Exploring the Determinants of Demand for Private University Education in Sri Lanka

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Abstract

Sri Lanka's free education system from school to university constitutes about 2.00 percent of the total government expenditure. Annually on average 230,000 students qualify for university entrance but only about 42,000 students receive placement in 17 state universities in the country. Majority of students who do not get placement in state universities seek to enroll in private universities in Sri Lanka or abroad. Following the GCE A/L examination an increased wait time of about two years has been reported to enroll to the state universities. However, the private universities commence the degree programs with pending results. Hence, there is an increased trend for demand for private universities education in Sri Lanka. The main objective of this study is to identify the determinants of demand for private university education in Sri Lanka. The data is based on a survey conducted among students who are waiting for results after GCE A/L in January 2024. Logistic regression model is employed as an analytical technique. The findings shows that parents' level of education and family income has significant positive impact on probability of enroll in private universities.

Key words: *Private University, Demand for university education, state university*

JEL Code: A22, A23

Introduction

Sri Lanka has a free education system since 1947. To provide free education for students from grade one to bachelor's degree Sri Lankan government has to allocate a significant percentage of government expenditure on education. For 2024, Sri Lanka's government expenditure on education as a percentage of gross domestic product was two percent. Since the establishment of the Ceylon University College 1921 the state university system has gradually expanded. Currently there are 17 state Universities and 19 state higher education institutes functioning under University Grants Commission (UGC). In addition, a higher education institute and five universities are functioning under different ministries. Despite the expansion of the state university system, at present the state universities provide placements only for about 25% students who qualified for university entrance. In year 2022, according to university grant commission 171,532 students have qualified for the university education but only 43,546 students got placements at the state universities. It seems that more than 100,000 students do not get placements in state universities; hence most of them seek higher education placement in private universities.

In line with the increased demand for university education the number of private universities has also increased since 1990. The Ministry of Higher Education has authorized 24 private and semi government institutes in Sri Lanka to award degrees. The first approved degree awarding non-state higher education institute (NSHEIs) is the Institute of Survey and Mapping, established in 1990, to offer Bachelor of Science (survey science). Sri Lanka Institute of Information Technology Limited (SLIIT) was established in 2020. Currently SLIIT offers more than 35 degree programs and student population is more than 17,000. The other prominent degree awarding institutes are National Schools of Business Management (NSBM), Horizon College of Business and Technology, CINEC Campus and SLTC Campus. According to the National Human Resource Development Council of Sri Lanka (2023), the total student enrollment in NSHEIs is 47,183 in year 2023. The growth of total student enrollment in 2023 was 78 percent compared to year 2020. The new intake of year 2020 was 8,831 students and it has grown by 78 percent in year 2023 compared to 2020. In year 2020, only 2733 students have graduated from private universities and it has increased to 6,628 in year 2023.

In year 2017, the Ministry of Education has introduced interest free loan scheme with the objective of increasing higher education opportunities for the students. The loan scheme was introduced with the partnership of NSHEIs in Sri Lanka. Under this scheme, students can obtain a loan to enroll in non-state higher education institutes (NSHEIs) in Sri Lanka. The payback period is maximum eight years.

Other than the option of NSHEIs Sri Lankan students can also get enrolled in foreign universities through the NSHEIs or other private higher education institutes. Students have two ways to graduate from foreign universities: they can register for foreign university through the private higher education institutes in Sri Lanka and obtain a degree without going abroad or use the education pathway program which allows them to complete part of studies in Sri Lanka and move to a foreign university to complete rest of the program. The data related to education pathway program is not available in any government institute. However, most of NSHEIs and private education institutes promote education pathway programs. Through the education pathway programs students are able to graduate from top ranking universities in the world.

The entry qualifications for most of degree program in state and non-state universities are general certificates of advance level (GCE A/L) results. As there are limited numbers of placements in state universities there is a high competition to get the placement in state universities. The selection process for the state universities takes more than one year hence students may have to wait more than one year to enroll in state universities. However, students have opportunity to get placement in Non-state universities with the pending results of GCE A/L. If the students are confidence about GCE A/L results they can register for degree in non-state universities or education pathway program soon after GCE A/L. With this setup there is a higher demand for higher education program in non-state universities.

