnaire to sampled tertiary institutions (commercial colleges and private universities) across the country. The researchers administered these instruments to representatives or owners of various categories of private education institutions, including college principals and representatives of universities. The survey captured information on profiles of private institutions for higher learning, including institutional characteristics, ownership, service delivery and investment expenditure, impediments/constraints, costs, investment environment, costs of investment, financial accounts, credit availability, structure of workforce, employee benefits, among other issues.

3.3 Study Sample

Within each of the provinces surveyed, districts and towns were sampled based on the number and concentration of private education institutions (both schools and colleges) in those regions. Two districts in each of the sampled provinces were considered for the survey. Within a particular town and its neighborhood, the study targeted private education institutions based on their locations. These were categorized on the basis of location of education institutions using the following criteria: market level of locality (up-market estate institutions, low market estate institutions), town/city center institutions and rural neighbourhood institutions.

Two researchers were allocated on daily basis to each of the above localities in each of the regions surveyed and visited all accessible private colleges and private universities. This approach was aimed at enabling the researchers to obtain information that was as representative as possible of the characteristics of the various regions by the few institutions that they could visit within the limited time span of the study.

3.4 Institutions Surveyed

A total of 137 private tertiary institutions were surveyed though their total population remains unknown. Table 4 gives the distribution of the private tertiary education institutions that were surveyed.

Table 4: Number of private tertiary institutions surveyed, by province and district

Province	District	Number of Tertiary institutions
Nairobi	Nairobi	38
Rift Valley	Uasin Gishu, Nakuru	16
Western	Bungoma, Kakamega	9
Nyanza	Kisumu, Kisii	6
Eastern	Embu, Meru	17
Central	Kiambu, Thika	10
Coast	Mombasa, Kwale	41
Total		**137**

3.5 Data Collection

Fieldwork on the study took approximately 40 days. All the administrative provinces of Kenya were surveyed with the exception of North Eastern Province due to both logistical handicaps and the highly sparse distribution of private education institutions in the Province. The latter factor could have rendered the entire exercise uneconomical based on the scarcity of private education institutions and the high cost of accessing the institutions.

3.6 Data Analysis

The study utilized descriptive method in data analysis using available statistical software that enables frequencies, ratios and percentages to be generated. Qualitative data was coded and reported in form of broad categories depending on the frequency of responses that were closely related. Data was presented mainly in tabular form, pie charts, bar and line graphs in order to show the prevailing patterns.

4. STUDY FINDINGS

4.1 Status of Private Investment in Tertiary Education in Kenya

This section looks at the characteristics of the providers and beneficiaries of private tertiary education, including: category of institutions; ownership; enrolment and graduation; student disturbances; institutional capacity and structure of the workforce.

4.1.1 Category of institutions

For the purpose of presentation, we group tertiary private institutions into two broad categories.

(i) Institutions of higher learning

These are private institutions that have been authorized by the Commission for Higher Education (CHE) to basically provide university education. They include chartered universities and institutions with a letter of interim authority, and also accredited institutions that collaborate with other universities (either locally or abroad) in the provision of training programmes.

(ii) Commercial colleges

These include all middle level colleges that provide post-secondary education and training and have no authority from the Commission for Higher Education to provide university education.

Out of the 137 private institutions visited, majority (75.2%) were commercial colleges, 8.8 percent were accredited institutions and or university colleges, while chartered universities and universities with letters of interim authority from the Commission constituted 1.5 percent each. The rest (13.1%) were other[2] institutions.

For the purpose of analysis institutions under the 'other' categories (also referred to as 'related institutions') were treated as commercial colleges. In Kenya, the exact number of private commercial colleges is not known.

Over 80 percent of private institutions of higher learning have linkages and or are affiliated to other institutions. However, majority (77%) of commercial colleges did not have any affiliate institution. Most of the colleges and institutions of higher learning (63% and 69%, respectively) did not have constituent colleges. This is an indicator that majority of the institutions only operate in Kenya as sole institutions with no network, or that initial capital for expansion limits the establishment of constituent campuses. For those with constituent colleges, majority (93%) were located in Kenya, an indication that most private education institutions in Kenya are likely to be locally-owned.

When choosing alternative sites of location, private education investors took into account various considerations, including:

(i) A good catchment area/high demand

(ii) Accessibility

[2] Other institutions included private institutions that offer technical (mechanical engineering, electrical engineering, carpentry, etc) courses only.

(iii) Availability of facilities

(iv) Good infrastructure

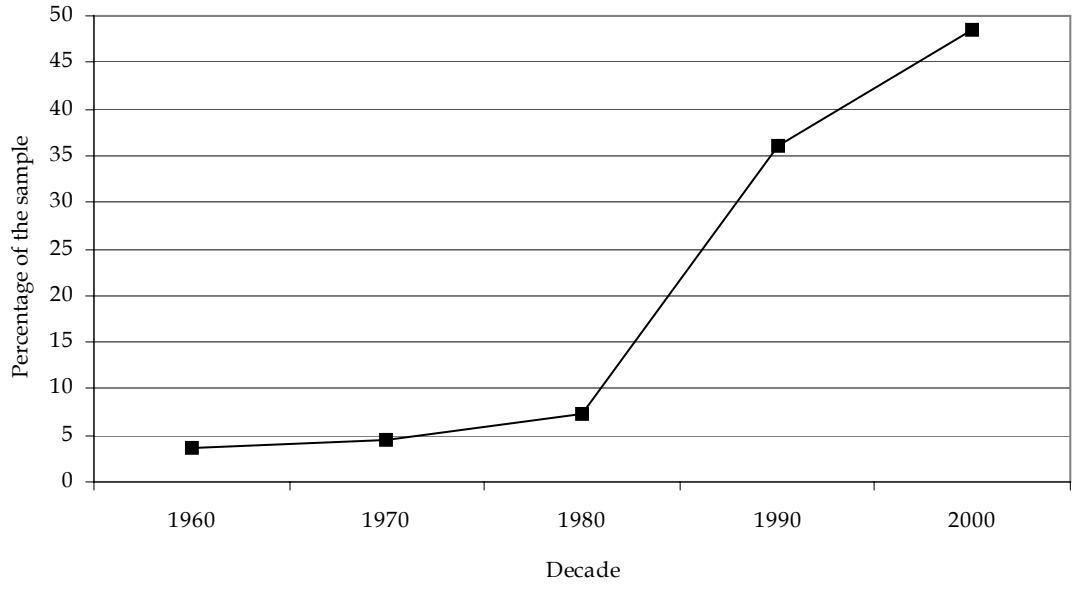
These reasons suggest that demand for education and an enabling environment are crucial to private investment in education. However, it has been observed that some private commercial colleges are located in what would be considered un-conducive learning environments. Such environment includes next to or on top of liquor/alcohol selling premises, over-crowed bus stations and littered backstreets. Such institutions are likely to be purely commercial, and service quality and standards are considered secondary. The proliferation of training institutions in such environments is a manifestation of the ineffectiveness or total collapse of the systems of monitoring and regulation of training institutions.

4.1.2 Growth and property ownership

Figure 3 shows a steady growth of private tertiary education institutions. Most (92.7%) of the institutions were established from scratch, and only about 18 percent of them owned the land. Of those who owned the land, about 84 percent had title deeds. Only a few private tertiary education institutions were members of private associations directed to promoting their interests. Such associations are important in influencing education policy in the interest of private tertiary education institutions. Most (52%) commercial colleges indicated that lobbying government and resolving disputes are important functions of such associations.

The land occupied by individual institutions was at most one acre for more than half of the institutions surveyed, with only one chartered university occupying 300 acres. To be issued with a charter, the University Act (Cap 210B) requires that the institution own at least 50 acres. Though it is important for institutions to have adequate land for future expansion, such a regulation inhibits the growth of private institutions of higher learning, given that the cost of land, and especially in urban areas is high. On the other hand, majority did not own land and therefore could not use it as collateral to access credit.

Figure 3: Growth of private tertiary education institutions



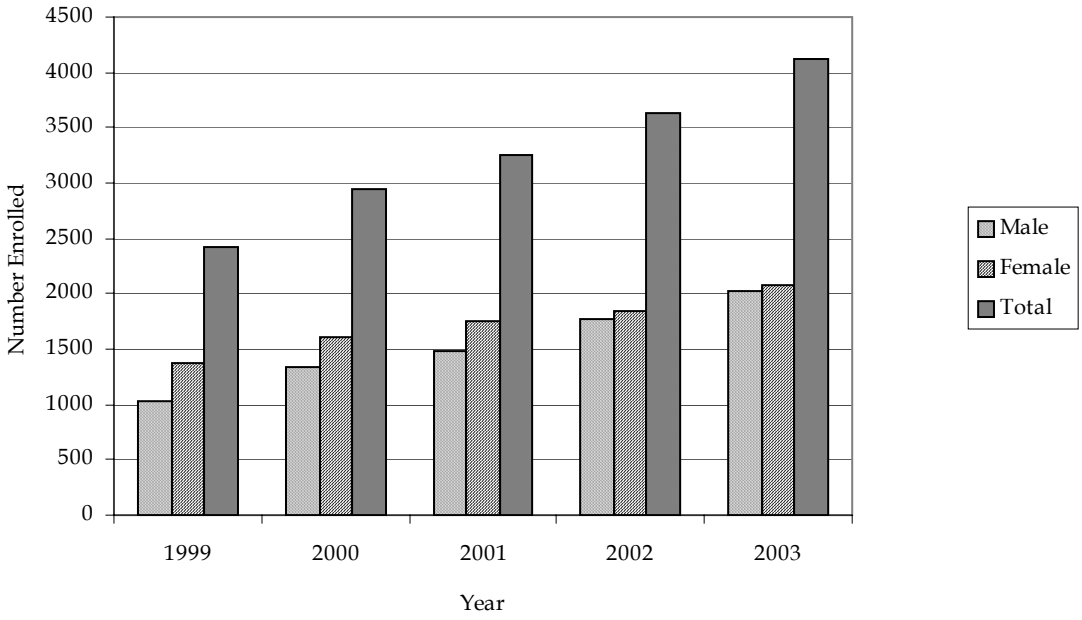
Only a few (28.6%) institutions of higher learning had total ownership of land and buildings. Over 83 percent of the institutions had not leased or rented land, although in case of buildings, most (91.7%) institutions indicated that they leased/rented buildings. It is possible that some institutions owned buildings/land and at the same time lease/rented some to cater for their needs. Among commercial colleges and related institutions, about 79 percent (77) and 78 percent (81) did not own the land and buildings they occupied, respectively. On the other hand, about 90 percent of them indicated they leased/rented buildings. This is consistent with an earlier observation that most commercial colleges did not own buildings. However, for those who owned land (25), 84 percent had title deeds. The size of land occupied by most (56.6%) private institutions was less than one acre with another 38 percent occupying between 1 and 10 acres.

4.1.3 Enrolment in private institutions

Figure 4 shows the growth of enrolment in the sampled institutions of higher learning. On average, more female (53.5%) students than male (46.5%) were enrolled. It was likely that the type of courses offered in private education institutions were more popular with female than male students. Enrolment of both males and females was also on the increase in the private institutions sampled. Total enrolment in the sampled institutions grew by 41.2% between 1999 and 2003, which is an indication of an increasing demand for training. A similar trend has been observed in the public sector between 1999 and 2003, with a growth of 38.3 percent, 46.9 percent and 38.9 percent for technical training institutions, national polytechnics and public universities, respectively.

Demographic related factors such as the natural increase in population growth play a major role in determining demand for education and training. The number of school leavers wishing to join tertiary institutions has been on the increase. For instance, between 1999 and 2003 the number of form four (grade 12) school leavers increased by 32.8 percent. This is likely to be reflected in post-secondary institutions in form of increased enrolment. If this trend continues, it is expected that more private institutions will enter the market and or the existing ones will expand their capacity.

Figure 4: Growth of enrolment in selected private institutions of higher learning, 1999-2003



Figures 5 shows the growth in enrolment in the sampled commercial colleges and related institutions. On average, slightly more female students (51.1%) than male (48.9%) were enrolled between 1999 and 2003. Like in institutions of higher learning, it was likely that courses on offer were more attractive to female students. Enrolment in both male and female students was on the increase in private commercial colleges and related institutions. Total enrolment in the sampled institutions grew by 63.2% between 1999 and 2003, an indication of increasing demand for training. If this trend continues, it is expected that more private commercial colleges will enter the market and or the existing ones will expand their capacity.

More female than male students are enrolled in private education and training institutions unlike in public middle level colleges and universities, which are male-dominated. This could be explained by several factors, including type of courses offered, relevance, duration of the course and location in terms of rural-urban. The enrolment of girls in science subjects at KCSE is also an indicator of patterns of course enrolment in post-secondary education. For instance, in the year 2001, girls enrolment in KCSE science (physics, chemistry and biology) examinations accounted for about 45 percent of the candidates and 30 percent in physics alone (Government of Kenya, 2004). In technical subjects, the proportion (2.9%) was almost negligible, while that of typing and office practice was 95.8 percent. Given low enrolment in science and technical courses and high enrolment in service-oriented courses (such as office practice), female students' enrolment is likely to be relatively high in non-science and engineering courses, which are popular with private institutions. If the observation that more female than male students are enrolled is real, the question that arises then is whether giving financial support to private commercial colleges and institutions of higher learning would offer more education and training opportunities for disadvantaged female students, and therefore help correct gender imbalances in education and training.

Figure 5: Growth in enrolment in selected commercial colleges and related institutions, 1999-2003

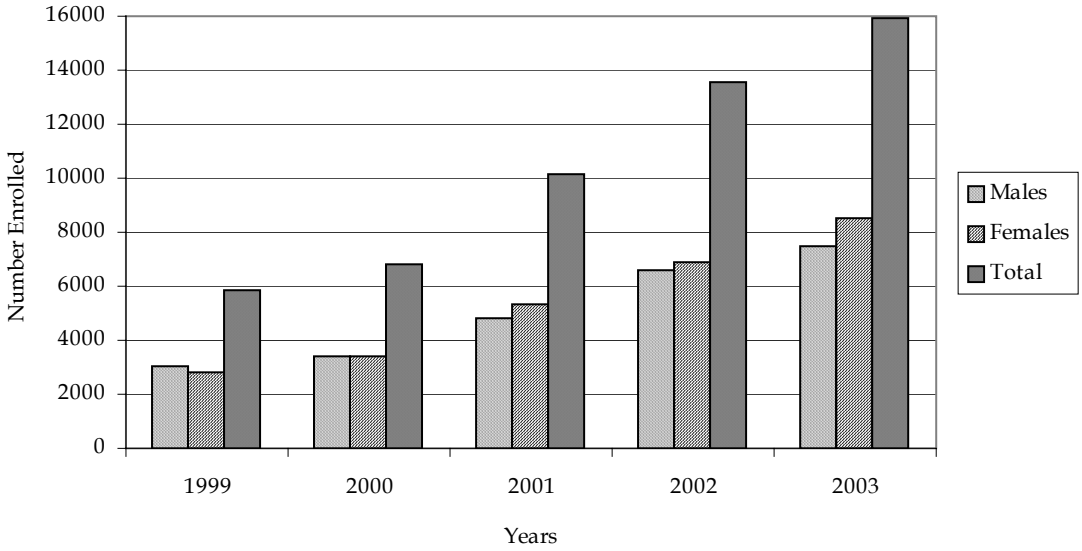


Table 5: Proportion of females enrolled with respect to provision of boarding facilities, 1999-2003

Kind of hostel	Proportion of institutions of higher learning (number)	Proportion of commercial colleges (number)
With female hostels only	41.2 (2)	72.1 (7)
With male hostels only	0 (0)	63.2 (1)
With female and male hostels	59.2 (2)	37.5 (6)
No boarding	51.7 (12)	46.0 (107)

From Table 5, the two institutions of higher learning with hostels for females only had a relatively low proportion (41.2%) of female enrolment while the proportion was high (59.2%) in another two institutions with hostels for both male and female. The proportion of females in institutions of higher learning with no boarding facilities was slightly high (51.7%). From these observations, there is no clear pattern between availability of boarding facilities and female enrolment in these institutions. In commercial colleges, the proportion of female enrolment in the seven institutions with female hostels only was very high (72.1%). Similarly, the proportion was also high (63.2%) in the commercial college that had male hostels only. However, colleges with hostels for males and females had a relatively low (37.5%) female enrolment, an indication that female students and or their parents are less likely to prefer colleges with boarding facilities for both male and females.

Enrolment of foreign students in private education institutions

In 1999 and 2000, enrolment of foreign students in institutions of higher learning was below 1.2 percent but rose to 7.1 percent in 2001. In 2002 the proportion of foreign student dropped slightly to 5.3 percent. The year 2002 was an election year in Kenya, and like other young democracies in developing countries, general elections in Kenya, though peaceful, are potentially explosive. This may have discouraged new entrants from seeking admission into Kenyan institutions. In 2003, the proportion of foreign students remained the same (5.3%)

though there was a slight increase in absolute terms. Most of the foreign students came from other African countries (61%) and East African countries (22.5%). The high proportion of foreign students from other African countries could be associated with the instability in the Great Lakes region and neighbouring Sudan and Somalia, which led to the collapse of these countries' education systems. The proportion of foreign students from America was 12.7 percent while that of Asia and Europe combined was 3.8 percent. There were no students enrolled from Australia.

