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Income Share Agreement as a Tool for Student Financing of Tertiary Education in a Period of Socio-Political and Economic Uncertainty in Nigeria

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Abstract

Income Share Agreement (ISA) is a student financing tool that allows students to borrow money for their education and repay it as a percentage of their income after graduation. ISAs are relatively new form of student financing, but they have the potential to be a valuable tool for students in Nigeria, where access to traditional student loans is limited and the economy is uncertain. The Nigerian economy has been volatile in recent years, with high inflation and unemployment rates. This makes it difficult for students to predict their future earnings and to repay traditional student loans. ISAs, on the other hand, are designed to be flexible and adaptable to changes in a student's income. Income share agreement can help to increase access to higher education for students from all backgrounds and reduce the burden of student debt. The advantages of ISAs amongst others include; ISAs are based on a student's future earning potential and ISA payments are capped at a certain percentage of a student's income, so students are never at risk of being overwhelmed by their debt. Despite the benefits of ISAs, there are a few potential challenges that need to be addressed before they can be widely implemented in Nigeria. This study also delved into benefits of income share agreement, ISA as a tool for student financing of tertiary education; challenges of income share agreements; and socio-political and economic uncertainty in Nigeria. Based on the study, it was recommended amongst others that there is need to raise awareness of ISAs, develop a regulatory framework, and create a robust risks assessment system that could enable students have access to financing their higher education in this period of socio-political and economic uncertainty in Nigeria.

Keywords: Income share agreement, Student financing, Tertiary education, Socio-political and economic uncertainty

Introduction

Nigeria has been faced with a number of socio-political and economic challenges in recent years, including insecurity, corruption, and high levels of poverty. These challenges have had a profound impact on various sectors, including education. These factors have contributed to an environment of uncertainty, making it difficult for individuals and businesses to plan for the future. The country has also faced economic challenges such as inflation, high unemployment rates among others (Obamuyi & Fapetu, 2016). One of the sectors greatly affected by these uncertainties is education, particularly tertiary education. Education is the bedrock of any nation and acts as an instrument for development. Tertiary education refers to higher education institutions such as universities and colleges. According to Federal Republic of Nigeria (FRN, 2013) in National Policy on Education, tertiary education is the education given after secondary education in universities, colleges of education, polytechnics and monotechnics. One of the key factors affecting access to tertiary education programs is financing (Blankers, 2022).

In Nigeria, financing tertiary education has become increasingly challenging for students and their families. The cost of tuition fees, accommodation, textbooks, and other expenses associated with tertiary education has risen significantly over the years. According to a 2022 report by the National Bureau of Statistics, the average cost of tuition fees in public universities has increased by over 100% in the past five years. The cost of accommodation, textbooks, and other expenses has also increased significantly (NBS, 2022). National Association of Nigerian Students (NANS) is of the opinion that many students struggle to afford these costs, leading to limited access to higher education opportunities (NANS, 2023). This financial burden often forces students to drop out or delay their studies. In the midst of these challenges, the Nigerian government is facing increasing pressure to expand access to tertiary education. However, the government is also struggling to meet the rising costs of education (Hile, 2023). Nigeria's poverty rate increased from 43.0% in 2019 to 44.7% in 2021. This means that over 95 million Nigerians are living below the national poverty line of $1.90 per day (World Bank, 2021). A report by the National Bureau of Statistics (2022) stated that the average tuition fee for a private university in Nigeria is over 1 million naira per year. This is significantly higher than the average annual income of most Nigerians. As a result, many students are forced to take out loans to finance their education. However, student loans can be a burden for students after they graduate, especially if they are unable to find a well-paying job. This is especially true in Nigeria, where the unemployment rate is high and the economy is volatile (National Bureau of Statistics, 2023; World Bank, 2022; International Monetary Fund, 2023).

To address these challenges, Income Share Agreements (ISAs) could serve as an alternative for student financing of tertiary education. Income share agreement is an emerging alternative to students financing of tertiary education due to financial constraint. Flynn (2022) opined that an ISA provider gives the student money for financing tertiary education and the student contractually agrees to pay the provider a percentage of their salary for a particular period of time. Emphasizing more, Putilov, Baranova and Myakota, (2018) stated that Income-Share Agreement (ISA) is a financial instrument that stipulates the reception of a certain amount required for education financing by the student from the investor (individual or organization), in exchange for the agreement. A guarantee to pay back a pre-determined percentage of post-graduation earnings for the term is set forth in the agreement. ISA is considered an alternative to traditional education loans. ISAs are relatively new concept in

Nigeria, but they have the potential to revolutionize the way that students finance their tertiary education. Holliday and Gide (2016) asserted that funding of higher education is vital for the achievement of the educational aspirations of any nation. Financing tertiary education has become increasingly challenging for students due to rising costs and limited access to loans and scholarships. Income Share Agreement (ISA) has the potential to be a valuable tool for student financing in Nigeria, especially in a period of socio-political and economic uncertainty. ISAs can help to make tertiary education more affordable and accessible for students, while also reducing the risk of student debt default. Implementing ISAs in Nigeria could help alleviate the financial burden on students and increase access to higher education opportunities.

