How Institutional Investors’ Alternative Funding and Investment Opportunity Impact Education System? The Case of Saudi Arabia*

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Abstract:

The investment made in the educational system is an indicator of a nation’s capacity for global expansion and innovation. A successful model of institutional investment's involvement in the growth of clean energy infrastructure, entrepreneurship, the eradication of poverty, and the promotion of corporate social responsibility and corporate development has been established. There is a dearth of study in the literature addressing institutional investors and the funding of the educational system. This study gives the Saudi educational system with another long-term financing stream while also giving investors a way to choose their investments with minimum interference from the government. According to the research, the university will increase its funding possibilities through institutional investors through government efforts. This will relieve pressure on the government and open up a sizable market for institutional investors. The Saudi educational system will be improved and the "Saudi Vision 2030" will be directly impacted by this institutional investor and sustainable financing mechanism for university research.

Keywords:
The Saudi Arabian Monetary Authority; Institutional Investors; Alternate Funding Opportunity; Saudi Arabia Education; Vision 2030; Saudi Global Knowledge Index (GKI)

1. Introduction:

The Saudi Arabian Government recognizes that the quality of its education system needs to be upgraded, which has been projected to be resolved through the Vision 2030 Human Capital Development Vision Realization Plan. Major changes are being implemented to address the industry's difficulties, including 100% foreign ownership, industry-specific based Public-Private Partnerships (PPP) laws, and improved financing availability. Saudi Arabia will also increase technical and vocational education while reducing public school spending and privatizing public universities to attract more institutional investors with the added value of alternative funding and investment opportunities. The value of Saudi Arabia's education market is expected to double soon. Population growth, educational programs, and changing consumer perceptions drive the market's growth. The overall educational sector in Saudi Arabia faces many fundamental challenges, including course quality, teacher recruitment, and kindergarten enrollment rate are just a few examples. Coupled with the Government's vision and serious measures, such challenges herald huge challenges.
There is a high potential for existing and new private schools in Saudi Arabia. Through the correct enrollment strategy and school services, private education investors will be welcomed by the growing demand while contributing to the Government's 2030 vision plan. KSA is planning for the institutions to enter the world's top 100 universities. The US$72 billion National Transformation Plan (NTP), which lasts from 2016 to 2020, is the first phase of the 2030 Vision, which includes education goals to attract more institutional investors and to create alternative funding opportunities within the Kingdom of Saudi Arabia (M. B. Khan & Iqbal, 2020).

The education sector has often received the largest public funds in recent years. The education sector will receive 193 billion rials (51.5 billion US dollars) from the Government in 2020, accounting for 18.9% of the total budget. Although this amount accounted for 17.5% of the budget for the year, it has not changed since 2019. Education expenditure in 2019 accounted for 6.2% of gross domestic product (GDP). However, this is down from about 10% in 2013. It is an average of 6.3% and is still in line with the economic cooperation and development (OECD). In recent years, the Government has actively tried to increase private sector participation (Mirghani, 2020).

Higher education includes teaching, academic, and corporate research, providing solutions to current challenges (Popenici & Kerr, 2017). The world is facing several challenges that can be assessed through the United Nations 17 Sustainable Development Goals (SDG) 2030 (Toha, Johl, & Khan, 2020) (Partridge, Deelen, & Slagboom, 2018). In the United Nations Sustainable Development Goals, quality education remains at Goal 4 after eradicating poverty (SDG-1), zero giants (SDG-2), and good health and well-being (SDG-3) children are out of school, and 617 million young people worldwide lack education. Although in school, there are basic literacy and math skills. Similarly, the Saudi Arabian Government's prioritization of higher education has proven Saudi Arabia's vision for development by 2030 (Siakwah, Musavengane, & Leonard, 2020).

The 36-education plan currently formulated in 2020 is clear evidence of the Saudi Government's serious intentions to realize the 2030 vision. To this end, the participation of all relevant Saudi Government and private organizations is required, and the funding needs are large. The funding comes directly from the Saudi Government. This research presents alternative funding opportunities for investors and educational institutions' funding sources. This alternative financing opportunity will create a stable investment opportunity for institutional investors in the name of institutional investors (Salam & Khan, 2018).