Between 1999 and 2002, survey results show that enrolment of foreign students in commercial colleges was below 2 percent but rose marginally to 2.4 percent in 2003. The low proportion of foreign students may mean that Kenyan private education institutions are not a popular destination for foreign students. Several reasons may explain this trend, including: cost, quality and relevance to the home country of the courses offered. Most (56%) of the foreign students in commercial colleges came from East Africa, unlike in institutions of higher learning where majority were from other African countries outside East Africa. This was followed by Asia (14.1%) and then other African countries (13.3%). The proportion from Europe was 11.9 percent while those from Australia and America constituted 2.4 and 2.2 percent, respectively.

Enrolment of foreign students remains very low in tertiary institutions in Kenya. This could be explained by a possible absence of a clear policy on foreign student admission, inadequate advertisement both locally and abroad, and quality and relevance of the curriculum provided in local universities. However, private tertiary institutions have been marketing themselves through annual university exhibitions and course advertisement in the local print media.

Dropout

In private institutions of higher learning, cases of college withdrawal were evident though minimal. In 15 out of 16 institutions in this category, between zero and 15 students dropped out from an institution every year. The mean number of students who dropped out from an institution in a year was five (5). The proportion of dropouts, relative to course enrolment (of all 16 institutions) in 2003, was very low (2.6%, though a crude indicator of dropout rate). This means that in every 100 students enrolled in a year, about three (3) are likely to drop out. This is an indication of a relatively high technical efficiency in private institutions of higher learning. However, in one of the two chartered universities in the sample, it was reported that, on average, 200 students drop out every year. This figure is extreme and, if correct, the institution concerned seems to be experiencing serious problems that require immediate intervention. On the other hand, some students could have dropped out due to inability to raise college fees, which was among the highest (above Ksh 196,000 per year) among institutions of higher learning.

In commercial colleges, as was the case with private institutions of higher learning, cases of school withdrawal were evident but minimal. In 109 out of the 121 institutions in this category, a minimum of zero and a maximum of 100 students dropped out from an institution every year. Seven institutions indicated that more than 20 students drop out every year with one reporting a dropout number of 100. The mean number of students who dropped out from an institution in a year was 9. The proportion of dropouts, relative to course enrolment in 2003, was moderate (8.6% - though a crude indicator of dropout rate). This means that in every 100 students enrolled in a year, about 9 are likely to drop out. This is an indication that commercial colleges have a potential of experiencing high technical inefficiency. However, if appropriate actions that would encourage retention are put in place, then the moderate proportions could decrease.

Institutional capacity

Minimum institutional capacity in institutions of higher learning was 10 in 2000 but increased to 40 in 2003. On the other hand, the maximum capacity was 1,500 in 2000 and 2001 but increased to 2,000 in the years 2002 and 2003. The average institutional capacity decreased from 448 in the year 2000 to 379 in the year 2003. The decrease was likely to be as a result of entry of new institutions with low capacity. Between 2000 and 2003, two institutions indicated they operated at capacity while the others operated at an average of 46.1 percent below capacity. Some (2) institutions operated up to 90 percent below capacity. This could be an indication of underutilization of resources, which is likely to result into high inefficiency.

Minimum institutional capacity in commercial colleges and related institutions was 10 in the year 2000 but changed to 5 in 2002 only to revert to 10 in 2003. This could be explained by the entry into the market of new colleges with low capacities. It is also possible that some institutions reported course enrolment rather than their capacity. On the other hand, the maximum capacity was 2,000 between year 2000 and 2002 but increased to 3,000 in year 2003. The average institutional capacity remained almost constant over the same period (between 234 and 236). An enrolment of as low as 5 is an indication that some institutions (and especially new ones) are operating far below their capacity. However, unlike institutions of higher learning, commercial colleges seemed to have a relatively higher proportion of utilization of their resources. On average, the colleges operated at 30.6 percent below their capacity. Extreme cases were observed with some 18 institutions operating far above their capacity while others operated far below (96%) their capacity. The underutilization could be explained by unattractiveness of the institutions. This raises serious questions of the demand of the courses provided and quality of their resources, despite the respondents having indicated high levels of equipment in working conditions.

Frequency of intakes

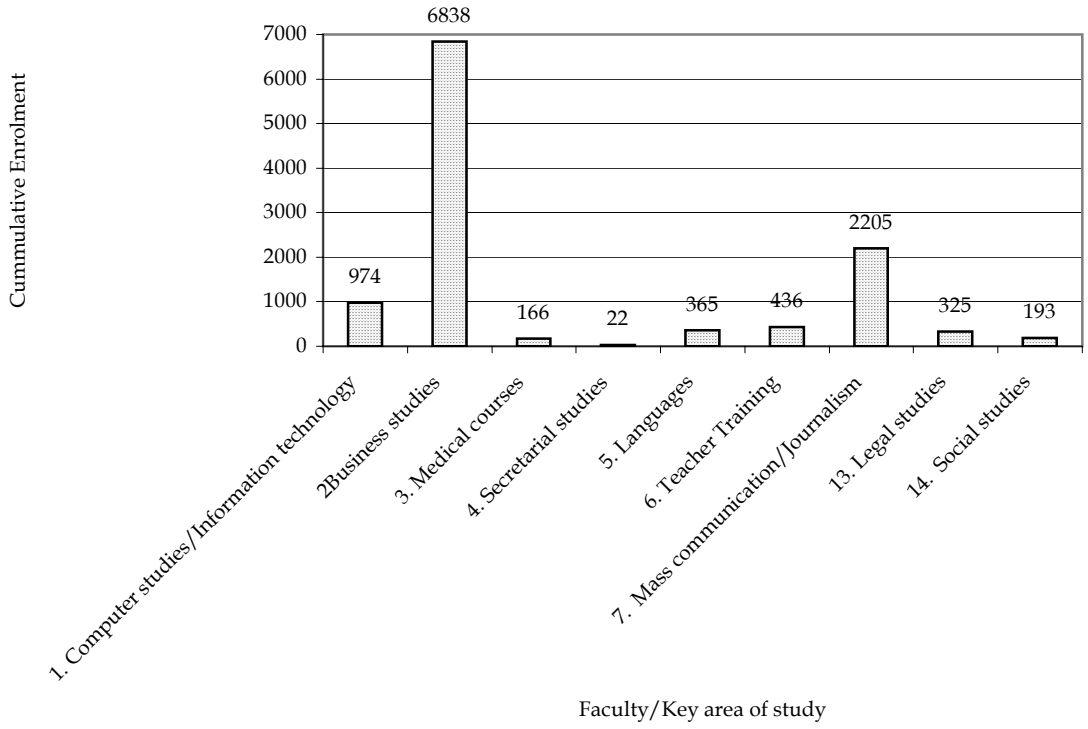
Most of the institutions of higher learning made between 1 and 4 intakes in a year, with one extreme case that made 12 intakes in a year. On average (excluding the extreme case) the institutions made about three intakes in a year. For the commercial colleges and related colleges, 104 institutions provided information on the number of intakes made in a year. Two intakes were made by 30.8 percent, 21.2 percent made three intakes, 15.4 percent made four intakes, 9.6 percent made one intake, six and nine intakes were each made by 2.9 percent and finally ten intakes were made by 1 percent of the institutions. It would seem that the shorter the period of time it took to complete a course the more the number of intakes for such a course. This increased resource utilization in the institution. In institutions of higher learning, the minimum course duration was 90 days while in commercial colleges, there were courses that took 60 days.

Enrolment by faculty/key area

Nine key areas of study were offered (Figure 6) in private institutions of higher learning. Enrolment in key areas of study showed an increment in enrolment over the years. When all the courses are combined, male students increased by 48 percent while female students increased by 30.8 percent between 1999 and 2003. Individual course cumulative enrolment show that female students were more in secretarial, teacher training and mass communications. In the rest of the courses, male students had an upper hand but were almost at par in language courses. Overall, cumulative enrolment indicates that female enrolment was slightly higher (52.1%) than that of males (47.9%). The first four leading courses in cumulative enrolment were business studies, mass communication, computer studies and teacher training, in that order. However, mass communication was not listed as one of the most attractive courses by respondents yet enrolment in this course indicated otherwise. There was an indication that institutional

managers may at times not be aware of enrolment trends in their institutions. Figure 6 shows cumulative enrolment of courses offered in private institutions of higher learning. If enrolment in the key area of study were to be used as indicators of demand for training (willingness and ability to pay), then the demand for the four key areas mentioned was relatively high.

Figure 6: Cumulative enrolment in faculty area of study, 1999-2003

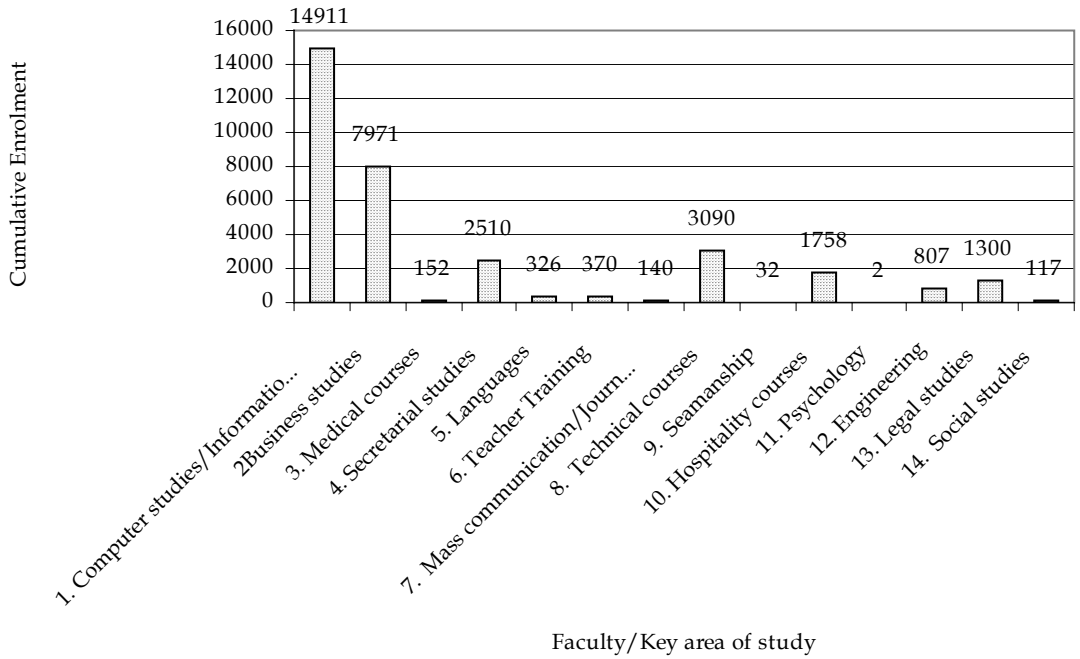


Fourteen key areas of study were offered in commercial colleges. Enrolment in the key areas of study showed an increment in enrolment over the years. When all the courses were combined, male students increased by 70 percent while female students increased by 74.2 percent between 1999 and 2003. Individual course cumulative enrolment showed that except for computer studies, business studies, technical courses, seamanship and engineering courses, female students were more than male students. However, in legal studies, cumulative enrolment for females was equal to that of males. As it was in institutions of higher learning, overall cumulative enrolment indicated that female enrolment was slightly (52.1%) higher than that of male students (47.9%). While female students dominated secretarial, teacher training, medical and hospitality courses, males were dominant in seamanship and engineering courses. The first four leading courses (Figure 7) in cumulative enrolment were computer studies, business studies, technical courses and secretarial studies, in that order.

The duration of courses offered varied from course to course and from one institution to the other. This was an indication that the institutions were not following a common curriculum but rather developed their own curriculum independently, or offered one provided by the mother institution and or examining body. Most of the computer and business studies took one year to complete. However, a few took more or less than one year in institutions of higher learning while in commercial colleges, the duration ranged between 7 and 1,095 days. Teacher training took between 120 and 730 days while secretarial studies took between 120 and 912 days to complete. In curriculum development, the duration of the course is a central issue as it influences the amount and depth of content that can be covered and the costs to be incurred by

the recipient. The amount and depth of content has an implication on the quality of training provided.

Figure 7: Cumulative enrolment in commercial colleges and related institutions, 1999-2003



Most demand-oriented courses tend to be intensive in an effort to achieve a balance between quality and quantity of content and duration. Courses that take long to complete may sometimes discourage post-employment trainees who sometimes are the target group due to their ability to pay, as opposed to long-duration courses that mostly attract pre-employment trainees who are likely to have difficulties with meeting the training cost. Most courses were mounted after 1990s and more so in the 2000s, corresponding with the period when most institutions became operational. This could be an indication of good prospects in private investment in education. The period after 1990 was marked with reduced public funding for public tertiary education as Kenya continued to implement Structural Adjustment Programmes. This prompted public institutions to increase college fees, with some charging commercial rates and therefore competing for students with private institutions.

It was necessary to relate the courses offered in private institutions with skills requirement by the economy. Unfortunately, there is no information on skills audit. However, a World Bank (2004) report that looked at Kenya's growth and competitiveness in the global economy indicates that private training markets under their current course structures might not meet demand for skills in the manufacturing sector. The manufacturing sector has skill shortages in the areas of textile and garments, agriculture production, plastic packaging, paper packaging and printing, tourism and hospitality and construction (Table 6). None of the popular courses offered in private institutions supply such skills. It can, therefore, be concluded that most private institutions do not train for the manufacturing sector. It is important to note, for example, that the garment and textile industry is undergoing stiff competition from India and China and the quantity of skills demanded by this industry are likely to nose dive unless the industry becomes competitive or some interventions are made.

Figures 6 and 7 show no or low enrolment in engineering courses. The equipment that goes with engineering and technical courses are relatively expensive and therefore have a high risk premium. Consequently, private investors shun such courses. To prevent under-investment in engineering and technical courses, policies directed at reducing the risk associated with such courses and public subsidies to private institutions providing such courses may be necessary.

Table 6: Summary of skills demand assessment

Sector	Skills shortage	Factors	Interventions required
Textile and garments (54 firms, 27,000 employees)	• Cotton ginning • Textile production • Basic sewing and garment assembly • Induction training for entry-level production workers (attitudes, motivation, discipline, work culture) • Machinery and equipment repair and maintenance • Supervisory, middle management and quality control	• No training programme for cotton ginning • Inadequate training from Kenya Textile Training Institute (obsolete) • ICTs unable to meet industry requirements	• Dedicated training centers managed by industry association in partnership with government • Graduate re-skilling programme • Improve training levy scheme
Agriculture production	• Cotton and coffee harvesting • Animal husbandry, milk production, storage and transport	• Lack of on-farm training • Collapse of public agricultural extension services	• Cost-sharing mechanisms to promote private extension services • Improve training levy scheme
Plastics packaging (to support horticulture and garments industries) 120 firms, 15,000 workers	• Plastics handling and processing • Tooling, moulds and dies • Machinery and equipment repair and maintenance	• No training programmes for plastics industry	• Plastics training center managed by Plastics Association of Kenya in partnership with government • Support available from UK Institute of Plastics and Indian government
Paper packaging and printing 600 firms, 12,000 workers	• Paper product processing and handling • Equipment repair and maintenance	• No training programmes for printing and packaging (some small private providers emerging)	• Possible private-public partnership with industry association
Tourism and hospitality industry	• Qualified trainers • Hotel management for budget establishments	• Small establishments and private training providers unable to access Catering and Tourism Development levy	• Restructuring of the Catering and Tourism Development levy scheme
Construction industry	• Construction project management	• No training facilities for the industry	• Attachment training programme

Source: World Bank (2004), derived from firm interviews.

Note: Industry reports no shortage of general technical skills such as electricians, fitters, welders and fabricators, construction workers, carpenters, automotive mechanics due to the high unemployment levels.

Despite scarce information on employee and source of training, a comparative study of Kenya and Ghana on employment and training in Information and Communication Technologies in the MSE sector conclude that most owners/managers and employees acquire skills within MSE clusters (Adeya, 2003). The study also indicates that in Kenya, master craftsmen are the main (98.4%) agents of skills acquisition and upgrading, with formal training institutions (0.6%) and NGOs (1%) accounting for a minimal percentage. These findings raise questions of the relevance of formal private training markets to the MSE sector, which employs more than 70 percent of the working population in Kenya.

Pupil-teacher ratios in public and private institutions were comparable, with institutions of higher learning having a ratio of between 1:3 and 1:35, with a mean of 1:15. This compares well with public universities with a mean of 1:14. In commercial colleges, the pupil-teacher ration (PTR) ranged from 1:1 to 1:167 with a mean of 1:21. While these ratios are relatively low, the study did not establish the class sizes, which have been observed to be large in public institutions. In the recent past, the quality of teaching and learning in both public and private institutions has come under sharp criticism from stakeholders. While there exists a few institutions that provide quality services, a considerable number of private commercial colleges are driven by profit motives, and have no quality control mechanisms.