Understanding Income Share Agreements (ISAs)

Tertiary education is primarily financed through three main sources: personal savings, government scholarships, and student loans (World Bank, 2022). However, these options have several limitations that hinder access to higher education for many students.

Personal savings: Due to the economic challenges faced by many Nigerian families, saving enough money to finance tertiary education is often difficult. As a result, a significant number of students are unable to pursue higher education due to financial constraints.

Government scholarships: While the Nigerian government provides scholarships to some students based on merit or need, the number of available scholarships is limited compared to the large number of students seeking financial assistance. This leads to intense competition and leaves many deserving students without support.

Student loans: The availability of student loans in Nigeria is limited, and the interest rates charged by financial institutions are often high. Importantly, the repayment terms can be burdensome for graduates who may struggle to find employment immediately after completing their studies.

An Income Share Agreement (ISA) is a contract between a student and an investor in which the investor agrees to pay for the student's education in exchange for a percentage of the student's future income for an allotted period of time (Maina, 2019). ISAs are typically structured as a risk-sharing agreement, with the investor taking on the risk that the student will not be able to find a job after graduation or will not earn a high enough income to repay the loan.

ISAs were first proposed in the 1955 by Milton Friedman, an American economist. Friedman (1955) described Income Share Agreements as an investor being able to buy a share in an individual s earning prospects: to advance him the funds needed to finance his training on condition that he agrees to pay the lender a specified fraction of his future earnings. However, ISAs did not become widely popular until the early 2010s, when a number of private companies began to offer them to students. Income share agreements (ISAs) are currently available in a number of countries around the world, including the United States, the United Kingdom, Australia, and New Zealand (Zaber et al., 2023). Though, ISAs are relatively new but could serve as student financing tool of tertiary education in Nigeria.

ISAs have characteristics that could be suitable for the Nigerian context (Dellinger & Wilkins, 2023):

Risk-sharing: ISAs shift the risk from individual students to investors. In a country like Nigeria with high levels of economic uncertainty and limited job opportunities, this risk-sharing mechanism can provide relief to students who may not be able to repay traditional loans.

Alignment with employment outcomes: ISAs align the interests of students and investors by linking repayment obligations to future income. This encourages students to pursue fields with higher earning potential and ensures that investors have a stake in the success of their investment.

Flexibility: ISAs offer flexibility in repayment terms, allowing students to make payments based on their income levels. This is particularly beneficial for graduates who may initially earn lower incomes but have the potential for higher earnings in the future.

Comparison of ISAs with traditional student loans and scholarships

ISAs differ from traditional student loans and scholarships in several ways (Karma, 2022):

Repayment structure: Unlike traditional loans, ISAs do not accrue interest over time. Instead, students repay a fixed percentage of their income, ensuring that repayment obligations are directly tied to their financial capacity.

Risk distribution: While both loans and ISAs involve financial risk, ISAs distribute this risk between students and investors. In contrast, traditional loans place the burden solely on the borrower.

Access and eligibility: Scholarships are typically awarded based on merit or need, limiting access to a select group of students. ISAs, on the other hand, can be available to a broader range of students, including those who may not qualify for scholarships but have the potential to succeed academically (Karma, 2022).

Benefits of Income Share Agreement

ISAs have a number of advantages over traditional student loans. First, ISAs are more affordable for students, as they only repay a percentage of their income. Second, ISAs are less risky for students, as they only start repaying their loans once they are earning a good income. Third, ISAs can help students to pay off their loans faster, as they are linked to their income (Blankers, 2022). Benefits of income share agreement according to Ritters and Webber (2019) are as follows:

Affordability: ISAs can be more affordable for students than traditional student loans, as students only repay a percentage of their income.

Risk protection: ISAs are less risky for students than traditional student loans, as students only start repaying their loans once they are earning a good income.

Alignment with income: ISAs are aligned with students' income, as students only repay a percentage of their income. This means that students are more likely to be able to afford to repay their loans.

Implementing ISAs in Nigeria's tertiary education system could yield several benefits (Blankers, 2022):

Increased access: ISAs can provide financial support to a larger number of students who would otherwise be unable to afford higher education. This would contribute to expanding the pool of skilled professionals in Nigeria.

Reduced financial burden: By shifting the risk from individual students to investors, ISAs can alleviate the financial burden on graduates, especially during periods of economic uncertainty.