Although Sri Lanka offers free higher education, structural limitations restrict state university access to only about 25% of qualified students. This unmet demand has resulted in rapid expansion of private higher education. However, little empirical research examines the socioeconomic determinants influencing students' preference for private universities in Sri Lanka. Guided by Human Capital Theory (Becker, 1964) and Signaling Theory (Spence, 1973), this study investigates the relationship between socioeconomic factors and demand for private university education in Sri Lanka. The objectives of this paper are two folds: to identify the determinants of demand for higher education in non-state universities and to provide policy recommendations for equitable expansion of private higher education.

The study contributes to the understanding of how expansion of private university can impact the public university system and equity of higher education sector in Sri Lanka.

Literature review and conceptual framework

Demand for education can be explained using two different theories: the theory of human capital and the Signaling theory. According to the theory of human capital pioneered by Gary Becker (1964) and Theodore Schultz (1961), education is an investment rather than mere consumption. Individuals allocate resources time, effort, and money on education because they expect future economic returns, such as higher earnings, better employment prospects, and improved productivity. If only the fee factor is considered, the exorbitant tuition fees of private universities should discourage enrolling in private universities. In the Sri Lankan context, if the time factor is taken into account, generally a student spends more time to graduate from a state university when compared with private universities. In state universities, students have to wait more than a year to enroll, and also it takes longer than the scheduled period to graduate. Individuals choose the type and level of education that they believe maximizes their net lifetime returns, given their resources and constraints (Varghese and Panigrahi., 2022). Individuals decide to enroll in private universities if net life time returns from private university education is higher compared to that of state university education.

Signaling theory, first formalized by Michael Spence (1973) suggests that education serves not only to increase skills (as in Human Capital Theory) but also to signal pre-existing abilities or qualities to employers. According to the signaling theory, employers cannot directly observe a worker's productivity or ability before hiring. Employers take decision related to hiring based on observable signals such as degrees, grades, or university reputation. Education functions as a signal of ability, discipline, and work ethic, even if it does not directly increase productivity. The degree (and the institution's prestige) is a credible signal of talent perseverance, and competence. From the signaling perspective, individuals enroll in higher education not only to gain knowledge, but also to send a signal to employers about their potential productivity. The demand for higher education, therefore, rises when degrees are perceived as valuable signals in the labor market. If degrees from private universities perceived as a strong signal of ability and employability of employees than degree obtained from state universities there is a higher demand for private university education.

According to the Universal Declaration of Human Rights (1948) everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. United Nations Educational, Scientific and Cultural Organization (UNESCO) works to achieve education for all. Observing the above declaration many countries introduced the free education system to achieve status of free education for all.

However, different perspectives have been presented in the literature about the outcomes and rationale of free higher education system. There is a debate among researchers about outcome and rational of free higher education system. Samuelson (1954), Woolley (2006), Bloom et al. (2007), Becker (1975), Mincer (1981), (Woolley , 2006) have pointed out rationales behind free higher education system. Government should provide free higher education as higher education has positive externalities. Expenditure on education can be identified as a capital expenditure because it creates human capital. Solow's growth model explains the relationship between human capital and economic growth. These researchers support the view that having a free higher education system is a significant determinant of economic growth.

However, since 1990s economic policies have changed in most of developing countries to encourage private higher education institutions (Qureshi & Khawaja, 2021). In Sri Lanka, the first private higher education institution was started in 1990. The number of private higher education institution continues to grow in most countries and in some countries there are more private higher education institutions than state higher education institutions. According to Qureshi & Khawaja, (2021) globally one in three students are enrolled in private higher education institutions. In Africa private higher education institutions have expanded with the supportive policy environment and social demand for private higher education (Varghese , 2006). As noted by World Bank working paper (2023), in 2017 private enrolment shares exceeded 40% in many regions (e.g., East Asia & Pacific 42.2%; South Asia 47.0%). These figures highlight that the phenomenon is especially pronounced in developing economies where public sector capacity to expand has been constrained (Varghese, 2006). The reasons for expansion for private higher education sector can be explained using factors of both supply and demand side. On the supply side, many governments have implemented policies to encourage private investment in higher education sector (Varghese, 2006). Expansion in secondary schools, rising aspirations for tertiary education and perceived labour market returns can be identified as demand side factors (Levy, 2018). According to the Morley (2010) private higher education institutes have often emerged to fill the gap in higher education sector.