Quantity of physical facilities and condition of equipment

In institutions of higher learning, the proportion of permanent physical facilities such as lecture halls, hostels, toilets, offices, workshops, laboratories, libraries, etc was 98.7 percent while temporary ones was 1.3 percent. In commercial colleges, the proportion of permanent facilities was 98.4 percent and temporary 1.6 percent. Similar observations were made on the quantity of equipment such as desks, computers, chairs, typewriters, chalkboards, etc in working conditions. However, there is a word of caution; data came from respondents of private institutions. As interested parties, there could have been a tendency to portray their institutions as having quality infrastructure for obvious reasons. Permanent physical facilities and equipment are thought to be of better quality than temporary ones. Equipment in working condition increases the quality of service and in this case teaching and learning. Efficiency in the utilization of equipment is also enhanced.

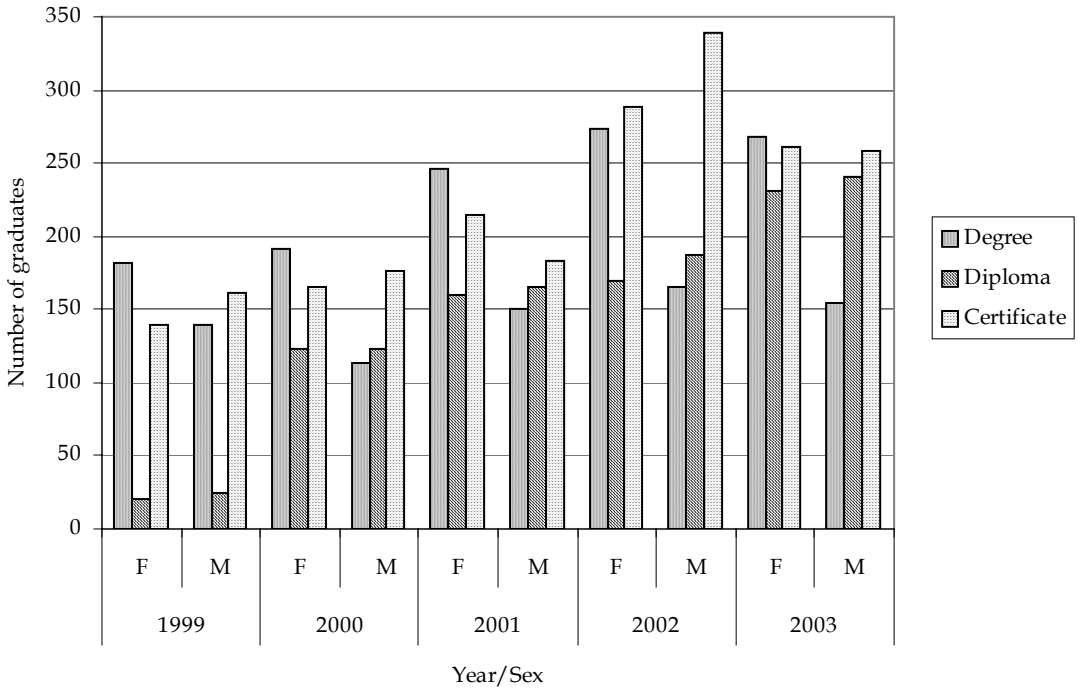
N*umber of graduates*

Figure 8 shows the number of graduates by type of award in the sampled private institutions of higher learning. Between 1999 and 2003, the number of graduates in the awards increased by 31.7 percent, 946.7 percent and 73.0 percent for degree, diploma and certificate courses, respectively. The increments were partly due to expansion of enrolment in existing institutions and partly due to entry of new institutions into the sector. It would also seem that the growth of diploma awards was extremely high compared to other awards. However, more certificate holders (39.6%) followed by degree holders (34.2%) graduated from the institutions over the period under consideration. Over the years under consideration, slightly more (53.4%) female than male (46.6%) students had graduated, with females dominating (61.6%) degree awards.

Figure 9 shows the number of graduates by type of award in commercial colleges. Between 1999 and 2003, the number of graduates in diploma and certificate awards increased by 221.6 percent and 701.6 percent, respectively. The number of degree awards decreased by 25.4 percent between 2001 and 2003. The increments were partly due to expansion of enrolment in existing institutions and partly due to entry of new institutions into the sector, while the decline in the

number of degree awards was probably due to students preferring to enroll for degree courses in institutions of higher learning instead of commercial colleges. Some commercial colleges act as satellite centers for public and private institutions of higher learning and have signed some kind of memorandum of understanding that allows institutions of higher learning to provide training services in their premises.

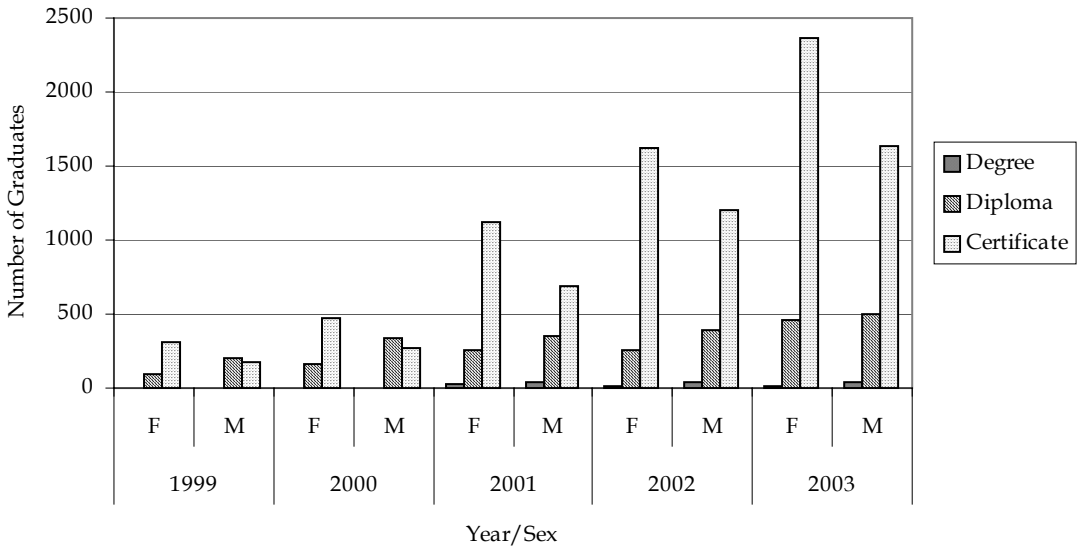
Figure 8: Number of graduates in private institutions of higher learning



It would also seem that the growth of certificate awards was relatively high compared to the others. Commercial colleges have produced more certificate graduates (75.7%) followed by diploma graduates (23.1%) over the period under consideration. Over the years under consideration, slightly more (55.1%) female than male (44.9%) students have graduated, with females dominating (59.8%) certificate awards while males were the majority in degree (72.3%) and diploma (59.9%) awards.

More certificate level graduates could be explained by the entry-level qualifications. Though the study did not collect data on entry-level qualifications, entry level for commercial colleges is basically KCPE or KCSE. While best performing students in KCSE are admitted into public universities, the bulk of low performing students are left with a choice of joining private commercial colleges. Their relatively low qualifications explain why most have to join courses at certificate level as opposed to diploma or degree level, and therefore the high number of certificate level graduates. However, this is not to mean that private institutions do not admit students with grades similar to those entering public institutions.

Figure 9: Number of graduates in commercial colleges and related institutions



4.1.4 Student disturbances

Few problems were encountered with students in institutions of higher learning. Absenteeism was experienced in nine institutions, student riots/unrest in one and 'other' problems also in one institution. Poor institutional management was cited as the reason for student riots/unrest in the institutions that had experienced this problem. Student riots/unrest had occurred once in the last five years prior to data collection. On the other hand, 15 institutions that had not experienced student riots/unrests in the last five years indicated several ways that they had used to prevent student riots/unrests. As indicated in Table 7, the three mostly used preventive measures for riots/unrest and drug/substance abuse in institutions of higher learning include good communication, religious teaching and practices and guiding and counseling in that order. On the other hand, guiding and counseling, religious teaching and rules and regulations in that order were used to prevent the occurrence of drug and substance abuse among students. Enforcing institutional rules and regulations was not a popular preventive measure for riots/unrests.

Table 7: Measures that prevent students' riots/unrest in institutions of higher learning, N=15

Preventive measure	No. of institutions (for riots/unrest)	No. of institutions (for drug and substance abuse)
Guiding and counseling	3 (20%)	8 (53.3%)
Rules and regulations	1 (6.7%)	2 (13.3%)
Good communication	6 (40%)	-
Religious teaching and practices	4 (26.7%)	3 (20%)
No activity	2 (13.3%)	3 (20%)
Others	2 (13.3%)	-

Notes: Some institutions used more than one preventive measure.

In the 121 commercial colleges and related institutions, 80 (66.1%) indicated that they had encountered some problems with students. Table 8 presents the problems encountered with students in these colleges. Of the institutions that encountered problems with students,

absenteeism was experienced in 88.8 percent of the institutions, drug and substance abuse in 12.5 percent, student riots/unrest in 10 percent, and 'other' problems in 3.8 percent of the institutions. It would seem that absenteeism was a common phenomenon in commercial colleges and related institutions.

In the last five years, 17 institutions indicated that riots/unrests have occurred once; two (2) institutions indicated that they had occurred twice while they had occurred thrice in one institution. In the eight institutions that cited student riots/unrest as a problem, poor institutional management (6 institutions), drug and alcohol abuse (1 institution) and incitement by outsiders (1 institution) were blamed for the student riots/unrest.

Table 4.4: Problems encountered with students in commercial colleges

Problem encountered with student	No. of institutions
Absenteeism	71 (88.8%)
Student riots/unrest	8 (10%)
Drug and substance abuse	10 (12.5%)
Other	3 (3.8%)

Notes: Percentage refers to the valid percentage.

Table 9 presents the preventive measures taken by some of the 109 institutions that did not experience student riots/unrest and drug and substance abuse. In the commercial colleges and related institutions, preventive measures for riots/unrest included guiding and counseling, good communication, religious teaching and practices, enforcing rules and regulations and heavy penalty for indiscipline, in that order. On the other hand, the preventive measures for drug and substance abuse included guiding and counseling, enforcing rules and regulations, heavy penalty for indiscipline, religious teachings and practices and good communication, in that order.

Table 9: Measures that prevent students' riots/unrest in commercial colleges and related institutions

Preventive measure	No. of institutions (for riots/unrest), N=109	No. of institutions (for drug and substance abuse), N=102
Guiding and counseling	27 (24.8%)	39 (38.2%)
Rules and regulations	11 (10.1%)	14 (13.7%)
Good communication	23 (21.1%)	5 (4.9%)
Heavy penalty for indiscipline (suspension, expulsion)	10 (9.2%)	10 (9.8%)
Religious teaching and practices	12 (11.0%)	10 (9.8%)
No activity	27 (24.8%)	21 (20.6%)
Others	21 (19.3%)	4 (3.9%)
Refused to answer	1 (0.9%)	2 (2.0%)

Notes: Some institutions used more than one preventive measure.

4.1.5 Institutional management

From Table 10, 41.2 percent of institutional heads' highest level of education was technical training (professional training). This was mainly post-secondary education and training in various business and technical-related skills. Another 30.9 percent and 18.4 percent had a university first and second degree, respectively. This is an indication of the value attached to human capital by private education institutions. However, the study did not establish the areas of specialization of the institutional heads. A small proportion of the institutional heads had PhDs (2.2%), while another 1.5 percent had 'other' unspecified qualifications. Table 10 further

shows that PhD qualifications belonged to institutional heads under chartered university, accredited university/college and institutions with letter of interim authority. The highest number (6 or 37.5%) of heads within this group were first degree holders and all of them had at least post-secondary education.

On the other hand, the highest number (56 or 44.2%) of commercial colleges and other heads of institutions had a technical training (professional training) as their highest level of education. Another 30 percent and 17.5 percent were first and second degree holders, respectively. In this group of institutions was a small proportion (6.7%) of heads with a secondary education. From these observations, it would appear that majority (92.6%) of private institutional heads have post-secondary education that includes technical training and university education.

Table 10: Academic qualifications of institutional heads

Qualification	Chartered universities, accredited institution /college, institutions with interim letter of authority, N=16		Commercial colleges and other institutions, N=120		All institutions, N=136	
	Frequency	%[1]	Frequency	%[1]	Frequency	%[1]
1. Secondary education	0	0	8	6.7	8	5.9
2. Technical training (Professional training)	3[2]	18.8	53	44.2	56	41.2
3. University first degree (BA, BSc, etc)	6[2]	37.5	36	30.0	42	30.9
4. Postgraduate degree (masters)	4	25.0	21	17.5	25	18.4
5. Postgraduate (PhD)	3	18.8	0	0	3	2.2
6. Other (specify)	0	0	2	1.7	2	1.5

Notes: 1. Percentage may not add up to 100 due to rounding off to one decimal point; 2. These were observed in accredited institutions collaborating with universities (locally and abroad).

4.1.6 Structure of the workforce

At the time of data collection, the number of employees (those receiving a monthly pay) from the institution of higher learning ranged from 3 in small institutions to 50 in the relatively large institutions, with a mean of 19.9. These observations excluded one institution that had extremely high number (250) of employees. Over the years (1999-2003), this same institution had between 308 and 426 employees at any one given year. In commercial colleges and related institutions, the current number of employees ranged from 1 to 92, with a mean of 10.8. These observations excluded three institutions that had extremely high numbers (75, 84, and 92) of employees. Over the years 1999-2003, these same institutions each had between 40 and 92 employees at any one given year.

Education level completed by employee

Figure 10 shows the distribution of employees by gender and level of education in institutions of higher learning. Though the number of employees under consideration was low, huge differences in the level of education between male and female were observed. In all the education levels, more male than female students were observed, an indication that the workforce is male-dominated. First degree holders (37.7%), graduate degree holders (30.5%) and diploma holders (15.9%) dominated the institutions. The rest (15.9%) were certificate, secondary or primary school leavers.

Figure 10: Distribution of employees by level of education in institutions of higher learning