Because more relevant and useful research will be undertaken, this research paradigm will likewise have a substantial impact on the industry. A greater association between industries and educational institutions in terms of both investment and development potential for the stakeholders in both institutions would result from the new paths that this proposed research model offers for the connections between industries and educational institutions in the literature. Third, this mix of university funding and institutional investor-funded research offers institutional investors a choice. In the end, institutional investors and sustained support of university research result in a scenario that is advantageous to all parties and lessens the pressure on the government to develop a more effective educational system.

As a result, by studying how institutional investors are being used in the Saudi education system, this research presents a novel and current contribution to the literature of the Saudi educational sector. The main target audiences of this study are those interested in learning more about institutional investors and how they may have a significant impact on Saudi education. Credit unions, banks, significant quantities of cash, such as hedge funds or mutual funds, insurance firms, investment capital funds, and pension funds could all be involved. The remainder of the essay is organized as follows: Section provides further information on the systematic review used in this Section 2. Changing
nexus of institutional investors in Section 4. **Alternative funding** for educational institutions in section 5. An **Alternative Investment Opportunity for Institutional Investors** in section 6. Discussion and implications are explained in detail in Section 7. Finally, section 8 brings the paper to a close. Later, some areas for future research and limitations of the study are drawn accordingly in section 9.

### 2. Theoretical Framework Development

Institutional investors' education investment decisions are usually based on various factors, such as education, income, government regulations and rules, and investment portfolios. Education investment decision-making can be defined as selecting specific alternatives by evaluating multiple alternative funds (Chandra, 2008). Alternative financing and investment opportunities are the novelty of the research, which is determined by the detailed literature of institutional investors and their interest in the industry. On the other hand, funding for the education system has been regarded as the responsibility of the Government, and it is rarely short-term or targeted at specific projects in the name of research cooperation and research funding from the private and public companies (Alam, Uddin, & Yazdifar, 2019). This research study systematically analyzes the role of institutional investors in different industries. The impact of literature reviews in the field of institutional investment, for sure which has attracted the attention of the government and education policymakers. As per (Yao, Ankomah-Asare, Schwinger, Akuamoah, & Dankyi, 2019) research study, using data from professional research institutions, an experimental test was conducted on the consequences of the corporate and government-supported research partnership or funding. To carry out investment activities in the education sector, investors need to make investment decisions. Institutional investors are usually interested because they are concerned about the past or future performance of the education sector, as studied by (Bruner, 2020). Institutional investors pay less attention to investment performance when making a sale decision rather than selling.

Meanwhile, practical applications will be considered that the transparency is lacking - It primarily focuses on the behavioral aspect, but the strategic restriction is quite significant. A research study of (Inderst, 2020) suggested an open door for an asset owner to invest in sustainable development (public and private institutional investors). Variables like a foreign investor and pension fund for the international companies and the participants of Government with financial institutions and cross-holding need to scale up the Saudi educational sector. As long as institutional investors are considered, this step will also positively impact the education sector in the Kingdom (García-Sánchez, Rodríguez-Ariz, Aíbar-Guzmán, & Aíbar-Guzmán, 2020).

On the contrary, alternative funds or education systems are being explored in the literature. This study found that only a few alternative investment models positively impact the entire education system and individuals (Usman & Ab Rahman, 2020). In addition, a literature review of the funding sources of the education system shows that in addition to direct government funding, funding sources also include Waqf (charitable cause), community support, Zakat (an obligatory tax required of Muslims), equity funds, and public funds. The source of public financing for the education system, as explained in the study of (Balcão Reis, 2020), has a positive finding on individual welfare, not as a whole of Higher education. Therefore, the literature on institutional investor investment and the role of alternative education funds highlights the gaps in the literature. Due to this, it is important to investigate and join through initial public offerings (IPO), bonds, mutual funds, insurance, real estate investors, or any other type of investment that brings the two parties together (Grilli, Latifi, & Mrkajic, 2019).
3. RESEARCH MODEL:

This research model focuses on the Saudi Universities Sustainable Funding (SUSF) by using the most common institutional investors by keeping an eye on the government intervention time to time in order to provide an alternative investment opportunity in the educational sector of Saudi Arabia.

