Financing Higher Education in Nigeria: The Role of Internally Generated Revenues and How University Managements Can Maximize the Sources

Luke N. Onuoha[a],*

[a] MBA, FCA, Aston Business School, Aston University, Birmingham, B4 7ET, UK.
*Corresponding author.

Received 18 August 2012; accepted 3 February 2013

Abstract

This paper discusses the role of Internally Generated Revenue (IGR) as inevitable alternative funding for higher education in Nigeria. The paper leverages on available literatures to revalidate the inevitability of IGR as long as the government (or other university proprietors) fail(s) to provide adequate funding for the universities’ operating and capital needs. Developed from the African Political Economy (APE) Model and Resource Dependence Theory perspectives, the paper concludes that IGR has a very significant role to play as a source of critical funding for all categories of universities in Nigeria. The paper, therefore, proposes that, in order to derive sustainable maximum contribution from IGR sources, university managements should seek professional and more efficient ways of developing their IGR initiatives. The paper further recommends that universities should restructure to accommodate an IGR co-ordination office to ensure that creative revenue generating initiatives are not stifled by long bureaucratic bottlenecks. The paper will be critically beneficial to all higher education managers in Nigeria and Africa in general.

Key words: Internally Generated Revenue (IGR); Political economy; Traditional funding sources; Highly economically empowered persons; Critical funding; Funding gap

INTRODUCTION

Not so much was known of Internally Generated Revenue (IGR) in the Nigerian higher educational circles about two decades ago. For the era when there were fewer universities in the country and the oil revenue was massively available, the federal government provided all the funding for operations and capital development needs of the universities (Akinsanya, 2007; Adewale et al., n.d.). Then came the recent phenomenal growth in the number of universities; from 32 in 1998, 114 in May 2012 (www.nationaluniversitiescommission.com). Again, given the huge economic misfortunes facing the government, made worse by the recent global financial crises, the challenge of inadequate funding of the universities has become critically revealing.

The federal government, through the National Universities Commission (NUC), has continuously directed all federal universities to explore ways of generating revenues internally such that the managements would not have to look up to the government for solving all their financial problems (Okojie, 1999).

Ventureline.com (2012) has defined IGR as:”the creation of either tangible or intangible results within the confines of one entity, e.g. internally generated funds are those funds that are realized through the efforts or operations of the entity itself, i.e. the funds were not borrowed or realized through other external means.” This definition agrees in substance with that of Wikinvest.com (2012) which states: “Internally Generated Funds shall mean funds not constituting the proceeds of any Loan, Debt Issuance, Equity Issuance, Asset Sale, insurance recovery or Indebtedness.”

The IGR concept implies that the federal government does not have to accept responsibility for providing funding for all its universities on every expenditure heading. That way, the universities are, therefore, persuaded to seek ways of earning additional revenue locally and to use the same in any areas of university
needs that the government is not able to provide for in a given budget period. At the early stage of the introduction of the IGR concept, the federal government had thought of centrally managing the IGR pool from all the federal universities, such that each university was required to forward the yearly IGR inflows to the government, and to, thereafter, apply for release back to it the amount needed for local use. That directive did not survive because of its obvious repugnance. In a strange spontaneity, all university managers kicked against it until the government abrogated its directive.

Today (in 2012), every university, whether federal, state or private, is encouraged to engage in the development of critical access to IGR because of the essential support that comes from it. For the federal universities, a minimum of 10% of total annual sources comes from IGR (Okojie, 2009). As was evident from the interview responses of top university managers, the private universities strongly claim that their original founding was based 100% or near a total reliance on IGR as they were not designed to depend on government for subsidies. There are literatures indicating that some institutions have done greatly in the drive for substantial IGR contribution whereas a lot of others are yet to catch the vision or face negative environmental constraints (Wangenge-Ouma et al., 2008). It is of significance for this study, therefore, to determine the role of IGR and how the expectations of the universities for investing into the IGR initiatives can be realized.