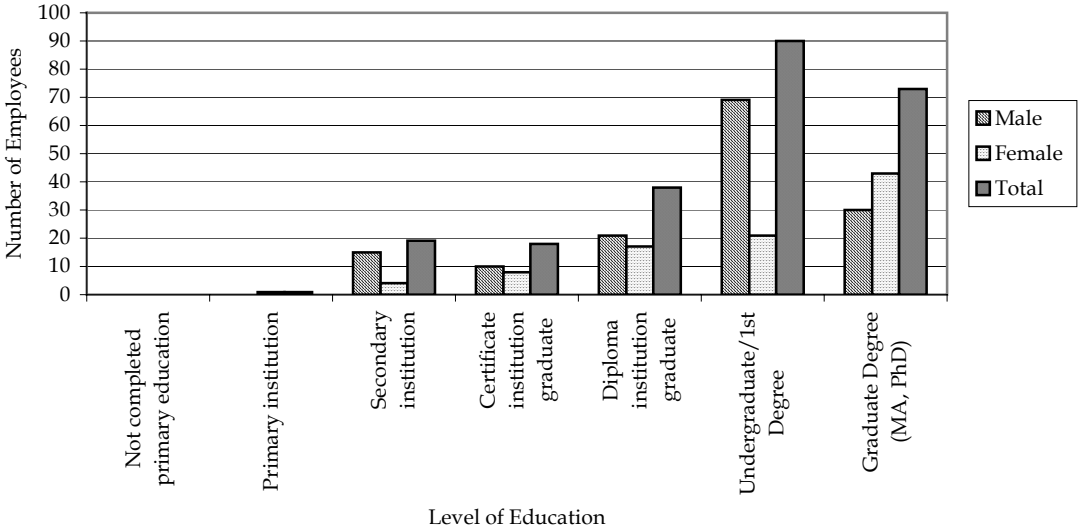


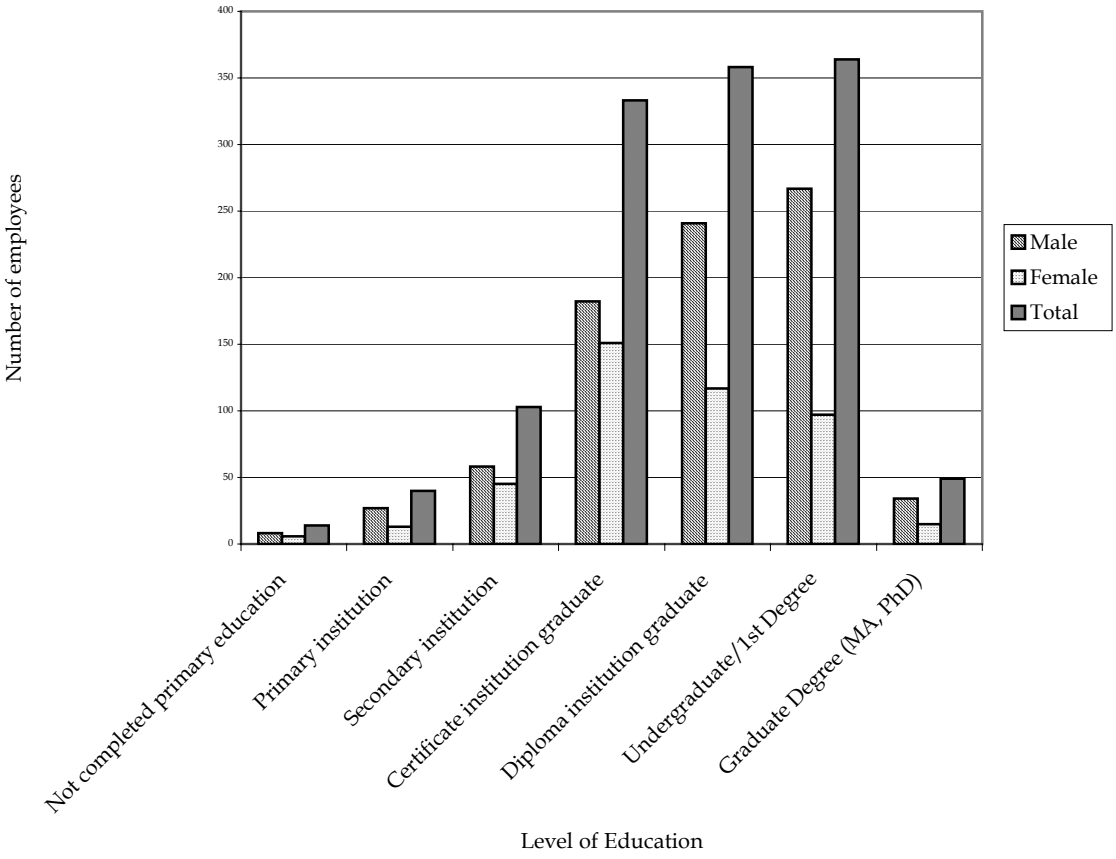
Figure 11 shows the distribution of employees by gender and level of education in commercial colleges and related institutions. In all the education levels, there were more male employees, with their proportions being above 67 percent in four of the seven education levels under consideration. Again, and like in institutions of higher learning, the workforce was male dominated (64.8%). Otherwise a substantial proportion of employees were first degree (28.9%) holders, diploma (28.4%) and certificate graduates (26.4 %).

At start-up, the number of employees in institutions of higher learning ranged from 1 to 21 with a mean of 7 employees. The nationality of the employees indicated that there was no non-Kenyan employee in any of the institutions of higher learning. The first source of teaching staff was mainly other private institutions (56.3% of the institution indicating this source), straight from college (31.3%), public institutions (6.3%) and others (6.3%). Seven of the 16 institutions indicated a second source to include public institutions (5 institutions) and straight from college (2 institutions).

On staff training programme, 50 percent (8) of the institutions of higher learning indicated that they have such programmes while the other 50 percent did not have. Of the 50 percent with staff training programmes, 41 employees had been trained through the programme in the last five years. This translated to about five employees every year, spread over the 8 institutions of higher learning. It would therefore mean that not all institutions of higher learning with a staff-training programme trained their staff in each year.

At start-up, the number of employees in commercial colleges and related institutions was between 1 and 20 with a mean of 4 employees. The current nationality of the employees indicated that there were three non-Kenyan employees in the 119 commercial colleges and related institutions that reported the citizenship of their employees.

Figure 11: Distribution of employees by level of education in commercial colleges and related institutions



The commercial colleges (116) further reported that their first source of teaching staff was mainly other private institutions (50% of the institution indicating this source), straight from college (39.7%), public institutions (6.9%) and others (3.4%). Of the 116 colleges reporting their source of teaching staff, 24 gave a second source of staff that includes public institutions (reported by 10 of the 24 institutions) and straight from college (reported by 14 of the 24 institutions). On staff training programme, 30.3 percent (36 institutions) reported having some kind of training programme, while 69.7 percent (83 institutions) had none. Of the 30.3 percent of institutions with staff training programmes, it was reported that 212 employees had been trained through the programmes in the last five years. This translated to about 42 employees every year, spread over the institutions. Experience is highly considered during recruitment of staff.

Employees wage bill

Figure 12 shows estimates of the proportion of various categories of employees and their wage bills in institutions of higher learning. The pattern in Figure 12 shows that most of the employees are lecturers/teachers followed by other non-teaching staff, who were not administrators (head/deputy). The proportion of average monthly wage bill was highest for administrators and least for non-teaching staff. This could be an indication that administrators in private institutions are relatively highly paid. However, this trend was not observed on the last one-year wage bill. In the last one-year wage bill, the reverse was true though the proportions seemed to be relatively low across the board. When total compensation (basic

salary and allowances) were considered, lecturers seemed to take the highest proportion, an indication that their allowances could be relatively high compared to those of other groups.

Figure 12: Proportion of category of employees and respective proportion of wage bill in institutions of higher learning

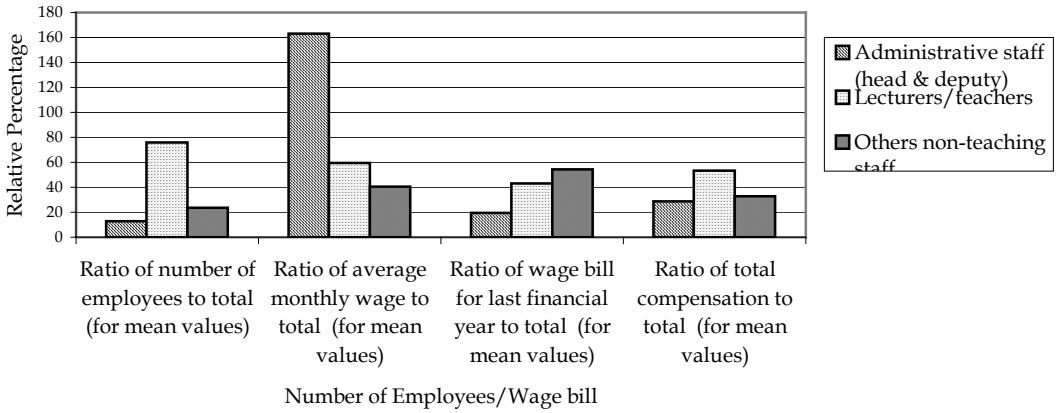


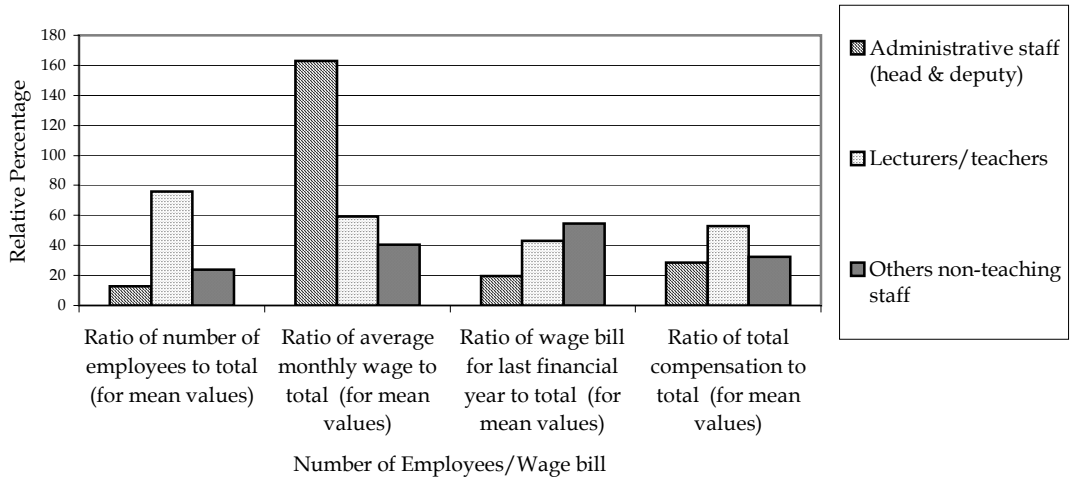
Figure 13 shows estimates of the proportion of various categories of employees and their wage bills in commercial colleges. The pattern in Figure 13 shows that most of the employees, like in institutions of higher learning, are lecturers/teachers followed by other non-teaching staff who were not administrators (head/deputy). The proportion of average monthly wage bill was slightly higher for lecturers when compared with that of administrators. That of the non-teaching staff was the least. The pattern of the proportions of wage bills for the last one year across various groups show that lecturers wage bill was disproportionately high compared to the bills of the other groups. A similar pattern is observed when the total compensation (basic salary and allowances) across groups is compared.

Employee turnover

Data on employees hired showed a mean of 1 and 0.3 for teaching and non-teaching staff, respectively. This was an indication of a very low recruitment rate in the institutions of higher learning. One may conclude that these institutions did not expand fast enough as to require extra human capital, or they may have been operating below capacity and therefore decided to make optimal use of the available human resources. The conclusion concurs with the observation made earlier of very low (as low as 1:3 in institutions of higher learning and 1:1 in commercial colleges) pupil-teacher ratio in some private institutions. An increasing wage bill may also have contributed to low recruitment rates.

Table 11 shows staff attrition in 2003 in which dismissal or simply disserting (13.8%) and resignation (3.4%) were the main reasons for teaching staff attrition while non-teaching staff attrition was due to dismissal (1.9%) only. Overall, 17.6 percent of teaching staff left the institutions of higher learning, indicating a relatively high proportion within one year. Teachers leaving their teaching positions through dismissal or disserting could be explained by non-performance, inadequate democratic space, and availability of better opportunities, or low motivation. Such factors are also associated with quality of services delivered in terms of teaching and learning, with demotivated staff performing poorly.

Figure 13: Proportion of category of employees and respective proportion of wage bill in commercial colleges



Commercial colleges and related institutions return a mean of 1.62 and 0.49 for the number of newly hired teaching and non-teaching staff, respectively. Though these means are low, there is an indication that some colleges were actually recruiting new staff. This could be due to commencement of new courses or entry of new colleges into the market in the last one year. In commercial colleges, dismissal (5.6%) and resignation (10%) due to sickness or 'any other reason' were the main factors responsible for teachers leaving their teaching positions, while non-teaching staff also left their positions due to similar reasons. Overall, 15.8 percent of teaching staff left the colleges, indicating a relatively high proportion within one year. Like in institutions of higher learning, high staff turnover has negative implications on quality of instructions and could be a manifestation of poor working conditions.

Table 11: Staff attrition in private tertiary education institutions of higher learning and commercial colleges in 2003

Reason	Number	Percentage	Mean	Range
1. Laid off/dismissed teaching staff	26	13.8	1.7	0 - 23
	41	5.6	0.4	0 – 10
Laid off/dismissed non-teaching staff in institutions of higher learning and in commercial colleges	1	1.9	0.7	0 – 1
	11	3.5	0.1	0 - 2
2. Left/resigned teaching staff	6	3.4	0.4	0 – 2
	73	10.0	0.6	0 – 10
Left/resigned non-teaching staff	0	0.0	0.0	0
	8	2.6	0.1	0 - 2
3. Retired teaching staff	0	0.0	0.0	0
	0	0.0	0.0	0
Retired non-teaching staff	0	0.0	0.0	0
	1	0.3	0.01	0 - 1
4. Dead teaching staff	0	0.0	0.0	0
	1	0.1	0.02	0 – 1
Dead non- teaching	0	0.0	0.0	0
	1	0.3	0.01	0 – 1
Teaching staff overall	32	17.6		
	115	15.8		
Non- teaching staff overall	1	1.9		
	21	6.7		

Notes: 1. Total number of teaching staff in the sample in 2003 was 188 in institutions of higher learning and 729 in commercial colleges; 2. Total number of non-teaching staff in the sample in 2003 was 54 in institutions of higher learning and 313 in commercial colleges.

Amount of severance paid

In institutions of higher learning, only three institutions indicated that they paid severance to members of teaching staff. Only one institution indicated paying severance to non-teaching staff. This is an indication that institutions of higher learning hardly pay their employee terminal dues on dismissal, perhaps contrary to labour laws. There was no severance payment for administrators and other workers save for lecturers/teachers in the two institutions that provided information (paying one person each at Ksh 5,000 and Ksh 18,000). In both cases the method of payment was a 'one time payment'.

In commercial colleges and related institutions, and like in institutions of higher learning, employees are hardly paid severance. Only three (3.4%) of the 89 institutions indicated that they paid severance to members of teaching staff while another one (1.4%) out of 70 did pay to non-teaching staff. This could be an indication that employees are summarily dismissed. One administrator was paid a severance payment of Ksh 10,000 through a 'one time payment' while about 20 lecturers benefited through either a 'one time payment' (4 lecturers) or a 'multiple payment' (16 lecturers). Individual benefits ranged from Ksh 10,000 to Ksh 50,000.

Employees benefits

In institutions of higher learning, apart from the contributions made to the National Social Security Fund (NSSF) by seven of the 16 institutions, other employee benefits are virtually missing in most institutions. However, two institutions provide provident, two provide service gratuity, and one institution each provided for pension fund, reimbursement for funeral costs and life insurance. In most of the benefits, the institution was the financier though in the case of

contributions to NSSF, both the employee and employer made their contribution. Most benefits targeted administrators and teachers, and hardly catered for their dependants. A similar trend was observed in commercial colleges and related institutions with variations only in terms of the number of institutions involved. However, while benevolent fund and disability fund were both absent in institutions of higher learning, the benevolent fund was present in three commercial colleges and was financed by the institution (in one case), in another case by the employee and in the last case by both employee and employer.

Health benefits to employees

Health insurance, medical care at institution's clinic and accident compensation benefits were each available in at most four institutions of higher learning. Other health or medical benefits were available to workers in five of the 16 institutions of higher learning surveyed. This would mean that in most (68.8%) of the institution's workers do not benefit from any kind of employee health benefits. In the few institutions where the benefits were available, most were financed by the institution, with only one institution each requiring contributions from workers for health insurance, medical care at institutions clinic and other health benefits. In the institutions where the benefits were available, the facility was extended to all categories of workers, including their dependants.

In commercial colleges and related institutions, employee's health benefits were available in a few institutions. Health insurance benefits were available in 15 (12.6%) institutions, medical care at institution's clinic in 7 (5.9%), accident compensation in 7 (5.9%) and other health/medical benefits in 5 (4.4%). This would mean that in most (87.4%) of the commercial colleges and related institutions, workers do not benefit from any kind of health benefits. In the few institutions were the benefits were available, most of them were financed by the institution except for the health insurance benefits that were financed by the employee in most of the institutions. In three institutions, health insurance benefits, which are financed by contributions from both the institution and employee, while in two institutions, other health/medical benefits were financed by institutions and employees. Where the benefits were available in institutions of higher learning, the facility was extended to all categories of workers, including their dependants.

Pre-employment health check

A pre-employment health check for employees was carried out in three (18.8%) institutions of higher learning, while the rest of institutions did not carry out this check. However, only one institution indicated that they spent Ksh 1,000 on pre-employment health checkup. For the total healthcare bill for employees in the year 2003, one of the institutions spent Ksh 33 million, another one spent Ksh 10,000 while a third one spent Ksh 1,000. In commercial colleges and related institutions, eight (6.7%) out of 119 that responded indicated that they had a pre-employment checkup for employees. Two of these institutions spent Ksh 1,200 and Ksh 15,000. On the total healthcare bill for all employees in the year 2003, the two indicated they spent a similar amount while a third institution spent Ksh 300,000 (it is possible that some respondents gave the total amount spent for checkup in 2003 as the total healthcare bill for all employees in 2003). From these observations, few institutions required a pre-employment health checkup. This is expected given that majority of the institutions did not have employees health benefits as shown earlier. For those that spent on employee healthcare, the bill was sometimes as high as Ksh 33 million in institutions of higher learning and Ksh 300,000 in one commercial college within one year.

Employee HIV status

Thirteen (81.3%) institutions of higher learning believe that no share of their workforce was HIV positive while three (18.8%) believe that between 1 and 5 percent of their workforce was HIV positive. Two of the 13 institutions reported one and five deaths each in the last five years. In one institution, the death reported was linked to HIV/AIDS while in the other institution with five deaths, two were believed to have resulted from HIV. In commercial colleges and related institutions about 11.8% (11) of the institutions believe that between 1 and 5 percent of their employees are HIV positive, while another two institutions reported a proportion of 6 to 10 percent and more than 20 percent. A total of one death each was reported in ten of the institutions while another one institution reported two deaths in the last five years. Of these deaths, only three institutions believe that one death each was as a result of HIV/AIDS. Deaths reported in the commercial colleges and related institutions are hardly associated with HIV/AIDS. Given high HIV prevalent rates among the working groups in Kenya, it was not clear the extent to which the respondent's views were a real reflection of the actual status.