Higher education plays a pivotal role in the socio-economic development of a country, contributing to human capital formation and innovation. Sri Lanka has a free education from primary level through university levels, since the colonial era and continued through post-independence. The state higher education sector is unable to accommodate all eligible students as it has a limited number of placements. According to the University Grants Commission (UGC), only about 18–20% of students who qualify through the GCE. A/L examinations are admitted to state

universities annually by leading to a significant demand in higher education sector. When the state sector is unable to fulfill the demand in higher education sector in developing countries private universities and affiliated institutions emerge to fulfill the market gap. In Sri Lanka, the private higher education sector has expanded significantly over the past two decades, with increased enrollment in business, IT, engineering, and health sciences programs (World Bank, 2020). Similarly in India and Malaysia private universities have filled the gap created by the limited capacity of public institutions while introducing competitive practices and diversified programs at the same time. In such contexts, the role of private education has becoming an essential component of the national higher education framework.

Socioeconomic factors are the main determinants of demand for private education. As higher income families are more capable of affording private university fees they often send their students to private institutions. Students from economically stable families prefer to enroll in private universities. Although private universities are generally more expensive their perceived value can justify higher costs. However, affordability remains a critical barrier, particularly for low-income families. Some parents choose private universities assuming that it provides quality education and better employment prospects. The reputation of private institutions significantly influences their demand. The perception of higher employability and better career prospects increase the demand for private universities. The geographical location is also a significant determinant for demand for private universities. As most of private universities are located in urban regions it is convenient for parents to send their children to private universities. Regulations regarding accreditation, funding, and quality assurance influence the perceived legitimacy and attractiveness of private universities. Supportive policies tend to increase the demand. Societal attitudes towards private education, cultural values, and perceptions of elitism or prestige can either promote or hinder enrollment in private universities. Demand for private university education in developing countries is determined by a complex interplay of socioeconomic, perceptual, geographical, policy-related, and cultural factors. Identification of these factors is important for policymakers to expand private university education in an efficient and equitable manner.

Methodology

The study is based on the primary data collected through a convenience sample. The respondents of the survey are students who sat for the GCE A/L in year 2023 and live in the Colombo district. The survey was conducted six months after the GCE A/L results were released. Data were collected through Google form. Since the sample is convenience sample the findings of this study may not be generalizable. However,

the findings show the current trend of the demand for higher education in Sri Lanka. The list of variables and definitions is presented in Table 01.

An econometrics model was applied to analyze higher education preference based on the random utility framework introduced by Mc Fadden in 1974. According to Mc Fadden, rational individuals make decisions based on the utility associate with each decision. De Dios & Salas- Velasco (2000) have used random utility framework to analyze higher education preference.

After the GCE A/L, students have to make a rational decision related to higher education. This study assumes that after GCE A/L students may have to take only two choices related to higher education: enter a state university or enroll in a private university. Though higher education in a state university is free of charge student have to score exceptionally in the GCE A/L and may wait more than a year to enter state universities. On the other hand, soon after GCE A/L students can enroll in private universities without waiting for a long period by paying the tuition fee and other costs related to higher education.

It is observed that some students choose a private university before they get the GCE A/L results. This implies that they have more utility from private university (U_{i1}) than state university (U_{i0}).Where utility associate with higher education decision is showed as (U_{ij}). i stands for ith student and j= 1 for private university and j=0 for state university. The utility associated with higher education choice can be broken down into two: systematic component and random component. The systematic component depends on an attributes vector X (ability, socio economic background).

$$U_{ij}= \overline{U_{ij}} + \varepsilon_{ij}$$

The utility associate with higher education is not observable but the decision related to higher education (Y_i) is observable. If student chooses private university Y_i= 1 and Y_i= 0 otherwise.

$$\text{Probability } (Y_i = 1) = \text{Probability } (U_{i1} > U_{i0})$$

$$\text{Probability } (Y_i = 0) = \text{Probability } (U_{i0} > U_{i1})$$

McFadden 1974 have proved that probability related $Y_i = 1$ can be calculate using below binomial logit model.