The assumptions of the African political economy (APE) model offer partial explanation for the increasing popularity of the IGR. The key assumptions of the model centre on how the government reacts to dwindling economic fortunes and how the government’s budgetary commitment to education is affected (Odebiyi et al., 1999; Wangenge-Ouma et al., 2008). It is the claim of the model that, as the government’s sources of revenue confront unexpected volatilities, from year to year, and as political instability and other negative environmental constraints throw the governments into huge economic challenges, the annual budget commitments to the educational sector declines more and more (Aina, 2002; Wangenge-Ouma et al., 2008). The response of the universities in the face of this mammoth financial challenge, on the other hand, is to seek legitimate initiatives that will produce opposite impact on funding. But faced with location, structural and other social cultural challenges, how much of success the institutions can attain invokes a big question mark. This is not to talk of the political and practical limitation (Woods, 2008) that may confront senior management in her resource allocation function is yet another hurdle to cross.

Objectives of the Study

The major objective of this paper is to critically determine the important role of internally generated revenue in the funding of the Nigerian universities. Other relevant objectives of the study are:

1. To critically ascertain the existing funding sources of the Universities.
2. To establish the critical place of IGR and the factors that positively or negatively impact on IGR generation and
3. To propose practical recommendations on how the universities can generate more IGR.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The literature review here will critically centre on: (a) Traditional Funding Sources for Federal, States and Private universities; (b) the funding gap in higher education and the place of IGR; (c) the IGR sharing formula debate, and (e) a brief review of the African Political Economy (APE) Model.

a) Traditional Funding Sources for Federal, States and Private Universities

The traditional funding sources for the Nigerian universities vary somewhat from point of view of the funding and proprietorship of the institutions. The federal universities are funded by the federal government via grants for personnel costs, research funding and capital expenditures (Odebiyi et al., 1999; Adewale et al., n.d.; Johnstone, 1998; Akinsanya, 2007). It is on statutory note that federal universities do not charge any tuition fees (Okojie, 2009) and it could be considered a serious violation for any federal university to impose tuition fees on the students or their parents (Ijaduola, 2010). This is similar to the funding pattern in Japan except that the Japanese universities enjoy greater flexibility than the Nigerian universities in the application of the subsidy between budget periods (Yamamoto, 2008).

The state universities charge affordable tuition fees and other long list of charges for registration, library fees, departmental fees, IT dues, and several manners of levies (Aina, 2002). The State universities are primarily funded by the state governments who established them. Since the arrival of the first stream of private universities in 1999, school fees have proved their most traditional funding source with little support from the proprietors. Some private universities have also explored generating IGR through fund raising. But these have yielded little as the giving culture does not appear to be an African thing. These sources are considered very important as any increases of funding to schools could make a difference in school quality as measured by academic achievement (Loubert, 2008). Another parameter is the low staff morale that accompanies inadequate funding of the institutions. Ijaduola et al. (2010, p. 15) declares: “Experience and evidence abound that workers work less or even refuse to work when salaries and fringe benefits are not forthcoming regularly. This is an incidence which may make national productivity to decline.”
The claim that no school fees is charged at the federal and state universities is easily debunked as these institutions have found themselves doing exactly what they are told not to do through imposition of levies of different guises. Faced with serious underfunding from the government, the managements of the federal and state universities have had to insist that students pay for all kinds of pre-registration charges as long as the tag is not ‘tuition’ or ‘school fees’. In some cases parents have been mandated to donate specific amounts or equipment to the universities before their wards are granted admission into certain programmes. While this is most pernicious with the states universities, the federal institutions are not left out.