4.2 Key Players in Education Investment

Ownership structure

From observations it would seem that there is no domination by any specific group or individuals in education investment in the category of chartered university, accredited university and institutions with a letter of interim authority. However, investment in institutions of higher learning has attracted individuals as well as corporate organizations. On the other hand, both domestic and foreign (though minimal) investment in higher education was evident.

Of the 121 commercial colleges and other institutions surveyed, sole proprietorships owned 42.1 percent while partnerships owned 29.8 percent of the institutions. This meant that majority (71.9% or 87) of the colleges were either sole proprietorships or partnerships. Church organizations owned 12.4 percent (15) of the colleges. Domestic private companies and foreign private companies owned 10.7 percent (13) and 0.8 percent (1), respectively. Again, it may be argued that private companies and especially foreign ones have under-invested in education in Kenya. Other unspecified investors owned the remaining 4.1 percent (5).

Out of the 16 institutions of higher learning, 68.8% (11) had management boards in place while the rest did not have. Of the 120 colleges that reported the need for a management board, 43.3% (52) had a management board while 56.7% (68) did not have. A high number of institutions without a management board would mean that the proprietors might be the sole decision makers.

4.3 Role of Private Sector in Education Investment

Role of private sector in tertiary education institutions

Respondents from institutions of higher learning perceived the role of private sector investment in education to include support in market-oriented labour training (37.5%) and catering for the excess numbers of students willing to get education (25%). In commercial colleges and related institutions, similar perceptions existed, with support in market-oriented labour training (25.6%), catering for excess number of willing students (18.2%) and empowering the youth (18.2%) being the most regarded roles of the private sector in tertiary education.

Other emerging roles of private sector in education investment include:

1. Human capital development: The accumulated output (in terms of graduates) from the sample private institutions was 5,516 for institutions of higher learning and 13,049 for commercial colleges in the last five years.

2. Complementing public sector efforts to supply education, which is likely to reduce public fiscal pressure: On average, private sector investment in education in a single institution amounted to Ksh 12 million for institutions of higher learning and Ksh 3 million (commercial colleges) in form of buildings; Ksh 21 million (institutions of higher learning) and Ksh 8 million (commercial colleges) in form of land and Ksh 10 million (institutions of higher learning) and Ksh 1 million (commercial colleges) inform of equipment.

3. Creating employment opportunities for education professionals and other categories of workers. For instance, a single institution of higher learning employed between 3 and 50 employees while a commercial colleges had between 1 and 92 employees.

4.4 Potential for Private Sector Investment in Education

4.4.1 Investment and finance

Major sources of finance (operational costs mainly financed through school fees)

The bulk of the total fee charged in an institution is tuition. Boarding fee was charged by only one institution, examination and registration fees by two and four institutions, respectively. Some miscellaneous fee was charged by some two institutions. The annual fee charged per student per year ranged from Ksh 10,000 to Ksh 300,000, signifying the existence of both low and high cost courses in private institutions of higher learning. It was also clear from this data that most of the institutions did not offer boarding facilities.

The fee items in commercial colleges varied from institution to institution and included: tuition, boarding, food, library, caution money, local transport, medical, repair, maintenance and improvement, examination, registration, computer and laboratory, and other miscellaneous fee. Tuition fee was also common in all commercial colleges and related institutions, and constituted over 90 percent of the total fee charged. The annual fee charged per student per year ranged between Ksh 2,700 to Ksh 192,150. The big difference could have been occasioned by the needs of each course or area of study.

The amount of fee charged by an institution partly influences the institutions turnover. The fee, together with the level of expenditure, determines net cash flows for an institution. Positive net cash flows would tend to make private institutions remain in business or even expand while negative cash flows would force weak institutions out of business. From the sample, there are institutions that have been operating for at least five years with college fee being their sole source of revenue. This is an indication that they receive positive cash flows. The fact that private institutions remain operational long after they start providing training services is an indication of good prospects in private sector investment in education.

Access to financial assistance (for student school fees)

In the 16 private institutions of higher learning, 6 (37.5%) indicated that their students got financial assistance from some formal bodies, while in 10 (62.5%), students did not receive any financial assistance. The institutions identified the formal organizations to include Government of Kenya (in 1 institution), NGO (1), church organizations (1), private domestic company (2), foreign government – non-African (1), private foreign company (1) and others (1, including individual donor, and co-operatives). For three of the institutions with students that received

financial assistance, only 0.02, 25 and 30 percent of the students' population received scholarships. Another one institution indicated that 0.03 percent of the student population received the Higher Education Loans Board (HELB) loan, 2 percent of students from one institution received loans from other private sources, 80 percent of students from one institution received education vouchers and another 100 percent of the student population from one institution received financial assistance from other sources (unspecified).

In the 121 commercial colleges, 33 (27.3%) indicated that their students got financial assistance from some formal bodies, while in 88 (72.7%), students did not receive any financial assistance. The institutions identified the formal organizations to include Government of Kenya (in 5 institutions), NGOs (17), church organizations (14), private domestic company (7), foreign government – non-African (2), private foreign company (1) and others (5, including individual donor, and co-operatives). Scholarships was the most common form of financial assistance to students in commercial colleges, with an estimated proportion that ranged from 0.5 to 100 percent of students across 24 institutions receiving this financial aid. HELB funds were a source of financial assistance in one institution (and also education vouchers), while loans from private sources were given to students in five institutions. Other unspecified sources of student financial assistance were available in 8 commercial colleges and related institutions.

Though the surveyed institutions of higher learning seemed to suggest that less than 0.05 percent of their students received loans from HELB, this low proportion may not be correct. Aggregated data (Table 12) from the Ministry of Education show that up to 3.8 percent (or 3.6% of the loan funds, that is, Ksh 50 million in fiscal year 2003/04) of students in private universities received loans in the 2003/04 academic year and that loans to students in private institutions of higher learning started as early as 2000/01 academic year. However, going by the principle of equity, it would have been expected that the proportion of students in private universities receiving loans should have been 14.1%, to correspond with their proportion in enrolment. This would enable more qualified but financially disadvantaged students to access university education in private institutions, given the capacity constraints in public institutions. In addition, HELB did not make any bursary provision to students in private universities, while those in public universities received a total of Ksh 82 million (more than the loans awarded to students in private universities) in 2003/04 academic year.

The criteria for loan award are biased towards the socio-economic background of the applicant. While such a deliberate bias has a positive impact on poverty reduction, it could lead to massification[3] without necessarily satisfying the economy's critical skill and technology requirements. Public opinion on the socio-economic background of students attending private institutions is that majority of students in private institutions of higher learning come from affluent backgrounds. This may not always be the case as students from disadvantaged backgrounds who meet the minimum entry requirement for entry into public institutions may not be admitted due to limited capacity. Consequently, they may want to pursue their education in private institutions. Loans to students end up benefiting institutions that provide training services.

Student loan also impacts positively on the books of accounts of private institutions by reducing the fee default rate. Increasing the amount of loan to students in private institutions from Ksh 17 million in fiscal year 2000/01 to Ksh 50 millions in 2003/04 increased the potential of private investment in education by increasing the demand (willingness and ability to pay) of education. If HELB loans are to be increased in future, this will expand the demand by including students who were previously willing to join private tertiary institutions but were not able.

[3] Massification refers to uncontrolled expansion of enrolments in education institutions as a result of social and or derived demand for education.

Table 12: Higher education loans distribution in private and public universities in Kenya

	2000/01		**2001/02**		**2002/03**		**2003/04**	
	No. of students	Amount (Ksh million)	No. of students	Amount (Ksh million)	No. of students	Amount (Ksh million)	No. of students	Amount (Ksh million)
Private universities	745 (2.6%)	17 (1.9%)	933 (3.3%)	23 (2.5%)	1,048 (3.2%)	33 (2.8%)	1,277 (3.8%)	50 (3.6%)
Public universities	28,320 (97.4%)	923 (98.1%)	27,277 (96.7%)	924 (97.5%)	31,203 (96.8%)	1,146 (97.2%)	32,711 (96.2%)	1,350 (96.4%)
TOTAL (millions)	**29,065**	**941**	**28,210**	**948**	**32,251**	**1,179**	**33,988**	**1,400**

Source: Ministry of Education, Science and Technology; Own computations

Start-up finance

In institutions of higher learning, the minimum initial cost (cost of land, putting up buildings, etc) was Ksh 100,000 while the maximum was Ksh 15 million. This gives a mean of Ksh 1.8 million with majority (81.8% or 9 out of 11) of the responding institutions spending below the mean. In institutions of higher learning, most (65% on average) of the start-up capital came from owner savings/internal funds with a further smaller (13% on average) proportion coming from bank loan. The start-up finance for institutions of higher learning appears reasonable and within reach given that they indicated a mean annual turnover of up to Ksh 17 million in year 2003, with an average enrolment of about 257.

In commercial colleges, the minimum initial cost was Ksh 10,000 while the maximum was Ksh 15 million. The mean cost was Ksh 0.9 million with majority (80.8% or 63 out of 78) of the responding institutions spending below the mean. Start-up capital for commercial colleges came from owner savings (76.8%) with only 8.9 percent coming from bank loan and 6.3 percent from family friends. The source of funds in both institutions of higher learning and commercial colleges suggests that owner savings were the major source of start-up capital. The question then is whether private sector investment in education is a high-risk business.

The start-up finance for commercial colleges appears reasonable and within reach given that the mean annual turnover is Ksh 3 million in year 2003 with an average enrolment of about 139. While a comparison of the initial cost and turnover for year 2003 may not be the best comparison, it nevertheless indicates the potential of scooping positive returns in investment in private tertiary education.

Cost of replacement of buildings and equipment

If the buildings in institutions of higher learning were to be replaced, it would cost the institutions from Ksh 150,000 to Ksh 750 million (a mean of Ksh 130 million), with the cost of replacement in five of the six responding institutions being below the mean. To replace equipment in institutions of higher learning, the estimated cost ranged between Ksh 100,000 and Ksh 12 million (mean Ksh 1.7 million), with the replacement cost in 12 of the 13 responding institutions falling below the mean cost.

In commercial colleges and related institutions, the estimated cost of replacing the buildings ranged from Ksh 70,000 to Ksh 55 million (mean Ksh 5.5 million), with the cost in 25 (83.3%) of the 30 responding institutions being below the mean. On the other hand, if equipment were to be replaced, it would cost between Ksh 20,000 and Ksh 20 million (mean of Ksh 1.4 million), with the replacement cost in 65 (72.2%) of the 90 responding commercial colleges falling below the mean.

Future of investment climate

In institutions of higher learning, 12 (75%) of the 16 institutions were optimistic about investment climate especially in the education sector than they were a year ago. Four of the institutions indicated that they were not optimistic. Of the institutions that were optimistic, 6 (50%) gave an increase in general demand for education as the main reason for their optimism, while two gave 'lack of support by the Government' as the source of their pessimism. In commercial colleges and related institutions, about 79.7 percent (94) indicated they were optimistic while 20.3 percent (24) indicated they were pessimistic. A considerable number of those who were optimistic gave increase in general demand for education (50%), good governance (21.3%) and improved standard of leaving (20.2%) in that order as the reasons for their optimism. Economic hardships/uncertainty (37.5%) followed by competition (33.3%) were the two main reasons given for pessimism. The fact that investors were citing competition is a pointer of expected new investment in private education.

Eleven institutions of higher learning indicated they were willing to spend a minimum of Ksh 100,000 and a maximum of Ksh 30 million (a mean of Ksh 6.3 million) in investment in education in year 2005. On the other hand, 70 commercial colleges and related institutions indicated that they were willing to invest a minimum of Ksh 10,000 and a maximum of Ksh 55 million in education (a mean of Ksh 3 million). This is an indication that private investors are willing to inject more funds in education, perhaps due to an improving investment climate in Kenya. However, 10 colleges and related institutions did not wish to invest any resources on education in the coming year (2005).

Were it not for scarcity of resources, institutions of higher learning would want to invest in middle level colleges (43.8%) and university education (43.8%). Another 12.5 percent would want to expand their institutions. Of those who would want to invest in middle level colleges, majority (6 out of 8) would do so due to 'high demand for tertiary education'. Similarly, four of the eight who would want to invest in university education would do so due to 'high demand for tertiary education'. It can be argued then that demand for tertiary education is likely to influence investment decisions at that level.

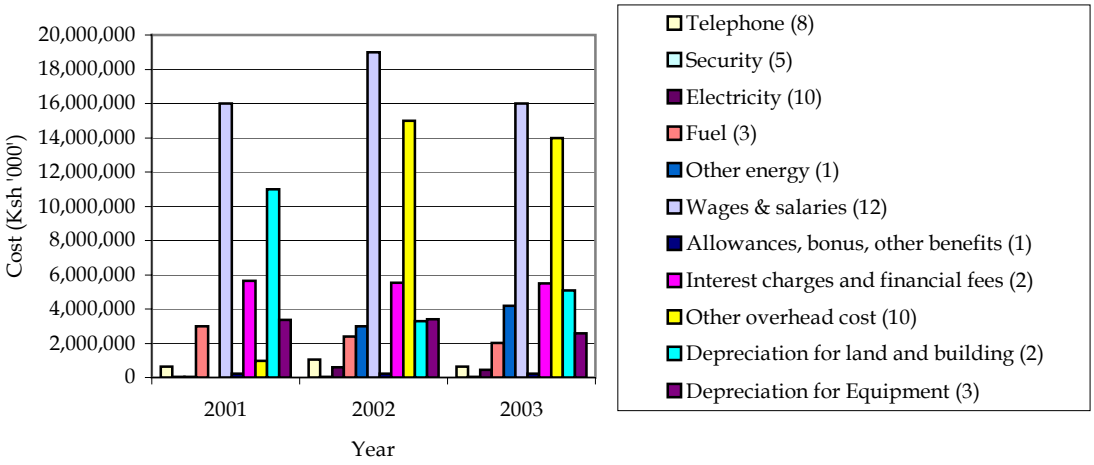
Commercial colleges and related institutions would want to invest in middle level colleges (60.7%), university education (18.5%) and secondary education (8.4%), in that order. Another 12.5 percent would want to expand their existing institutions. Of the colleges that would want to invest in pre-primary education, high profits/returns were among the concerns. In primary education 'high demand for a school' was the main reason attracting the investor to this level. The same reason applied for secondary education. On middle level colleges, other reasons (including experience, legal issues on expansion), high demand for tertiary education and high returns/profits were among the main reasons for wanting to invest in this level. High demand for tertiary education was the most cited reason for investing in university education. One observable feature of the reasons for investing was that existence of 'high demand for a school' was considered by more institutions than 'high returns/profits'. While the two are likely to be positively related, at least in private markets, higher returns from investment in tertiary education occur in the long term.

Financial accounts

Figure 14 shows the expenditure on various cost items in institutions of higher learning. Wages and salaries, other overhead costs, interest charges and financial fees, and depreciation on land/ building, in that order, were among the main cost expenditure items. However, such costs seemed to be stable over time. Figure 15 shows expenditure cost items in commercial colleges and related institutions. Wages and salaries, interest charges and financial fees, depreciation of land and building, and other energy in that order were the main cost expenditure items. From

figures 14 and 15, the amount for wages and salaries seems very high relative to other expenditures. It also appears that the cost of credit or interest and financial fee is a major cost item in private education institutions. If such a trend continues, the institutions may be limited in accessing financial credit.

Figure 14: Mean annual cost of key expenditure items in institutions of higher learning



Expenditure on university education by Kenyan students and parents in selected countries

Annual expenditure on university education by Kenyan students abroad exceeds domestic expenditure in private universities. This may indicate a preference for foreign education systems and especially those that have internationalized their higher education. While the study did not investigate the factors that influence study abroad, the factors are generally associated with tastes and preferences, affordability, access, quality, relevance and type of course. On the other hand, there is the failure of the local higher education system to improve on accessibility. The quality and relevance of higher education is in some instances compromised by large class sizes and inadequate facilities. While over 80 percent of the institutions of higher learning had linkages or were affiliated to other institutions abroad, this has not translated into improved access and transfer of technologies that potential students would want to go and study abroad. The study estimated that at least Ksh 25 billion (Table 13) per annum is spent on Kenyan students attending universities in seven most popular destinations outside Kenya. In the fiscal year 2002/03, public expenditure on university education was Ksh 7.9 billion (equivalent to 31.6% of the expenditure spent abroad) while Ksh 725.5 million (equivalent to 2.9% of the expenditure spent abroad) was spent by students and parents to pay for education in local private universities.