$$P_i = F(Z_i) = \frac{1}{1+e^{-z}} \qquad 1$$

$$Z = \beta_1 + \beta_2 x_{1i} + \beta_3 x_{2i} + \beta_4 D_1 + \beta_{5i} \sum_{n=4}^{i=1} D_{2i} + \beta_{6i} \sum_{n=3}^{i=1} D_{3i} + \beta_{7i} \sum_{n=3}^{i=1} D_{4i} + u_i \qquad 2$$

P_i is the probability of enrolled in private university and it is a function of Z. Z stands for socio-economic background and ability of the students. Students' choice between private and state university may depend on the expected GCE. A/L results for three main subjects. Students should have higher performance in all three subjects to enter state universities but they can enter private universities with a minimum pass. In this model expected GCE A/L results have been introduced to the model as a continuous variable. It represents in x_1. x_{2i} represent the number of school attending siblings. All other variables are dummy variables. Gender of the student is represent in D_1 where D_1 equals 1 for male.

As private university education is not free of charge the decision related to higher education is mainly depend on the purchasing power of the parents. Family income has been introduced to this model to represent the purchasing power of the student. As level of income data has been collected as a categorical variable three dummy variables introduced to the model to represent the household income. D_{2i} represents dummy variable for family income. Parents level of education also have been introduced as a dummy variable in to this model. The below G.C.E. O/L category has been considered as a reference group. D_{3i} *and* D_{4i} represent dummy variables for fathers' and mothers' level of education. The definition of independent variables and descriptive statistics has presented in below table 01.

Marginal effect of changes in independent variables on probability (P_i) can be calculated using below equation. Marginal effect shows how probability of enroll in private university change due to change of independent variables by one unite.

$$\frac{\partial p}{\partial x} = \frac{dp}{dz}\frac{\partial z}{\partial x} = f(z)\beta \qquad 3$$

In function 1 (P_i) is a function of Z hence the impact of changing Z on P_i can be calculated using quation rule as presented in below equation 4.

$$f(z) = \frac{\partial p}{\partial z} = \frac{e^{-z}}{(1+e^{-z})^2} \qquad 4$$

In function 1 Z is a linear function of independent variables hence the impact of changing independent variables can be calculated using linear function rule as in equation 5. For continues variables marginal effect shows the impact of one unite change from its average on probability. For the dummy variables its shows how probability change when dummy variable change one to zero.

$$\frac{\partial z}{\partial x} = \beta \qquad 5$$

Findings and Discussion

Table 01 presented the background of respondents. Eighty present of respondents are female. Most of the parents have level of education up to G.C.E. A/L. Fifty-six percent of fathers' have level of education up to G.C.E. A/L and where fifty percent of mothers' have level of education up to G.C.E. A/L. Less than ten percent of parents have level of education below G.C.E A/L. Fourteen percent mothers have obtained degree or above qualifications and about eleven percent of fathers' have obtained degree or above qualifications.

Table 1: Background of the Respondents

	Definition of Variable	Mean
Mean expected marks	X_1	143
Mean number of siblings	X_2	1.23
Gender		Percentage
Female	Reference group	79.4
Male	$D_1=1$	20.4
Family Income Rs.		
Less than 50000	Reference group	11.4
50000 to 100000	$D_{2\,1}=1$	39.4
100001 to 150000	$D_{2\,2}=1$	24.5
150001 to 200000	$D_{2\,3}=1$	13.2
More than 200000	$D_{2\,4}=1$	11.4
Fathers' level of education		
Below G.C.E. O/L	Reference group	18.4
G.C.E AL	$D_{3\,1}=1$	21.0
G.C.E OL	$D_{3\,2}=1$	52.6
Graduate	$D_{3\,3}=1$	7.8
Mothers' level of education		
Below G.C.E. O/L	Reference group	13.1
G.C.E AL	$D_{4\,1}=1$	28.9
G.C.E OL	$D_{4\,2}=1$	49.1
Graduate	$D_{4\,3}=1$	8.7