For the private universities, the ‘school fees’ source has become so emphasized that this sector is fast proving not to be available for the poor. And considering that private universities are excluded from receiving any assistance whatsoever from either the federal or state governments or their agencies, and given that for most times they provide all forms of social amenities ranging from water, electricity, housing, roads and all by themselves, one wonders if indeed the private universities deserve any reprimand for charging exorbitant fees. However, there are concerns that some private universities appear headed to price education far beyond the reach of the average citizen, making the call from some quarters, for central legislation on the matter seem urgently relevant. But this must be weighed against the backdrop of the absence of any form of support from the federal and state governments to the private universities. With this seemingly attitude of telling the private universities to ‘sail or sink’, the government is inadvertently compelling them to invent their own world as they deem fit. Bevc and Ursic (2008) consider tuition fees as an instrument of price policy in education which can exert negative consequences when the level is inappropriate. The authors further contend that the decision on the level of tuition fees should take into account the degree of demand on Higher Education; the relevant price elasticity of demand on Higher Education and the economic background of students and their parents. This nit consideration is arguably partially unknown to the Nigerian case.

b) The Funding Gap in Higher Education and the Place of IGR

Available literatures agree that there is a funding gap (Ndagi, 1983; Odebiyi et al., 1999; Adeniji, 2008; Yusuf, 2010) that requires new creative means to fill if the students would not have to bear the full burden of the cost of education. This has given rise to the present high emphasis on IGR. Long list of IGR sources for the federal and state universities include consulting services, seminars and workshops, commercial activities for profit, patents and partnerships with industry (Akinsanya, 2007). Private universities have leveraged on tuition fees, private fund raising initiatives and consulting to generate revenues to keep the universities running.

It is obvious from available literatures that the idea of the IGR is of high necessity (Johnstone, 1998; Odebiyi, et al., 1999; Wangenge-Ouma et al., 2008). As it becomes clearer that the government cannot fully fund education, and given the involvement of the private sector which the government is unwilling to support financially, the role of IGR, therefore, becomes more critical (Aina, 2002; Bevc & Ursic, 2008; Okojie, 2009).

In the federal universities, the government only funds a narrow list of expenditures including personnel, research and capital cost development (Nwachukwu, 1977). But one wonders how a university can grow and develop without the right and full funding of the operations. Literature exists to support the claim that the amount the federal government advances for electricity, for instance, is enough to buy diesel for only one month of the 12 months in the year (Adeniyi, 2008). This is without considering the incongruous cost of maintaining the existing infrastructures.

There is, however, evidence of improvements in the IGR earning capacity of some universities (Odebiyi et al., 1999; Johnstone, 1998). But there are currently fewer or no evidences of partnership with industry such that results of researches could be massively funded to benefit the larger community. Also, fundraising is almost non-existent in some universities and for those who have embraced it, little success is achieved. In the few cases of giving, the donors fail to provide sustainable support to service their gifts.

Many institutions that have embraced commercial activities as a means of earning IGR have not given the right emphasis needed for success (Odebiyi, 1999; Wangenge-Ouma et al., 2008; Johnstone, 1998). Some have carried out without any form of feasibility studies. Others have gone ahead to be in every known line of business. It would seem appropriate to expect that specialization could make things better and position the universities as innovative and serious seekers of alternative funding.

C) The IGR Sharing Formula Debate

There is a growing argument in favour of higher stake in the proceeds of IGR for the hands that help to generate it. From where the funds are harvested centrally, to where they are gathered at the level of individual departments, there has been suggestions that the central administration’s share of the IGRs generated should be less, while the greater stake should remain with the departments to be shared between the corporate purse and the individuals who ‘mid-wife’ the initiatives. In some places also the debate is the other way around. Some universities give between 30 and 40 percent back to the departments. There are also suggestions of 50:50 sharing from some quarters.

The concept of adequate reward to the IGR midwives conforms to the African traditional idiom that says that if you treat the cook well, she makes more delicious meals available. This is about motivation thing. The departments and those who run them will feel more encouraged
when they could trace the benefits of their past labour to themselves and that is theoretically what the IGR sharing debate is all about.