Table 13: Estimated expenditure by Kenyan students in selected foreign countries

Country	Enrolment	Cost per annum in study country	Cost in Ksh per annum (current rates)	Total cost
USA	7,862	US$ 27,500	2,139,500	16.8 billion
UK	3000	S£ 16,362	2,379,135	7.1 billion
India	1,021	Rs 31,209	56,176	57.3 million
Canada	372	C$ 19,406	1,243,924	462.7 million
Australia	301	US $ 18,720	1,456,416	438.4 million
Russia	122	$ 6,784	527,795	64.4 million
Uganda	85	*To search*	*To search*	
S. Africa	74	US$ 6562.67	510,576	37.8 million
Finland	63	N/A	N/A	-
TOTAL	12,900	N/A	N/A	25 billion
Kenya public university	59,593 (2002/03)	N/A	KSh 120,000	7.9 billion
Kenya private university	9,129 (2002/03)	N/A	Ksh 79,475	725.5 million

Sources: Economic Survey 2004; various websites; International Comparative Higher Education Finance and Accessibility Project; Ministry of Education, Science and Technology, Kenya; Own computations

NB:

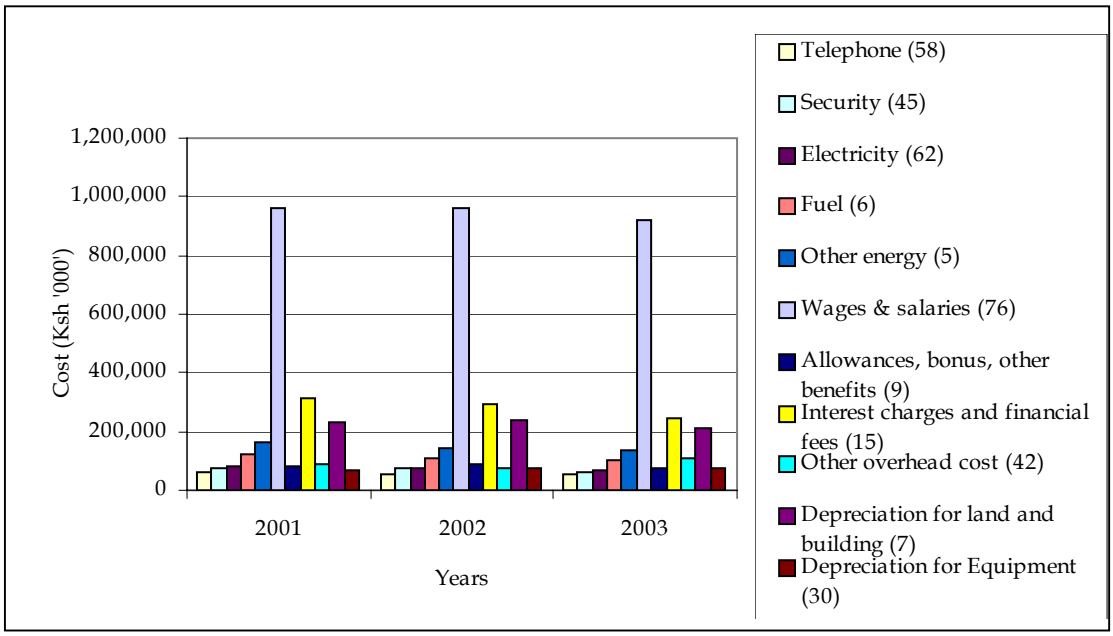
1. Government of Kenya gross expenditure for fiscal year 2003/04 is Ksh 388,552 million; fiscal year 2002/03 is 304,063 million.
2. GDP Ksh 849,987.8 million (2002); Ksh 968,423.8 million (2003) all at current prices.
3. To come up with the estimates: The cost figures are average and include tuition, library, examination, registration and others; Average figures for undergraduate and postgraduate have been used; Average figures for public/private low/high cost has been used. Data for various years have been used.
4. Exchange rates based on Central Bank of Kenya mean rates of 18 January 2005: US$ 77.8; Sterling Pound 145.7; South Africa Rand 12.8; 1 Ksh/Ush 22.2; $ Canada 64.1; Indian Rupee 1.8; $ Australian 59.2.
5. Ruble (RUB) converted to $US based on 1999 purchasing power parity (PPP) of $1 = 14.33 rubles (Russia).
6. National currency (ZAR) converted to $US by 2002 PPP estimate $1 =ZAR 4.145 (South Africa).
7. Data for USA and UK is for 2002/03 academic year. USA 70% were UG; UK 64% were UG.
8. Other countries enrolment is the summation of new entrants from 2000 to 2002.
9. This analysis excludes scholarships and tuition waivers awarded to Kenyan students by foreign governments and organizations. We also assume that students pay full fees and that they do not get free accommodation.

Incentives for private investment in education and training

Credit/overdraft facility: At the time of data collection, two institutions of higher learning had overdraft facility acquired at 12 percent and 18 percent interest rate. The same institutions indicated that a collateral, in this case buildings, was required. High interest rates on overdraft may have discouraged prospective borrowers as only two of the 16 institutions had utilized this facility. In commercial colleges and related institutions, seven institutions had an overdraft

facility acquired at various interest rates. Six of the seven institutions provided information on the prevailing interest rates at the time of acquiring the overdraft. Two of the institutions acquired it at 15 percent interest rate, one each at 16 percent and 17 percent and another two at 20 percent. As pointed out earlier, the interest rates were relatively high and this may explain why the cost expenditure item on interest charges and financial fee was a major cost item in the two categories of institutions.

Figure 15: Mean annual cost of key expenditure items in commercial colleges and related institutions



The six institutions also indicated that collateral was required to secure the overdraft. Three institutions used their buildings as collateral while deposit, equivalent value of equipment/machinery and other (unspecified) were used each by one institution as collateral. Buildings seem to have been the most popular form of collateral. Alternatively, they may have been more attractive to credit suppliers than other forms of collateral.

Loan facility: Three institutions of higher learning had at one time applied for a loan while the rest (13) had not. The reasons for not applying for a loan included 'inadequate collateral' (1), 'did not need one' (8), 'interest rate too high' (1) and 'other' (1). Interestingly, only one institution said the interest rate was too high. This conflicts with the earlier argument that high interest rates may discourage potential borrowers. However, the argument may still hold as institutions may pass on the cost of loan to their customers in the form of increased tuition fees, a suggestion that could be supported by the fact that 8 of the 13 who did not apply for a loan said they did not need one. This is an indication that they could be having a sound financial source (which is likely to be their customers).

Three of the institutions of higher learning indicated they had bank loans taken in 1997 (1) and 2003 (2), and in all the three cases a collateral was required. In two of the institutions that had a loan, the proportion of the value of collateral to the loan value was 100 percent in one and 1,400 percent in the other. In the second case the proportion was too high and unreasonable, perhaps an indication of the risk associated with loaning the institution in question, and or misreporting. The interest rate charged on loan was 9, 15 and 27 percent each in the three institutions and it took between 18 and 180 days to secure/receive it. In two of the institutions with loans, repayment arrangements were considered favorable while one considered the arrangements as

unfavourable. At the current interest rate, one of the three institutions indicated that it would want to borrow more. However, it was constrained by high interest rates.

In commercial colleges and related institutions, 22.8 percent (26) had at one time applied for a bank loan while the rest 77.2 percent (88) had not. The reasons first cited for not applying for a loan included 'inadequate collateral' (26.3%), 'do not want to incur debt' (17.5%), 'process too difficult' (2.5%) 'did not need one' (28.8%), 'did not think I would get one' (2.5%), 'interest rate too high' (17.5%), 'already heavily indebted' (2.5%) and 'other' (2.5%). These observations show that the main considerations for applying for a loan are need for a loan, collateral, the level of interest rate and willingness to incur a debt. From the reasons given for not applying for a loan, financial stability of the institution and the risk associated with the loan influenced the decision on whether to apply for a loan or not. Thirteen (12.9%) of 107 commercial colleges and related institutions indicated they had bank loans. However, 21 indicated they had taken a bank loan at various times, including: 1985 (1), 1999 (1), 2000 (2), 2002 (5), 2003 (10) and 2004 (2). In 14 (66.7%) of these cases a collateral was required.

The proportion of the value of the collateral to the loan value ranged from 0-500 percent in the 14 institutions that had a loan. It was not clear why and how the proportion of the value of the collateral was 0% in four of the institutions. In five of the institutions, the proportion was between 65 and 100 percent while in another five, it was between 150 and 500 percent. The interest rate charged on loan was between 12 and 24 percent with a mean of 17.4 percent and it took between 1 and 180 days (mean 21.8 days) to secure the loan. Repayment arrangements were considered to be favourable by 32.4 percent of those who had loans. At the current interest rate, 28.1 percent of the commercial colleges that had loans indicated that they would want to borrow more. However, they were constrained by various factors, including inadequate collateral (68%), high interest rates (16%), process took long to complete (12%) and 'others' (4%). High value of collateral and high interest rate discourage those with loans from going for more.

In the last five years, institutions of higher learning have first turned to owner savings (3), school fees (12) and 'private individual donations (1) to finance their operating capital. In five of the institutions, they had a second source that included school fees (1), private individual donations (2) and other (community trust fund, donor fund) sources (2). For financing new investments, the first source of finance in the last five years included school fees (8), owner savings (4), other (community trust fund, donor fund) sources (2), and one each for bank loans and private individual donations. In ten of the institutions, there was a second source of financing new investment. This second source included school fees (5), two each for private and other (community trust fund and donor funds) and owner savings (1). School fees seemed to be the main source of financing expenditure. In fact, there seemed to be an over-reliance on this source. In the face of increasing demand for tertiary education, school fees may offer a fairy reliable source of funds. However, there is a likeliness of overcharging the consumer and or supply substandard services at low cost with an aim of increasing revenue. The observations also tend to suggest that private education institutions hardly rely on credit/financial providers as a source of funds.

Commercial colleges and related institutions indicated their sources of financing operating capital and new investments in the last five years. The sources that were first cited by 116 institutions for financing operating capital included school fees (61%), owner savings (33.8%), church donations/contributions (2.2%) each 0.7% for private money lenders and private individual donations with another 1.5 percent of the institutions declining to respond. Fifty seven of the responding commercial colleges indicated a second source of financing their operating capital to be school fees (45.6%), each 8.8% for owner savings and bank loans, private individual donations (10.5%), private money lenders (3.5%) and other (community trust fund, donor funds) sources (22.8%). School fees was the major source of financing operating capital in more than 94 percent of the institutions. Bank loans were nowhere as a first source of financing

operating capital. High interest rates may discourage potential borrowers from utilizing bank loans to finance their operating capital. For the institutions that used borrowed or loaned credit, interest charges and financial fees formed a major item on their expenditure costs. Only four institutions gave a third source of financing operating capital to include bank loan (2 institutions), bank overdraft (1 institution) and private individual donations (1 institution).

To finance new investments, commercial colleges and related institutions first turned to school fees (47.8%) and owner savings (39.7%). Other sources for financing new investments, though used by relatively few institutions, included church donations/contributions (2.9%), bank loans (2.2%), private individual donations (1.5%), bank overdraft (0.7%) and other (community trust funds, donor funds) sources (3.7%). Of the 136 institutions, 87.5 percent used either school fees or owner savings to finance new investments. For a second source of finance, information from 62 institutions showed that school fees (54.8%) and bank loans (16.1%) were among the major alternative sources of financing new investments. Others included 6.5 percent each for owner savings and private individual donations, private money lenders (3.2%), 1.6 percent each for church donations/contributions and harambees, and others (community trust fund, donor fund) sources (9.7%). Only seven institutions provided information for a third source of financing new investment, which reduced that included bank loans (3 institutions), one institution each for bank overdrafts and private individual donations, and others (community trust fund, donor funds) (2 institutions). Most institutions never consider bank loans and overdraft as a first option for sources of financing new investments. This may call for alternative financial providers (other than commercial banks) to advance credit to private institutions in education.

Quantity and condition of physical facilities

Most of the physical facilities in chartered universities, accredited university/colleges and institutions with a letter of authority are permanent[4] (98.7%). The percentage of` temporal[5] facilities was relatively low: lecture halls (9.7%), offices (3.4%), laboratories (4.8%) and stores (4.8%). Commercial colleges and other institutions also had an equally high percentage (above 90%) of permanent physical facilities. However, apart from staff houses, hostels, laboratories and sports fields, all other physical facilities had a small proportion of temporal structures of between 0.5 and 6.7 percent.

The high percentage of permanent physical facilities is an indicator of capital investment in the provision of education by private enterprises. It could also be an indicator of the confidence private enterprises have on business. Investment in fixed assets, as in permanent facilities, could be a pointer that private sector investment in education is profitable, at least in the long run.

Conditions and quantity of equipment

Most of the equipment in use in private educational institutions were in working condition. In chartered universities, and accredited university/colleges and institutions with a letter of authority, at least 98% of the equipment, on average, were in working condition. Only a few desks (2.1%) and computers (0.4%) were out of service. However, a considerable proportion (19%) of typewriters were out of service. This could be explained by a possible shift in the use of word processors from typewriters to computers and therefore a reluctance to service typewriters (especially manual typewriters).

In commercial colleges and other institutions, an equally high proportion of equipment was in working condition. However, there were more equipment that were out of service than in

[4] Permanent facilities meant the building materials were made of blocks, bricks or concrete.
[5] Temporary facilities meant the buildings were partly or wholly made from wood.

institutions of higher learning, though the proportions were low (between 0.2% and 7.7%). A high proportion of equipment that was in working condition is an indicator of efficiency in the provision of training. Functional equipment improves service delivery and makes the institution attractive to potential students. Facilities and equipment in working condition are important to maintain the quality of education. It could therefore be a good strategy to keep equipment functional not only to attract new students but also to maintain capacity and quality.

4.4.2 Access to amenities

Power

Three institutions of higher learning indicated that they provided own power. However, they did not specify the form of power. On the other hand 13 (81.3%) indicated that they did not provide own power. About 15 (93.8%) of the institutions indicated that they used power from Kenya Power and Lighting Company (KPLC).

Majority (95.9% or 116) of commercial colleges and related institutions did not provide their own power, as opposed to only five who provided own power. Of those who provided own power, three used generators. On whether they used power from KPLC, 94.9 percent (112) indicated they used power from KPLC while only 5.1 percent (6) indicated to the contrary. It would seem that these institutions heavily rely on KPLC and that there is minimal investment on alternative sources of power. Perhaps this is because majority are located in urban centers and/or close to KPLC power distribution lines. In the past, consumers of hydro-electrical power from KPLC have experienced frequent power shortages and surges that have resulted to under production and damages, respectively.

Water services

In the last one year from the time of data collection, seven of the 16 institutions of higher learning (Table 14) indicated that they experienced insufficient water supply. Water shortage

Table 14: Water services in institutions of higher learning

Service	Frequency		Percentage of annual water consumption self-provided
	Yes	No	
1. Build own borehole or well	2	14	2% and 5% (2 institutions)
2. Build own water infrastructure (piping)	3	12	5% (1 institution)
3. Share its well with other institutions or community	2	0	100% (1 institution)

was experienced for between 5 and 100 days annually (mean of 44 days). Very few institutions of higher learning provided own water through boreholes/well (2) or even provided own water infrastructure (3). Two of the institutions indicated that they shared their wells with other institutions and or community.

Table 15: Water services in commercial colleges and related institutions

Service	Frequency	
	Yes	No
1. Build own borehole or well	4 (3.3%)	117 (96.7%)
2. Build own water infrastructure (piping)	29 (24%)	92 (76%)
3. Share its well with other institutions or community	13[1] (11.1%)	104[1] (88.9%)

From Table 15, a small (3.3%) percentage of commercial colleges and related institutions owned water borehole/well while another 24 percent (29) built their own water infrastructure (piping). Such low proportions of institutions with own water sources or distributions indicate low investment in water services. In the event of non-supply by the public sector, the institutions are likely to be at a disadvantage. About 11.1 percent (13) of commercial colleges and related institutions shared their well with other institutions or community. However, it is likely that majority of the 13 are the ones accommodated by the owners of the well.

In commercial colleges and related institutions, the percentage of annual water consumption that was self-provided was 50 and 80 percent in two institutions, while another 29 institutions provided 100 percent of their annual water consumption. On water shortages, 33 (27.2%) indicated that they did not experience shortage in the last one year. On the other hand 32 (26.4%) indicated that they experienced water shortages for between 1 and 365 days (mean 57.4 days) in the last one year prior to data collection.

Telecommunications

In institutions of higher learning, 75 percent (12) had telephone connections (land line) while the rest (25%) did not have. However, in the last one year prior to data collection, of those who had a telephone connection, 4 institutions did not have the telephone service available for between 7 and 120 days (mean 49.3 days). On Internet facilities, 50 percent of the 16 institutions of higher learning had Internet facilities.

In commercial colleges and related institutions 68.4% (78) had telephone connections (land line) while the rest (31.6%) did not have. However, in the last one year prior to data collection, of those who had telephone connection, 44 institutions did not have the telephone service available for between 1 and 272 days (mean 30.9 days). On Internet facilities, 39.3 percent of the 121 commercial colleges and related institutions had Internet facilities. This is an indication that currently, majority of commercial colleges and related institutions do not have Internet facilities despite access to Internet increasingly becoming a major source of information for education and training.