![Research Model Fig. (1). Government participation in institutional investors and long-term university finance should be minimized.]

The sources of funds of institutional investors have played a more prominent role in recent years, often contributing about a quarter of their funds to many institutions, but their importance varies from institution to institution. Some institutions use their advantages in location, prestige, and discipline composition to obtain funds through institutional investor channels more successfully.

In the proposed research model Fig. (1), the role of the insurance companies in the university is to provide health insurance for students and faculty, which can be credible evidence of acceptance of institutional investors’ participation in university social support.

4. Changing Nexus of Institutional Investors and Educational Institutions:

One of the largest educational markets in the world, Saudi Arabia is the country of the GCC region with the greatest potential for private school investment. In Saudi Arabia, the number of private schools has increased at a 4% annual rate. Private schools in Saudi Arabia are increasing in number significantly faster than government-owned schools.

The increasing importance of the Indian stock market (Kumar, 2007) (Goel & Karri, 2020), and driving corporate social responsibility (Wang, Zhu, Zhang, Li, & Wu, 2020) and the performance of institutions has been significant in determining the role of institutional investors. Other evidence in the literature supports the idea that institutional
investors have a significant role in improving the quality of corporate governance, for example, the enhancement of corporate transparency (Choi, Choi, Choi, & Chung, 2020), sustainable development goal (Taghizadeh-Hesary, Yoshino, & Otsuka, 2021), and climate risk (Ilhan, Krueger, Sautner, & Starks, 2020; Mangla et al., 2020).

In order to generate stable finance for universities, institutional investors must also be invited. Institutional investors will help an educational system's financial capacity, allowing universities to provide high-quality instruction and support for research and development. Additionally, it will encourage a culture of innovation that advances society. The concept of enlisting institutional investors in alternative education financing is not exclusive to university growth. Through this strategy, the educational system will likewise gain independence, and the government will stop financing other forms of economic development. Encouragement of participation in research by foreign intellectuals, university collaboration with the top institutions worldwide, and increased commercialization of research and licensed outcomes are all components of this economic growth. Saudi Arabian institutions who invest. University sustainable funding and the Saudi educational sector are interconnected with the Saudi government rules and regulations, as depicted below in Figure 2.

![Figure: 2 University Sustainable Funding And Institutional Investor](image)

Additionally, since the government often spends a part of its budget on education in other nations, this project will ease the load on the budget. (Chirambo, 2018). This initiative will grant an opportunity to invest in the educational system of the country. This will also provide an opportunity for institutional investors. It will serve as a blue ocean strategy for the Government that will allow investors to find a new market for their investment while being monitored by the Government. This methodology proposes a new method of funding universities and ways to capitalize on institutional investors.

5. The Government’s Appropriateness in Establishing Alternative Funding for Educational Institutions:

Saudi Arabia remains one of the region's largest and most attractive investment markets. Institutional investment is expected to expand in the coming years due to the Government's strong support for privatization. Implementing educational technology programs allows Edtech companies to create innovative ways to modernize teaching and learning. Governing and regulating the interests of both parties will be the government's intermediary role in the intervention. Because this is a national education system with financial issues, government engagement is essential. A high-quality and sustainable education system should also be supervised. Without government involvement, this study paradigm is flawed and impractical since every other nation's government must first ask institutional investors...
to fund its national education system. Investors can use government action as a guide, offering value in the form of sustainable alternative funds and alternative options for institutional investors.

The government and management partner with the Institutional Investor and the Sustainable University Fund’s Governance Guidelines (SUF Guidelines) in order to implement their policies and practices regarding avoidance of internal trading via the misuse of power, corruption, and the management of interests. In this proposed standard, trustees, stakeholders, corporate boards, academic professors, the academic senate, and their respective institutional investors can all be part of the governing board. The regulations of the Saudi Council of Higher Education and University will define the proposed legislation.