Source: Sample survey 2024

Logit regression model was estimated to identify determinants of enroll in private universities. The p value related to the likelihood ratio (LR) chi square test is zero. It indicates that the independent variables in the regression model are significant determinants of enroll in private universities. Pseudo R2 mainly used to compare the goodness of fit of logit regression models. However, higher Pseudo R2 value

indicates that the model is good. The pseudo value related to this model is 0.55. According to the below regression results GCE AL expected results, parents level of education and family income can be identified as significant determinants of enroll in private universities. The sign related to G.C.E.A/L expected results is positive it indicates that when expected G.C.E A/L results increase the probability of enrolling in private university also increases. Coefficients related to degree and above (Fathers' and Mothers') are positive and significant; it implies when parents are graduated the probability of their children enroll in private university also increases. Coefficients related to G.C.E. O/L are not significant and coefficient related to G.C.E A/L of the father is not significant. Coefficients related to family income Rs. 150000 to Rs.200000 and above Rs. 200000 are significant and positive, which indicate that when family income increases the probability of enrolling in a private university also increases. Gender and the number of school attending siblings are not significant determinants of the enrollment decision.

Table 2: Logit Regression Results

	Coef.	Std.Err.	P value
Gender			
Female	1.03	0.65	0.11
Number of School going brothers and sisters	-0.54	0.44	0.21
G.C.E A/L expected results	0.04	0.01	0.00
Fathers' Level of Education			
G.C.E. O/L	-0.71	0.83	0.38
G.C.E. A/L	-0.72	0.77	0.34
Degree and above	5.16	1.40	0.00
Mothers' Level of Education			
G.C.E. O/L	1.60	1.04	0.124
G.C.E. A/L	2.20	0.97	0.023
Degree and above	3.27	1.13	0.00
Family income			
50000 to below 100000	-0.60	1.38	0.66
100000 to below 150000	1.76	1.36	0.19
150000 to below 200000	3.09	1.41	0.02
Above 200000	4.52	1.44	0.00
Constant	-10.8	2.06	0.00
Number of obs.	228		
LR chi2(13)	145.58		
Prob > chi2	0.0000		
Log likelihood	58.61		
Pseudo R2	0.55		

Source: Sample survey 2024

Based on the above regression results predicted probability is calculated according to the equation 1 in the Methodology section. The predicated probability is calculated assuming all independent variables are at mean value. It helps to understand how probability of enrolling in private university changes with the socioeconomic background of the students. The probability of male students enrolled in private university is 0.09 where the probability of female student enrolled in a private university is 0.21. It shows that as compared to male student's female students prefer private university. The findings clearly show that the probability of enrolling in a private university has increased with the parents' level of education and family income. When fathers' level of education is degree and above, the probability (0.96) to enroll in private universities is very high. When mothers' level of education is degree and above, the probability to enroll in private university is 0.34. The findings show that fathers' level of education has a significant impact on the enrollment decision. This shows that graduated parents are willing to enroll their children in private universities than non-graduated parents. Also findings show that students from higher income families likely enroll their children in private universities. When monthly family income is above Rs. 200,000.00 the probability of their child enrolling in a private university is 0.79.

Table 3: Predict probability

Gender	Probability	P value
Male	0.09	0.04
Female	0.21	0.03
Fathers' Level of Education		
Below O/L	0.12	0.07
G.C.E. O/L	0.06	0.08
G.C.E. A/L	0.06	0.03
Degree and above	0.96	0.00
Mothers' Level of Education		
Below O/L	0.01	0.27
G.C.E. O/L	0.09	0.06
G.C.E. A/L	0.15	0.00
Degree and above	0.34	0.04
Family income		
Below 50000	0.04	0.40
50000 to below 100000	0.02	0.14
100000 to below 150000	0.19	0.01
150000 to below 200000	0.46	0.00
Above 200000	0.79	0.00

Source: Sample survey 2024

As explained in the Methodology section, marginal effect on probability of enrolled in a private university is calculated and results are presented in Table 4. Marginal

effect of female is 0.05. It indicates that being female the probability of enrolling in a private university has increased by five percent. Marginal effect related to the number of school attending siblings is negative, which indicates that the probability to enroll in a private university decreases with the increase of the number of sisters and brothers in the family. When the number of brothers and sisters are increased by 1 the probability decreases by 3 percent. Variation in GCE A/L expected results appear to have negligible effect. When fathers' level of education is below degree, the marginal effect is negative. When fathers' level of education is degree and above, the probability of enrolling in a private university increased by 26 percent compared to the father with education below GCE O/L. Similar findings can be identified related to the mother's level of education. When mother has a degree or above, the probability of their child enrolling in a private university increases by 26 percent. Higher family income has a significant impact on probability. For the students from family with monthly income of above Rs. 200,000.00, the probability of enrolling in private university increased by 23 percent compared to the poor households.