Transport and waste disposal services

In 16 institutions of higher learning, 12.5 percent (2) offered transport to the workers while 18.7 percent (3) offered the same to the students. This implies that majority of the institutions in question do not provide or arrange for transport of their students and workers. Two of the institutions that offered transport for workers were the same ones that provided the same to the students. On the cost of transport, two institutions indicated that they spent Ksh 20,000 and Ksh 15 million each to transport workers in a year. On the other hand, the same institutions spent Ksh 144,000 and Ksh 18 million to transport students in a year. The cost is normally borne by students and is likely to vary with the number of students and the aggregated distance between the employee/students' residence or pick-up points and the institution. The institution spending Ksh 15 million and Ksh 18 million for workers and students, respectively, had an enrolment of 994 in 2003 while the one that spent Ksh 20,000 and Ksh 144,000 to transport workers and students, respectively, had an enrolment of 499 in 2003. Transport services are expensive both to the student and institution. In an effort to bring transport costs down some private institutions had contracted commercial public transport firms to provide the service, at competitive prices, wherever they are needed. Five (31.3%) of the institutions of higher learning provided waste disposal services.

In the 121 commercial colleges and related institutions, 5.8 percent (7) offered transport to the workers while 6.7 percent (8) offered the same to the students. This implies that majority of colleges do not provide or arrange for transport of their students and workers. Five of the

institutions that offered transport for workers were the same ones that provided the same to the students. On the cost of transport, the five institutions indicated that they each spent between Ksh 1,600 and Ksh 240,000 to transport workers in a year. The same institutions each spent between Ksh 21,000 and Ksh 720,000 to transport students. The cost is likely to be factored into school fees and or through employee contributions, and varies with the number of students and the aggregated distance between the employee/students' residence or pick-up points and the institution.

Forty-eight (40.3%) of the commercial colleges and related institutions provided waste disposal services as opposed to 70 (58.8%) who did not. Therefore, majority of colleges and related institutions depend on the public system waste disposal services, despite the inefficiency in this system.

4.5 Legal and Regulatory Framework for Private Education Investment in Kenya

Registration

The Education Act (211) and the University Act (210b) require that all educational institutions be registered with the Ministry of Education. However, the registration procedures differ with the category of the institution. Institutions under the Commission for Higher Education (CHE), go through an '*accreditation*', also referred to as registration. About 88 percent (121) of sampled institutions were registered institutions while about 12 percent (16) were not registered (including 2 accredited university/colleges, 11 commercial colleges and 3 'others'). Of those registered, 83.1 percent (103) were registered with the Ministry of Education, Science and Technology, 8.9 percent (11) with the Attorney General, 2.4 percent (3) were registered with Ministry of Gender and Sports, 1.6 percent (2) were registered with the NGO bureau while only one was registered with the Ministry of Home Affairs. Four (3.2%) were registered with 'other' (unspecified) bodies. While the Education Act Cap 211 requires educational institutions to register with the Ministry of Education, Science and Technology, it is clear that private institutions have to go for other registration, including registration of business names with the Registrar of Societies at the Attorney General's Chambers. Others prefer to register with the NGO bureau and other ministries perhaps due to their nature of training, ownership and convenience. For the institutions visited, chartered universities (2), accredited institutions/college (12) and those with letters of interim authority (2) indicated that they were registered with the Ministry of Education while 80.6 percent of the commercial colleges indicated the same. In case of a charter and a letter of interim authority, the registering body was the Commission for Higher Education.

Ten of the unregistered institutions indicated that registration was in progress. Among them, three started their operations in 2003, suggesting that either they do not apply for registration on time or the process of registration could be taking even more than one year. Two other commercial colleges mentioned that they were not registered because the registration fee was prohibitive, while another one found 'the process long and difficult'. Of the unregistered institutions that indicated that registration was in progress, one started operating in 1986 and the other one in 1996. The rest started operating in year 2000 or thereafter. The registration process is likely to be inefficient, or institutions do not apply for registration on time. It may also mean that the market is not regularly monitored, otherwise the unregistered institutions would have been identified and the process of registration accelerated to ensure compliance.

Institutions operating without legal registration could be taking advantage of the weaknesses in the policy and regulatory framework where it is not clear which government department is responsible for registration of private commercial colleges and ensure compliance with standards. If such a trend continues, it is possible that commercial colleges may offer substandard training. In countries like Uganda, all training activities come under one training

authority. Such an authority is equipped with the necessary infrastructure and capacity to implement training policy. In Kenya, it would be expected that the Ministry of Education, Science and Technology and or one of its departments should be charged with the responsibility of registration and quality assurance in all (public and private) education and training institutions, but this has not been the case.

Licence and other documents required to operate

Responses from universities and closely related educational institutions show that majority (81.8% of those responding) were of the opinion that a trade licence and a trade permit were needed to conduct their business. Under normal procedures, it took 23.7 and 31.7 days, on average, to acquire a trade licence and trade permit, respectively. However, if an inducement was given, then the duration reduced to 6.6 and 11.3 days, on average, for a trade licence and trade permit, respectively. In most cases, local government authorities were the issuing office. The fact that a private investor had to wait for even up to two months to get the necessary documents that would enable the business to run legally is a discouragement to investment.

An inducement reduced the duration of acquiring a license/permit by as much as 72.2 percent for a licence and 64.4 percent for a permit. Documents that show compliance to the existing legal requirements are necessary but not sufficient to access credit from financial institutions. Institutions of higher learning indicated that it took 287.7 (about 9.5 months) days to be issued with a registration certificate. This registration affects the institutions that have to comply with the Education Act and those that need to register as trainers with the Ministry of Labour and Human Resource Development. However, if an inducement was used, the number of days one had to wait dropped to 67.5 (slightly above 2 months) on average (mean time). Three institutions indicated that they needed a letter of interim authority to operate (normally issued by CHE) while another two indicated they needed a charter.

On average, a letter of authority took 649 days (about 21.6 months) when applied fro through the normal procedures. This reduced to 372.5 (about 12.4 months) days if an inducement[6] was given. In case of a charter, it took 2,920 days to be issued. However, there was no indication of inducement for this kind of regulation despite it taking almost 8 years. For a letter of interim authority and charter, a committee is likely to be part of the determining authority while the other regulations are more or less processed by the respective authorized individuals after satisfactory inspection of the teaching and learning resources. Where a letter of interim authority and charter were involved, delays were occasioned by inability of the applicants to comply effectively with CHE requirements, and delays caused by other offices. For instance, the applicant may be required to prove that the institution or a trustee owns the land occupied by the institution. This will occasion the applicant to seek such proof from the Ministry of Lands and Housing. However, the University Act gives some committees established by CHE up to six months to submit their report(s).

Over 74 percent and over 54 percent of commercial colleges responded positively to the need for a trade licence and trade permit, respectively. These trade documents took time to be processed by the necessary authority, with private institutions intervening in form of inducements to accelerate the process. On average, it took 26.1 days and 14.6 days to get a trade licence without a bribe and with a bribe, respectively. About 94.9 percent of commercial colleges and related institutions indicated that a certificate of registration was needed to operate. It took 291.4 days (about 9.7 months), on average, to get a registration certificate through the normal procedures. However, the process reduced to 62.5 days (slightly above two months) when there is an inducement to get a certificate of registration. This discourages

[6] Information from CHE indicated that it was very difficult to induce in case of a letter of interim authority as a committee rather than an individual was involved in the decision-making.

private investment in education, for giving a bribe is not only immoral and criminal, but it adds to the initial cost of starting the business. While various registration documents were issued at the Ministry of Education, Science and Technology and Ministry of Labour and Human Resource Development, the process started at the local level (district or municipal). Trade licences are mainly issued by local authorities. An attempt to probe the point at which the inducement was given did not yield much information as the respondents feared reprisal.

A small proportion (13.7%) of commercial colleges needed a letter of interim authority, perhaps because majority of them do not aspire to offer programmes that lead to a degree. However, for those who indicated positively to a letter of interim authority, it took 243.1 days (about 8 months), on average, to get a response. However, this dropped by 63 percent to 90 days, on average, when there was an inducement. Although, some colleges (7.5% of those who responded to the item) indicated that a charter was necessary to operate, none seemed to have applied for one as evident from non-response when asked the duration it took to acquire one. Another small proportion of commercial colleges indicated that other regulations were needed to operate. These included registration as an examination center with relevant bodies.

4.5.1 Regulation/laws and influential groups

Certain institutions are known to influence some regulations or laws that govern educational institutions. Respondents provided information on the type of regulations/laws, level of influence and the group(s) that were influential. The regulations included: registration; tax level/administration; labour laws/regulations; land regulations; investment incentives, and; student financial assistance (for example loans and bursaries from HELB). In case of the level of influence, the scale ranged from 'no influence' to 'major influence'.

There was no dominating group and/or individual in terms of influence on regulations and laws that govern education institutions. However, a considerable (4) number of institutions of higher learning indicated that they had influence on registration. Individuals or institutions with close personal ties to political leaders also had an influence on the registration process as indicated by three institutions. The other notable influence came from labour unions (mentioned by five institutions), which had an influence on labour laws/regulations. Labour unions were thought to have a major influence by four respondents, while institutions of higher learning, other domestic institutions and those with close personal ties to political leaders were each thought to have a minor influence by four respondents. For most of the other groups and or individuals, the respondents were not aware of their influence or they were not applicable.

Commercial colleges and related institutions have an influence on registration but such influence was noted to be minor by 14.4 percent of respondents, with another 2.4 percent indicating that they had a major influence. Other domestic institutions also have an influence on registration. However, the kind of influence was minor, as indicated by 25 percent of the respondents, with another 4.6 percent indicating that it was a major influence. Dominant groups (e.g. associations) have an influence over registration and labour laws. The influence was indicated to be minor by 15.1 percent while another 25.5 percent thought it was a major influence. Private institutions' associations have an influence over registration. Such influence was thought to be minor by 26.9 percent while 10.2 percent thought it was a major influence. Labour unions had a notable influence over labour laws, with the influence indicated as minor by 21.1 percent while another 26.6 percent of the respondents thought it was a major influence. From these observations, there is no single individual or group that influenced laws and regulations over a majority of institutions. It would seem that such individuals and or groups influenced laws and regulations to suit institutions of their interest.

4.5.2 Service delivery

Respondents' perception of services and procedures

Using a scale of 1 to 3, with 1 – no problem, 2 - minor problem and 3 – major problem, the respondents in institutions of higher learning indicated their perceptions on public services and procedures provided by government departments. About 43.8 percent (7) indicated that they had no problem with the registration of the institution. The mean score of perception on registration of institution was below 2, an indication that less problems are likely to be experienced for this service/procedure. On investment incentives, majority (56.3%) of the respondents indicated that major problems are experienced for this service. Investment incentives had a mean score of 2.31, indicating that it could be a potentially problematic service. Alternatively, it could mean that little effort was being made to encourage private investment in education.

On the support from the Ministry of Education, Science and Technology, half (50%) of private institutions of higher learning indicated that they experienced minor problems with this service. Collaboration with public institutions and grade recognition were perceived very positively with majority (75 percent and 81.3 percent, respectively) of the respondents indicating 'no problem'. In the provision of infrastructure, 43.8 percent indicated no problem while 31.3 percent perceived this service as having a major problem.

Perceptions on services and procedures by commercial colleges and related institutions showed that 49.2 percent (59) of commercial colleges had a major problem with the registration of the institution. The mean score of perception on registration of institution was above 2, an indication that more problems are likely to be experienced in this service/procedure. On investment incentives (for instance tax holidays, access to land and access to cheap credit), majority (65%) of the respondents indicated that major problems are experienced in this service. Investment incentives had a mean score of 2.31 indicating that it could be a potentially problematic service. The mean score for investment incentives was 2.51, therefore leaning heavily towards 'major problem' in the delivery of this service. On the support from the Ministry of Education, Science and Technology, about 43.2 percent of private institutions of higher learning indicated that they experienced major problems with this service, with those who perceived the service as having 'no problem' being 30.5 percent. Collaboration with public institutions and grade recognition were perceived very positively, with majority (53.8% and 54.2%, respectively) of respondents indicating 'no problem'. The mean scores were below 2, an indication that they are perceived as 'no problem' services. In term of provision of infrastructure, 49.6 percent indicated 'no problem' while 31.1 percent perceived this service as having a 'major problem'.

Public institution's service delivery in terms of issuing trade permit/license and registration or acquiring charter was indicated to take an average of 27 and 409 days, respectively, for institutions of higher learning. The number of days that an institution had to wait for issuance of legal documents to enable it to operate legally varied between 1 and 90 for a trade permit and between 8 and 1,005 for registration/acquiring a charter. However, there was no inducement given or expected.

In case of commercial colleges and related institutions, service delivery in terms of being issued with a trade permit/license and registration or acquiring charter took an average of 29 and 296 days, respectively. The number of days that an institution had to wait for issuance of legal documents to enable it operate legally varied between 1 and 730 for a trade permit and between 1 and 1,800 for registration/acquiring a charter. Unlike institutions of higher learning, commercial colleges were expected and or gave gifts (bribes and or tips) for such a service to be offered. About 14.1 percent (11) and 19.4 percent (13) of commercial colleges and related

institutions indicated that they gave gifts in order to facilitate issuance of trade permits/license and registration/acquiring charter, respectively. Perhaps the length of time it took for legal documents to be processed influenced the commercial colleges to give gifts/bribes with a view to shortening the waiting period.

Efficiency of the public service (Government and local authorities)

When institutions of higher learning were asked to rate the efficiency of the government and local authorities to deliver services such as public utilities, public transport, security, education and health, 86.7 percent (13) indicated that it was inefficient while 13.3 percent (2) indicated that it was efficient. On the other hand, among commercial colleges and related institutions, 71.7 percent (86) and 28.3 percent (34) indicated that the services were inefficient and efficient, respectively. Majority of private education institutions rate services provided by the government and local authorities as inefficient. Inefficient services may discourage and increase education investment costs as providers seek alternative sources for the same services despite being taxpayers.

4.5.3 Problems with labour regulations

Table 16 shows various problems that are likely to be experienced by private education investors in institutions of higher learning. Most (above 64%) of the institutions indicated that they do not experience the stated problems. However, more than two institutions indicated that each of the listed issues was a minor problem while only one institution had a major problem with one (dealing with hiring procedures for local workers) of the listed issues. Generally, going by the 'mean column', most institutions had very little or no problem with most of the listed issues. This could be an indication that the prevailing labour regulations have minimal conflict with the interest of private education providers in institutions of higher learning.

Table 16: Problems with labour regulations as perceived by institutions of higher learning

Problem	Rating scale: 1=No problem, 2=Minor problem, 3=Major problem, N/A=Not applicable				
	Frequencies (responses)				
	1	2	3	4	Mean[1]
Dealing with hiring procedures for local workers	14 (87.5%)	1 (6.3%)	1 (6.3%)	0	1.19
Dealing with hiring procedures for foreign workers	9 (64.3%	2 (14.3%)	0	3 (21.4%)	1.18
Layoff procedures and cost of retrenchment	14 (87.5%)	1 (6.3%)	0	1 (6.3%)	1.07
Limits on temporary hiring	14 (87.5%)	2 (12.5%)	0	0	1.13
Dealing with the inspectorate of labour	15 (93.8%)	1 (6.3%)	0	0	1.06
Other (unspecified)	1 (11.1%)	1 (11.1%)	0	7 (77.8%)	1.50

Notes: 1. Calculation of the mean excluded the frequencies for 'Not applicable'.

Table 17 shows various problems that are likely to be experienced by private education investors in commercial colleges and related institutions. On average, about 73 percent of the institutions had no problem with the listed labour regulation issues compared to an average of 10.8 percent of the institutions that had a major problem with these issues. Another 8.3 percent (on average) of the institutions had minor problems with the listed labour issues. Generally, if the mean column is anything to go by, and like in institutions of higher learning, most institutions had not problem with the listed issues. Again, this could be an indication that the

prevailing labour regulations have minimal conflict with the interest of private education providers in commercial colleges.

Table 17: Problems with labour regulations as perceived by commercial colleges and related institutions

Problem	Rating scale: 1=No problem, 2=Minor problem, 3=Major problem, N/A=Not applicable				
	Frequencies (responses)				
	1	2	3	4	Mean[1]
Dealing with hiring procedures for local workers	102 (87.2%)	3 (2.6%)	9 (7.7%)	3 (2.6%)	1.18
Dealing with hiring procedures for foreign workers	61 (56.5%)	9 (8.3%)	13 (12%)	25 (23.1%)	1.42
Layoff procedures and cost of retrenchment	79 (69.3%)	12 (10.5%)	7 (6.1%)	16 (14.0%)	1.27
Limits on temporary hiring	87 (75.7%)	14 (12.2%)	9 (7.8%)	5 (4.3%)	1.29
Dealing with the inspectorate of labour	88 (76.5%)	9 (7.8%)	13 (11.3%)	5 (4.3%)	1.32
Other (unspecified)	8 (12.7%)	1 (1.6%)	0	(85.7%)	1.11

Notes: 1. Calculation of the mean excluded the frequencies for 'Not Applicable'.