Incentivizing quality education: ISAs encourage students to pursue fields with higher earning potential, which could lead to an increased focus on disciplines that are crucial for economic development (Blankers, 2022).

Socio-Political and Economic Uncertainty in Nigeria

Nigeria is currently facing a number of socio-political challenges and economic uncertainty, including insecurity, corruption, poverty, unemployment, political instability, ethnic tensions among others (Obamuyi & Fapetu, 2016). These factors have contributed to a sense of uncertainty and unrest in the nation. One of the key issues affecting the socio-political climate in Nigeria is the ongoing struggle for power and influence among different ethnic and religious groups. Nigeria is home to over 250 ethnic groups, each with its own cultural identity and aspirations. This diversity has often led to tensions and conflicts, particularly during election periods when political parties exploit these divisions for their own gain. Corruption has been a persistent problem in Nigeria's political system (Transparency International, 2023). The misappropriation of public funds and embezzlement by government officials have hindered development efforts and eroded public trust in the government. This has created a sense of disillusionment among the population, leading to social unrest and protests. In addition, Nigeria has been confronted with security challenges, particularly in the North-Eastern part of the country where the Boko Haram insurgency has caused significant disruption to daily life. The activities of this extremist group have resulted in widespread displacement of people, destruction of infrastructure, and loss of lives. The government's response to these security threats has been met with criticism, further exacerbating the socio-political uncertainty. Nigeria's economy is heavily reliant on oil exports, making it vulnerable to fluctuations in global oil prices. The volatility of oil prices has had a significant impact on the country's revenue generation and budgetary allocations. As a result, funding for critical sectors such as education has been inadequate. Tertiary education financing in Nigeria faces several challenges due to economic uncertainties. There is lack of adequate funding from the government. The budgetary allocation for education has been consistently low, resulting in insufficient resources to meet the growing demand for tertiary education (Adewuyi & Okemakinde, 2013). This has led to overcrowded classrooms, outdated facilities, and a decline in the quality of education.

The depreciation of the Nigerian currency, the Naira, has made it more expensive to import educational materials and equipment. This has further strained the already limited resources available for tertiary institutions. Inflationary pressures have increased the cost of living for students, making it difficult to afford tuition fees and other expenses associated with pursuing higher education. Moreso, the economic downturn has resulted in high levels of unemployment and underemployment among graduates. This has created a sense of uncertainty among students regarding their future prospects and the return on investment in their education. Many graduates struggle to find suitable employment opportunities that match their qualifications, leading to frustration and disillusionment.

Impact of Socio-Political and Economic Uncertainty on Students' Access to Education

The socio-political and economic uncertainties in Nigeria have had a profound impact on students' access to education, particularly tertiary education. Firstly, the inadequate funding for tertiary institutions has limited the number of available spaces for students. This has resulted in intense competition for admission into universities and other higher education institutions, leaving many qualified students unable to pursue their desired courses.

Moreover, the economic challenges faced by families have made it increasingly difficult for them to afford the high cost of tertiary education. Tuition fees, accommodation expenses, textbooks, and other related costs have become significant financial burdens for many households. As a result, some students are forced to abandon their educational aspirations or seek alternative means of financing their studies.

The socio-political climate also poses security risks that can deter students from pursuing higher education. The Boko Haram insurgency in North-Eastern Nigeria has targeted educational institutions, resulting in the closure of schools and displacement of students (Usman & Dabai, 2020; Global Coalition to Protect Education from Attack, 2022). This has disrupted the educational journey of many young Nigerians and created a climate of fear and uncertainty. Nigeria's socio-political and economic uncertainties have had far-reaching implications for tertiary education financing and students' access to education. The complex socio-political landscape, economic challenges, and security concerns have created an environment of uncertainty and unrest. Addressing these issues is crucial to ensure equitable access to quality education for all Nigerian youths. Other impacts include;

Insecurity: Nigeria has been confronted with a number of security challenges in recent years, including terrorism, banditry, and kidnapping. These challenges have made it difficult for students to attend school and for schools to operate effectively (International Crisis Group, 2022; Global Coalition to Protect Education from Attack, 2022; UNICEF, 2022; Human Rights Watch, 2022).

Corruption: Corruption is a major problem in Nigeria. This has led to the misallocation of resources and a decline in the quality of education (Transparency International, 2023).

High levels of poverty: Nigeria has a high poverty rate, with over 95 million Nigerians living below the national poverty line (World Bank, 2023). This makes it difficult for students to afford the cost of tertiary education.