However, there seems not to be a common agreement on the best sharing formula as this varies from university to university and from location to location. It would seem appropriate to support that a handsome reward should be made available to the ‘midwives’ as the IGRs represent income that the university would otherwise not have produced if the creative hands in the departments had not made it possible. However, whichever school of thought that applies, it is important to ensure that shares of the available IGR that go out should be such as would respect the size of investments of the university and the passion of the staff who get things done. A healthy co-operation between the central administration and the departments will, therefore, consistently underline successful drive for IGR generation and growth.


The African political economy (APE) model provides a partial explanation for the behavior of universities in times of critical funding challenges (Aina, 2002; Wangenge-Ouma et al., 2008). The focus of the APE Model is on how political and economic forces shape the contexts within which the universities carry out their primary functions, that is, teaching and research, especially in situations of inadequate funding by the major economic benefactors. The theory helps to explain the realities of the specific political, economic and social environments (Wangenge-Ouma et al., 2008) that confront the country - debt burden, political instability, grossly inadequate infrastructure – which produces consistent relative cuts in government expenditure, with the higher education sector left disadvantaged. The reality is that, whenever there is a cut in budget allocations to the sectors, higher education is worse hit (Ndagi, 1983).

On the other hand, the Resource Dependence Theory postulates that for the organization to survive, managers have a role to allocate resources to innovative activities that are required of the firm by external customers and investors (Pfeffer & Salancik, 1978 & 2003). In other words, how managers compete and win external resources and how they deploy those to productive engagements have huge consequences on the continuity of funding sources and the cooperation of the benefactors of the organization.

Funding problems of the universities are deeply rooted on the economic, social and political structures and belief system of the people (Johnstone, 1998; Wangenge-Ouma et al., 2008). The educational system is subject to influences within the economic and social sub-systems. At the micro level, university managements relate closely with the parents and the students.

While APE Model may well explain the critical resource dependence relationship with the government, its main focus is not on the resolution of the resource allocation efficiency of the institutions. However, its relevance in understanding the external funding realities of the universities mandates its application in this paper. Nigeria is facing a high degree of debt burden, political instability, low investment, poor infrastructural development (Odebiyi et al., 1998) and cultural impediments, and these confirm the realism of the model and its application in determination of the impetus behind the growing emphasis on IGR. However, the model does not explain, in practical terms, how the institutions respond to the critical environment surrounding the assumptions of the model as does the Resource Dependence Theory. Hence its application will appear limited to the theoretical level. This further explains the triangulation of the two theories in this study.

METHODODOLOGY

The research methodology employed in this study includes both primary and secondary sources. The primary sources comprise mainly of purposively selected case study of three (one federal, one state and one private) universities located in the south west geopolitical zone of Nigeria. There were qualitative interviews with top managers of the three sample universities. The interviews, recorded on tape, were later transcribed and analyzed by the researcher based on the key objectives of the study. The case study reports have been kept under anonymity. The secondary sources are from existing literatures and findings of earlier researchers obtained from peer reviewed journal publications. The major ones are the research works of Odebiyi, et al, 1998; Wangenge-Ouma, et al., 2008; and Johnstone, 1998. There were also some materials obtained from the world-wide-web using the Google search engine.

SUMMARY OF FINDINGS

The qualitative interviews with key officers of three Nigerian universities in the South West geo-political zone provide the following findings:

1) Federal Universities depend on IGR for a minimum of 10% of their total budget funding each school year. State universities generate between 10% and 30% IGR and private universities fund between 93 and 100 percent of all their total operating and capital budgets from IGR sources. For the federal universities, minimum IGR is statutorily imposed; for the others, it is an economic reality as explained in the APE Model and the Resource Dependence Theories. The Federal Universities do not have tuition or school fees as an option for IGR generation as this is prohibited by the federal government (Ogunlade, 1989; Odebiyi et al., 1999).