4.6 Challenges and Opportunities for Investment in Education

4.6.1 Challenges

Obstacles to investment in education

Each institution of higher learning was asked to identify three major obstacles that hinder investment. From the responses, the most frequently cited obstacles are:

- Lack of incentives
- Inadequate access to credit
- Access to land
- Inadequate supply of infrastructure
- Regulations for setting up an institution
- Limited expansion opportunities
- Bureaucratic burden.

In commercial colleges and related institutions, most frequently cited obstacles to independent investment in education are:

- Inadequate access to credit
- Lack of incentives
- Lack of government support

- High utility prices

Lack of incentives and inadequate access to credit featured predominately among all institutions.

Problems in the operation and growth of the institution

Issues that posed problems in the operation and growth of the institutions were identified and their severity judged on a three-point scale. In institutions of higher learning, the five highly rated issues that posed major obstacles are:

- High number of school fees defaulters
- Inadequate support by the government
- An oppressive tax regime
- Inefficient procedures for licensing and operating permits
- High cost of finance, such as interest rates

From these observations, the first issue would seem to be a management issue. However, affordable school fees discourages would be fees defaulters. On the other had, the other four issues revolve around government macro-economic policies and legal framework.

In commercial colleges, the five highly rated issues that posed major obstacles are:

- High number of school fees defaulters
- High cost of finance
- Limited access to finance
- Macro-economic instability
- Inadequate support by the government

Apart from the first issue, the others would seem to revolve around the government's macro-economic policies and legal framework. From these observations, it would seem that the major problems that hinder private investment in education are inadequate fee collections, cost and access to finance and inadequate support from the government.

4.6.2 Opportunities

Environment for private investment in tertiary education

In an open-ended question, respondents were asked to state what they thought the government should do to create an enabling environment for private investment in tertiary education. In institutions of higher learning, the five most frequently cited actions are:

- Improve infrastructure
- Offer investment incentives

- Offer financial support
- Lower bank interest rates
- Invite foreign capital

However, out of the sixteen institutions of higher learning, the highest number of responses for any single action was only three.

To create an enabling environment for private investment in tertiary institutions, commercial colleges felt that the government should offer investment opportunities (28.1%), offer financial support (23.1%), review and reform the registration process (18.2%), provide facilities, equipment and materials (15.7%) and carry out regular inspection and monitoring (13.2%). Though their expectations of the government differ slightly, the two categories of private institutions were in agreement over investment incentives/opportunities and offering financial support.

Encouraging private investors to invest in rural areas

To encourage private investors in rural areas, institutions of higher learning expressed the need to improve rural infrastructure (75%), improve and sustain rural economy (31.3%), create awareness among rural folk on importance of education (18.8%), and improve security (18.8%). These issues revolve around creating an enabling investment climate as well as creating demand for education.

To encourage investment in rural areas, commercial colleges and related institutions singled out the main issues to include improving rural infrastructure (54.5%), providing loans, scholarships, bursaries to rural students (18.2%), offering incentives to investors in rural areas (15.7%) and improving and sustaining rural economies (11.6%). Again, the issues of concern revolve around investment climate and creating demand for education.

Government loans and scholarships

According to the respondents, government loans and scholarships should be awarded to students in private institutions. Among institutions of higher learning, assisting needy students and a 'right' to be assisted by the government were the most cited reasons for the awards. In commercial colleges and related institutions, the most cited reasons were to assist needy students (47.9%), general poverty in Kenya (14%) and the fact that students are a public resource (10.7%). The view that needy students should benefit from government financial assistance could be justified on equity goals.

Government/donor assistance to private institutions

The three main areas that institutions of higher learning would want assistance (from government/donors) are in the provision of equipment, materials and facilities (8 or 50%), provision of loans and scholarships to students (7 or 43.8%), and providing soft loans to institutions (3 or 18.8%). In commercial colleges and related institutions, the same areas of assistance were identified in a similar order: provision of equipment, materials and facilities (51 or 42.1%); provision of loans and scholarships to students (45 or 37.2%), and providing soft loans to institutions (38 or 31.4%).

Suggestions for improving quality and functions of private institutions

Tables 18 and 19 show the suggestions made by respondents on improving quality and functions of private institutions. From Table 18, three single suggestions that were most (4 each) cited by respondents included proper regulation and monitoring of tertiary institutions, provision of qualified teaching staff, and equal treatment of both private and public institutions. In commercial colleges and related institutions, Table 19 shows that proper regulation and monitoring of tertiary institutions (30.6%), having qualified teaching staff (27.3%), having a standardized curriculum (14.9%) and providing and installing adequate facilities and equipment (14%) were the four most cited suggestions.

Table 18: Suggestions from institutions of higher learning on improving quality and functions of private institutions

Suggestion	Frequency (number of institutions)
Proper regulation and monitoring of tertiary institutions	4 (25%)
Standardize the curriculum	3 (18.8%)
Have qualified teaching staff	4 (25%)
Equal treatment of both private and public institutions	4 (25%)
Have a solid financial base	1 (6.3%)
Provide and install adequate facilities and equipment	2 (12.5%)
Others (pay staff well, do not be profit-minded)	6 (37.5%)

Table 19: Suggestions from commercial colleges and related institutions on improving quality and functions of private institutions

Suggestion	Frequency (number of institutions)
Proper regulation and monitoring of Tertiary Institutions	37 (30.6%)
Standardize the curriculum	18 (14.9%)
Have qualified teaching staff	33 (27.3%)
Equal treatment of both private and public institutions	4 (3.3%)
Have a solid financial base	10 (8.3%)
Provide and install adequate facilities and equipment	17 (14.0%)
Collaborate closely with the government	7 (5.8%)
Proprietors and managers should be professionals	2 (1.7%)
Others (pay staff well, do not be profit-minded)	32 (26.4%)

Views on conditions to be fulfilled by a private institution before registration

The three most cited conditions for registration among institutions of higher learning include presence of qualified staff (11), adequacy of materials and equipment (10) and a thorough building inspection and approval (3). In commercial colleges and related institutions, adequacy of materials and equipment (58.7%), qualified staff (53.7%) and a conducive location (21.5%) were the three most cited conditions.

Views on improving registration process of private institutions

Based on the respondents' opinion, two ways that were mostly cited for improving the registration exercise included decentralizing the registration process (7), and eliminating bureaucracy. The kind of decentralization being advocated here had to do with location, such that institutions could go for registration at provincial and district offices. It is likely that if this

is done then the average waiting time between the time one applies and the time when one receives the legal documents would drastically be reduced.

In commercial colleges and related institutions, similar views were echoed, with decentralizing the registration process having been cited by 43.8 percent of the respondents, and eliminating bureaucracy by 37.5 percent of the commercial colleges and related institutions. A third way of improving the registration process that was cited by a considerable proportion of respondents was to 'expedite the registration process' (14.9%). This is closely related to decentralizing the registration process and reducing bureaucracy. However, the issue of decentralization should be done cautiously, bearing in mind the capacity to monitor implementation for maintenance of standards, capacity to conduct external examinations, and cost implications of establishing an efficient network of the body or ministry to be charged with registration.

5. CONCLUSIONS AND EMERGING POLICY OPTIONS

This section puts together lessons for policy on private investment in tertiary education in Kenya. The section also presents a range of conclusions from the presentation of findings in previous sections of this survey.

5.1 Major Policy Messages

In the introductory chapter, we outlined the desired directions for investment in education in Kenya. The major elements of what would constitute private investment policy in tertiary education were summarized in section one. It is within the framework of this broad private investment policy in tertiary education that we present the major policy messages emerging from the study.

There was a considerable agreement on the role of private sector in tertiary education. This was defined as:

- Support in market-oriented labour training/manpower training
- Catering for the excess number of willing students
- Empowerment of the youth
- Offering an alternative form of tertiary education and training
- Complement public sector efforts to supply education – this reduces public fiscal pressure
- Creating employment opportunities

For private investment to play this role, a sound private investment policy is a prerequisite. Such a policy should be geared to facilitating the development of effective, efficient, competitive, flexible and responsive (demand-driven) tertiary education systems; to meet national economic and social needs and the needs of individuals; while at the same time guaranteeing positive returns to investment. We now consider major issues that impinge on the goal of reaching this overall policy objective.

5.2 Redefined Government Role in Investment in Tertiary Education

The dominant role played by the government in provision of tertiary education is excessive in Kenya, and there is probably no strong economic rationale. Government support to tertiary education should be to the extent of providing the necessary human capital in critical skill areas that are in short supply and/or require massive capital investment. Studies on returns to investment in education show that at tertiary level, individuals benefit more than the society. Constrained national budgets have exerted their toll on the provision of quality and effective public tertiary education provision. This increasing pressure on the budget provides an opening for the diversification of tertiary education providers.

The appropriate role of government in tertiary education markets cannot be determined without reference to the capabilities of private education markets. Where they function well, private tertiary education providers are an alternative to public sector provision. Where they do not, then the public sector should be engaged. This approach to the appropriate role of government in tertiary education provision requires the Government of Kenya to determine its manpower needs for public sector training intervention. It will need to examine the

performance of its markets, the capacity of the private sector to deliver training and its own preferences with regard to economic, social and equity policies. In view of this, the public sector should focus on the provision of the more expensive engineering and technical courses, while leaving business and humanities related courses to be provided by private markets.

5.3 Diversification of Investment Funds

The ultimate aim of funding diversification should be twofold: *First*, to increase total resources available for tertiary education; and *second*, to allocate such resources in a manner that will optimize tertiary education outcomes. Private investors not only increase resources available for tertiary education but also are more efficient in distribution of tertiary education funds. Funding mechanisms that lead to better training outcomes and other national policy objectives usually relate to the allocation of training resources and transfers within the system. As an encouragement to private investment, public funds (as in training levy) can be open for competition by both public and private tertiary education providers.

Training levy (payroll levy schemes) is a valuable mechanism for greater funding diversification. It lightens the burden of training funding falling on the state. The expectation is that levy income would constitute a complement to existing government financing, therefore providing an additional source of funding. Since the private sector is a partner in the economic recovery strategy for wealth and employment creation, it should have access to the training levy. However, training levies have their own weaknesses, including poor levy collection outcomes, leakage of levy proceeds into general government revenues and inequitable coverage (in terms of firm size and sectors to be included).

5.4 Fees

The government encourages increased cost sharing and imposes fees ceilings in the public sector. Since private investment in tertiary education is expected to play a complementary role (partnership), rather than a competitor in the supply of tertiary education, realistic training fees should be encouraged while loans, scholarships and bursaries should be equally accessible to students regardless of the sector of training.

The practicability of setting college fee (in relation to unit costs of training) is a compound of many and diverse variables that vary with local conditions. They include: type and costs of training, the price elasticity of trainee demands for different training courses, political constraints and policies for equality of opportunity. In view of this, it is not rational to be prescriptive in relation to the scope for generating revenues from tuition fees. This will need to be settled on a case-by-case basis, in the light of available options. Subsidizing private tertiary education institutions in critical skill training areas can be used to control school fees while allowing market forces to set the training fees.

The positive financial benefits from greater private investment in tertiary education need to be examined alongside the potentially adverse effects on equity. There is a clear trade-off, which is inevitable. Higher, realistic fees will exclude from training those who are unable to pay; fees set at comfortably low levels will fail to make a sizeable contribution to returns on investment.

In particular, negative impacts on access to training opportunities of the poor, minorities, rural populations and other disadvantaged groups are likely to ensue. This points to the widely recognized need to introduce targeted subsidies directed to the 'at-risk' groups, in the form of scholarships, bursaries and loans.

5.5 Financial Constraints

A large majority of private tertiary education institutions in Kenya offer courses in computer and business occupations, with comparatively low capital costs and a relatively abundant supply of instructors. However, costs of technical and industrial courses are higher, particularly for capital development. Public subsidy to private tertiary education institutions that invest in technical and industrial instructional facilities and equipment is justified and should be encouraged. This will prevent under-investment in critical skill areas. As part of the broad economic recovery programmes, private investors in this sector should be assisted to access cheap credit for development, while students attending such institutions should be treated as a national resource and given equal and expanded access to financial assistance (as in HELB).

5.6 Income generation

Income generated from sale of production and service activities of trainees and staff can constitute a useful form of additional institutional income. Income may be derived as a byproduct of the training process itself, but it is possible, more purposefully, to utilize available skills and facilities to produce output for sale in the local market. Indeed, exposure to local markets may lead to more relevant, market-oriented training, but a balance must be struck so that the primary objective of tertiary education institutions remains to produce human capital. If more weight is given to instruction, the income potential from production and sale of services declines, otherwise quality of training will suffer as emphasis is placed on production/sale of services rather than instruction. Engaging in activities outside instruction will call for additional regulation/license and clearance from the relevant authorities.

The scope for generating income from production and sale of service will depend on the nature of the product, local demand conditions and potential market competition, among others. If an acceptable balance is maintained between training quality and production for sale, the scope for cost recovery may be fairly limited, usually accounting for only a few percent of recurrent expenditure. In some exceptional cases, however, it can contribute a considerable proportion of total costs. Income may be generated from the sale of services, including the renting out of underused facilities and providing consulting and research services to local enterprises. The philosophy underlying income-generating activities is to allow private institutions to lower tuition fees without creating significant revenue gaps and at the same time increase demand for educational services by making them more affordable.

5.7 Legal and Legislative Framework

a) Private sector development

The growth of private tertiary education institutions, with trainees paying full costs, provides a pathway for expanding the national education system without heavy commitments of public funds. In fact, a decline in public education provision could be possible (and concomitant budgetary reductions) with the reduction in public education supply being compensated by expansion of private tertiary education institutions.

In Kenya, inadequate private tertiary education provision results from financial, institutional and other constraints holding back private provider development. The imposition of restrictions such as legal prohibitions, tight regulatory control, high taxation and corruption may combine to render private institutional start-up very cumbersome. While these restrictions are intended to protect the interests of potential trainees, they are often counter-productive in constraining private tertiary education supply. The Government of Kenya can help establish a more liberal regulatory regime, particularly aimed at quality control, combined with an enabling environment encouraging the flowering of incipient private tertiary education institutions and

improved dissemination of information about quality of training institutions and courses and their relevance to employment opportunities. The objective is to encourage foreign universities to offer their courses in Kenya through partnerships, affiliation and linkages with local institutions. Financial incentives, including lowering tax rates on school inputs such as buildings, land and teaching/learning materials, would go along way in encouraging local private investors to expand the provision of education and training services.

b) Regulatory environment

Private tertiary education institutions are unlikely to flourish in an overly strict regulatory environment. Regulation is, however, required against the possibility of dishonest practices, excessive advertising and low quality training. This will also curb any future proliferation of politically connected and profit-motivated educational institutions. However, regulation and enforcement should be sparing; while sufficiently robust to counter excesses, they should be designed to encourage private tertiary education institutions to operate fairly and efficiently within a facilitating, regulatory environment. Self-regulation should also be encouraged especially through the formation of professional associations of private education and training providers.

c) Education authority/board

The Commission for Higher Education (CHE) should be an autonomous national tertiary education authority with representation from the private and public sector. The Commission should be charged with the central role of assuming responsibility for national skills development in post-secondary institutions. To respond to the developing skill needs of the economy and to be in a position to be proactive, rather than just responsive, in relation to ongoing technological and industrial changes, private tertiary education institutions need a greater degree of independence than is sometimes forthcoming from line ministries. The Commission for Higher Education should play a more central coordinating role in planning both private and public tertiary education, in developing training policy, supervising national skills testing and certification, and in providing necessary information services and developing appropriate labour market signals. This would squarely lay the function of registration of all public and private institutions offering tertiary education and any other legal activity they may decide to offer under the Commission for Higher Education. While the Commission registers institutions without requesting for an inducement, it should be facilitated to expedite the registration process by, among other things, re-evaluating the minimum registration requirements. In addition, the Commission should rationalize course valuation fees that it charges private institutions of high learning that offer degree courses.

d) Participatory management of tertiary education

Participation of the main stakeholders (especially employers/consumers and education/training providers) in national education and training policy formulation and management (membership to governance institutions of education/training funds or national education and training board) has a vital role in building consensus on education and training issues. This may be particularly important where enterprise training levies, loans and other financial resources are to be distributed to public and private tertiary institutions.

5.8 Effective Sector Representation in Public Policy

Currently, there is a very weak or no representation of private tertiary institutions in education and training policy formulation and implementation, largely due to lack of bargaining power. The interest group theory of government argues that well-organized lobby groups that have the basic leverage are able to influence policy choices in their favour, while weak and poorly

organized groups are generally ignored by policy makers, as they lack the necessary leverage to compel policy makers to listen to them (Kimenyi, 2001). It is therefore imperative for private investors in tertiary education to have associations that can act as economic interest groups with an aim of promoting pro-growth policies to their favour.

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