Table 4: Marginal Effect

	Coef.	Mean	Coef.*Mean	*f(z)*[1]	coef.*f(z)[2]
Gender					
Female	1.03	0.21	0.22	0.05	0.05
Number of School going brothers and sisters	-0.54	1.32	-0.71	0.05	-0.03
G.C.E A/L expected results	0.04	140.35	5.61	0.05	0.00
Fathers' Level of Education					
G.C.E. O/L	-0.71	0.21	-0.15	0.05	-0.04
G.C.E. A/L	-0.72	0.53	-0.38	0.05	-0.04
Degree and above	5.16	0.08	0.41	0.05	0.26
Mothers' Level of Education					
G.C.E. O/L	1.60	0.29	0.46	0.05	0.08
G.C.E. A/L	2.20	0.49	1.08	0.05	0.11
Degree and above	3.27	0.09	0.29	0.05	0.16
Family income					
50000 to below 100000	-0.60	0.39	-0.23	0.05	-0.03
100000 to below 150000	1.76	0.24	0.42	0.05	0.09
150000 to below 200000	3.09	0.13	0.40	0.05	0.15
Above 200000	4.52	0.11	0.50	0.05	0.23
Constant	-10.80	1.00	-10.80		
Z[3]			-2.89		

[1] Equation 2 in methodology
[2] Equation 3 in methodology
[3] Equation 1in methodology

Conclusion and Policy Recommendations

The findings of this study indicate that the demand for private university education in Sri Lanka is significantly shaped by students' expected G.C.E. A/L performance, parental education levels, and the household income. The binomial logit results reveal that fathers' higher education level has the strongest impact, increasing the probability of private university enrollment to 96%, while mothers' higher education level raises the probability to 34%. Similarly, high household income—particularly above Rs. 200,000 per month substantially increases the likelihood of private university enrollment (79%), compared to only 4% among the lowest-income households. Although female students display slightly higher enrollment probabilities than males (21% versus 9%), gender and the number of school-going siblings are not statistically significant predictors. The marginal effects confirm that parental education and family income are the most influential factors, with increases of 15–26 percentage points in enrollment probability among high-income and graduate-parent households. These results suggest that private universities while absorbing excess demand from the state sector, primarily serve students from affluent and highly educated families. This selective accessibility risks deepening socioeconomic disparities in higher education participation. Furthermore, the increasing migration of well-prepared students from educated and resource-rich households to private universities could have long-term implications for the state university system, including a potential reduction in diversity, peer learning quality, and alumni networks. In order to improve financial accessibility to private higher education the Sri Lankan government has introduced an interest free loan scheme for students who want to enroll in private universities. This can be expanded that loan scheme to cover a wider range of programs and institutions, prioritizing low and middle-income families. And scholarship programs can be introduced for academically qualified students from disadvantaged backgrounds. Most of the students from highly educated family and with high level of family income join to the private universities without waiting long period to join sate universities. Hence in order to attract high-achieving students to state universities the government should streamline the admission process to reduce the wait times. Also merit-based scholarships can be introduced within the state system to attract and retain top-performing students who might otherwise enroll in private universities. university grant commission can make awareness about the opportunities and academic programs of state universities in order to attract outstanding students. The findings show that there is high demand for private universities and the private sector has made significant investments in the higher education sector. Hence it may not be appropriate to demotivate private investment in higher education. However, policymakers can ensure that the expansion of opportunities does not deepen existing inequalities but instead contributes to a

balanced and inclusive higher education system in Sri Lanka. This study has several limitations. As the sampling method is convenience sampling and the sample is only selected from the Colombo district the findings of this study cannot be generalized to the entire Sri Lanka. However, the findings of this research motivate future research in this field towards a broader study conducted with a national representative sample.

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