6. An Alternative Investment Opportunity for Institutional Investors:
This research study describes the opportunities for institutional investors to invest in education and highlights important factors that institutional investors may consider during the educational investment in KSA. Increasing engagement and investment in education through institutional investors is one of the objectives of the Saudi Ministry of Education (MOE). The Saudi Arabian Ministry of Education (MOE) works to close the gap between the number of college graduates and the needs of the labour market. By 2030, Saudi Arabia hopes that five of its colleges would rank among the top 200 in the world. Saudi Arabia has the highest percentage of all budgeted education spending, at 18.90% of the overall budget, as seen in Figure (4) below. The United Arab Emirates, Qatar, Oman, Kuwait, and Bahrain all contribute a comparable portion of this cost. (Tayan, 2017).

![Fig. 4 – Country wise share of budgeted government expenditure on education in the gulf cooperation council (GCC) in the year 2020. (Source: Statista 2021)](image)

It demonstrates an alternative to institutional investors in the educational sector of Saudi Arabia. Additionally, it is expected that by 2030, the performance of Saudi Arabian students will be comparable to the average international education level. These factors provide institutional investors in KSA with huge opportunities to invest in private schools (Al-Dossary, 2018).
6.1 Opportunity for institutional investors in "consolidated investment" in the educational sector:

Due to its youth and strong demand, both of which are often less difficult in producing value, the educational sector in the Kingdom of Saudi Arabia typically avoids tactics for mergers. This condition will change as the educational sector grows. The merged company is in the middle of acquisitions that aim to raise risk while also producing a profit. Institutional investors often earn more money than growth-oriented investors due to the integration risks, but because they invest in previously established companies, they are still less hazardous than Greenland Ventures.

Institutional investors have multiple value creation levers in Saudi educational sectors, as explained above in Fig (5).

In 2005, for example, the Chicago-based stock company Prospect Partners founded the Education Futures Association, which has since acquired and merged several existing educational institutions in the southwestern United States.

6.2 Opportunity for institutional investors in "real estate sale-leasebacks investment" in educational sector:

Institutional investors now have chances in Saudi Arabia's whole real estate market because to the country's expanding educational sector. The land and other assets connected to the educational institutions might be taken in and paid for by them. Real estate deals between institutions frequently have a low risk and a large return. They provide a profile of cashflows that is akin to bonds, offering monthly payments from rental revenue as well as a return on capital based on the sale of assets. Institutional investors are mostly interested in repurchasing institutional real estate in the educational infrastructure. Both buyers and sellers gain from these initiatives. The buyer is guaranteed a consistent long-term return that is typically between 9% and 11%. The seller increases the value of their business while releasing cash that is tied up in non-critical assets in order to grow and spread. (Thompson, 2017; Yusuf, 2014).
7. Summary & Conclusion

The investment made in the educational system is an indicator of a nation's capacity for global expansion and innovation. A successful model of institutional investment's involvement in the growth of clean energy infrastructure, entrepreneurship, the eradication of poverty, and the promotion of corporate social responsibility and corporate development has been established. The literature lacks studies on the financial possibilities of institutional investors for the educational system. This study provides a new, sustainable source of revenue for the Saudi educational system while also giving investors a chance to contribute to the investments of the moderate administration. This institutional investor and committed support of university research will improve the nation's top-notch educational system.

Pilot projects that will create results and evaluate the efficiency of participants' institutional investors and the Saudi educational system might be started in relation to institutional investors and sustainable funding options for universities. The demand for both private and public education is reported to have grown as a result of the rise in student enrollment, the rise in per capita income, the preference for private education, and the privatization of the Saudi Arabian government's MOE (Ministry of Education). The usefulness of formation strategies that are pertinent to the education sector's aim of producing a certain return, however, must be acknowledged by Saudi institutional investors. Additionally, they will actively promote this research paradigm and try to reveal costs and advantages when the education industry is transformed. Participating institutional investors in these operations stand to gain large profits.

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