Challenges and Limitations of Implementing ISAs in Nigeria

Certain drawbacks and limitations to implementation of Income Share Agreements could be envisaged and are as follows (Ritter & Webber, 2019; Zaber & Steiner, 2021):

Limited investor participation: One of the challenges in implementing ISAs in Nigeria is attracting sufficient investor participation. Investors may be hesitant to invest in ISAs due to uncertainties surrounding the Nigerian economy, political instability, and the potential risks associated with repayment enforcement. To overcome this challenge, the government and educational institutions need to create a favourable investment environment, provide incentives for investors, and establish mechanisms to mitigate repayment risks.

Data collection and tracking: Implementing ISAs requires accurate data collection and tracking systems to monitor students' income and ensure proper repayment. Nigeria faces challenges in terms of data infrastructure and systems, which may hinder the effective implementation of ISAs. Investments in data collection and tracking technologies, as well as capacity building for relevant institutions, are necessary to address this limitation.

Cultural acceptance and mindset shift: The concept of ISAs may be relatively new in Nigeria, and cultural acceptance plays a significant role in its successful implementation. There may be resistance or scepticism from various stakeholders, including students, parents, educational institutions, and policymakers. Public awareness campaigns, stakeholder engagement, and education on the benefits of ISAs can help foster a positive mindset shift towards this financing model.

According to Ritters and Webber (2019), challenges of ISAs are as follows:

Legal and regulatory framework:

Implementing Income Share Agreements (ISAs) requires a robust legal and regulatory framework to ensure their effectiveness and protect the rights of all parties involved. Currently, Nigeria does not have specific legislation or regulations governing ISAs, which poses challenges for their implementation. To address this issue, it is crucial for the Nigerian government to develop a comprehensive legal framework that outlines the rights and responsibilities of students, educational institutions, and investors participating in ISAs. This framework should cover aspects such as contract terms, repayment mechanisms, dispute resolution procedures, and privacy protection. In addition, the legal framework should also address potential concerns related to discrimination, fairness, and transparency. It should ensure that ISAs do not perpetuate existing inequalities or disadvantage to certain groups of students based on factors such as socioeconomic background or academic performance.

Ethical considerations surrounding ISAs:

The implementation of ISAs raises important ethical considerations that need to be carefully addressed. One key concern is the potential exploitation of students who may be forced to enter into unfavourable agreements due to limited financial options. It is essential to establish safeguards to prevent predatory practices and ensure that students are not burdened with excessive debt or unfair repayment terms.

Moreover, transparency and informed consent are critical ethical considerations when implementing ISAs. Students must have access to clear information about the terms and conditions of the agreement, including the percentage of income they will be required to contribute and the duration of the repayment period. Adequate financial literacy programs should also be implemented to ensure that students fully understand the implications of entering into an ISA.

Recommendations for Implementing ISAs in Nigeria's Tertiary Education

Based on the review, the following were recommended;

1. Government authorities and policymakers should develop a comprehensive legal framework to regulate the implementation of Income Share Agreements (ISAs) in Nigeria's tertiary education system. This framework should outline the rights and responsibilities of all stakeholders involved, including students, educational institutions, private sector partners, and government agencies.
2. Government should actively encourage collaboration between educational institutions, private sector partners, and government agencies to ensure the successful implementation of ISAs. This could be achieved through the establishment of task forces or committees that bring together representatives from each stakeholder group to share best practices, address challenges, and monitor the effectiveness of ISA programs.
3. Policymakers should design ISA programs in a way that ensures affordability and accessibility for needy students, regardless of their socioeconomic background. This could involve setting reasonable income share percentages, implementing income thresholds below which no payments are required, and offering flexible repayment terms based on individual circumstances.
4. Government should be proactive in all issues relating to the socio-political challenges and economic uncertainty in the nation to avoid mismanagement of resources which leads to poverty, unemployment and insecurity.
5. Government should allocate sufficient funds to support the implementation of ISAs. This could include providing initial capital to educational institutions to establish ISA programs, offering subsidies or tax incentives to private sector partners who invest in ISAs, and creating

a dedicated fund to assist students who are unable to secure employment or earn enough income to meet their ISA obligations.

Conclusion

Student financing of tertiary education has been a challenge to many families due to socio-political and economic uncertainty in the nation causing financial constraint. Income Share Agreement is a financial instrument which could serve as alternative for financing student tertiary education. The benefits of ISA cannot be overemphasized; its challenges and limitations to implementations were discussed and some recommendations were made. Since, ISA is relatively new in Nigeria, it requires addressing legal and regulatory challenges, ensuring ethical considerations are met, and overcoming potential limitations. Also developing a comprehensive legal framework, safeguarding students rights, promoting transparency, attracting investor participation, improving data collection systems, and fostering cultural acceptance could help towards a successful implementation in a period of socio-political and economic uncertainty in Nigeria.

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