2) The most common IGR sources disclosed by the interviewees are commercial activities such as supermarkets, bakery, table water, and local transport.
The findings in this paper are in agreement with the current approaches of IGR drive by the universities. This paper affirms, therefore, that there is room for improvement on to be adequately exploited by the universities. This paper of research findings and partnership with industry are yet feature at nearly all the universities. But such other Commercial operations in supermarkets, bakery, the intentional creativity of the university managers. Workshops may be incidental to the primary business as they do not receive any subsidies from the government. Winning IGR is the whole impetus for their very existence in the form of IGR. For private universities, seeking and university managements to generate supplementary funds the university proprietors, it has become imperative for the conclusion of the higher education in Nigeria. The conclusion of the

This paper has reviewed the critical role of internally generated revenue as an inevitable funding compliment for higher education in Nigeria. The conclusion of the paper is that, due to the perennial inadequate funding by the university proprietors, it has become imperative for the university managements to generate supplementary funds in the form of IGR. For private universities, seeking and winning IGR is the whole impetus for their very existence as they do not receive any subsidies from the government.

While some IGR sources such as seminars and workshops may be incidental to the primary business of the universities, several others are the results of the intentional creativity of the university managers. Commercial operations in supermarkets, bakery, bookshop, table water and consultancy are a common feature at nearly all the universities. But such other sustainable revenue generating engagements like patenting of research findings and partnership with industry are yet to be adequately exploited by the universities. This paper affirms, therefore, that there is room for improvement on the current approaches of IGR drive by the universities. The findings in this paper are in agreement with the assumptions of the African political economy model and the resource dependence theory contained in the literature review section. The universities will not only have to seek for more IGR, they equally have to ensure that there is transparency and good use of the revenues they generate. That is one way of making sure that the critical funding sources yield more and again.

RECOMMENDATIONS
From the data and literature reviews in this paper, the following recommendations are offered:

- Each university management should create an IGR coordination centre. This office will support the relevant money generating units. This restructuring will ensure that serious attention is given to the growing important activity of extra revenue generation. Left open, it would be easy for the various IGR generating departments to self-optimize. But the establishment of an IGR co-ordination centre will ensure that long bureaucratic bottlenecks are taken out of the way. This will give room for sustained concentration of efforts towards critical revenue generation. It will be the business of this special office to coordinate the formation of commercial ventures and the running of same for the university in the most aggressive and profitable ways possible (Yusuf, 2010; Okojie, 2010).
- University managements should intentionally commit more funds in identified profitable investment areas. Without the commitment of adequate cash investments in the identified profitable projects or activities, there will not be enough support to the primary business of the university from the revenue generating units. There must be intentional purpose of taking the IGR drive beyond the subsistence level and that should reflect from the capitalization of the revenue generating units.
- University managements should make attractive the profit sharing formula between the central administration and the departments where IGR is generated. The management should see every unit of Naira of IGR earned as money that was going to be lost otherwise. Every N1 earned as IGR, therefore, is an incremental value that could have been lost without notice. Those who are behind the extra funds creation deserve to benefit fairly from what they have generated. From the 70:30 percent that is common in most universities, managements should consider offering as high as 50:50 percent. Most top university managers interviewed agree that such substantial dividend could have the potential to motivate higher staff drive for more IGR.
- The universities that are not so advantageously located in the big cities should seek appropriate commercial locations outside the university campus. Intentional commercial businesses can be sited near highly economically empowered persons in Lagos, Abuja and Port Harcourt, for instance.
Universities should attempt to make the process of internally generated revenues highly cost effective by engaging very highly skilled staff who could double as professors. That way, the huge personnel costs arising could be shared between the IGR office and the academic unit.

Universities should incorporate foundations that provide tax deductible receipts for donors, and by that way, create a permanent avenue for harvesting the generosity of the few givers while seeking for more.

REFERENCES


