

EDUCATIONAL MANAGEMENT INTERNATIONAL



A Journal of the Department of Educational
Management & Business Education,
Olabisi Onabanjo University,
Ago-Iwoye, Nigeria.

Vol. 1, No. 2, September, 2006.

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Education, Olabisi Onabanjo University, Ago-Iwoye, Nigeria.

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Private Sector Participation in the Funding of Federal Universities:
A case study of University of Lagos

Ngozi, E. Uzoka Ph.D

*Dept. of Educational Administration
Faculty of Education, University of Lagos*

Abstract

This study attempted to explore private sector participation in the funding of Federal Universities with University of Lagos as a case study. The Universities whose main job is turning out the most highly qualified professionals the country need is however experiencing serious financial problem which is affecting the products in terms of quality. The impact of financial constraints and growth of student enrolment has been felt both quantitatively and qualitatively. They have therefore been stimulated to look beyond government subventions to run the universities. Two research questions were asked to guide the investigation. The design of the study was descriptive survey. The instrument for data collection was questionnaire, which was developed validated and used for the study. Simple percentages was employed for data analysis. The results of the analysis show that internally generated revenue and contributions from the private sector have been of tremendous help to the universities. The study concluded by recommending that universities may introduce more radical responses to meeting their needs and also intensify efforts towards generating fund internally. The government should also increase budgetary allocation to the universities.

Introduction

Reducing global poverty is the fundamental challenges of the 21st century. Despite economic progress in recent times in many parts of the world, many people still live in conditions of abject poverty. Although social indicators have been improving, those for the poor remain generally worse. Growth in the formal sector of the economy has slowed down in many countries and many of them often rely heavily on export commodities. This has in particular been a Nigerian problem coupled with low knowledge base of science and technology.

It has become glaring that significant expansion in manpower demands for the formal sector is unlikely. This is because of the fact the higher education system which produces the high level manpower need is underfunded. A competent and flexible workforce, that can acquire new skills as economies change is a necessary prerequisite for economic and social development. This will to a larger extent reduce poverty and the country surely benefit in the form of higher productivity and opportunities. Individuals benefit

through earning and enhanced mobility in seeking better employment opportunities. (National Planning Commission, 1998).

Though it has been demonstrated that investment in primary education yields the best economic return, recent work also suggest that within the formal education system, it is at the secondary and tertiary school levels that resources should be concentrated in order to provide the best returns. This is because higher education is the prime mover for national and growth development and prosperity. Investment in university education has been justified on the grounds that apart from the benefit that goes to the recipient, it leads to improvement in production, which subsequently brings about improvement in the economy, and increasing tax revenues that accrue to the government. There is no doubt that investment in university education is the core towards the development of high-level manpower (The World Bank, 2002).

University education has grown at a very fast rate especially after independence and this was enhanced by the rapid increase in oil revenue in the 1970s and 1980s. According to Aminu (1999), enrolment jumped from 1,395 in 1960 to 60,767 in 1987/88; and in 1993/94 and 1995/96, the enrolment increased to 227,999 and 258,203 respectively. This trend was not peculiar to Nigeria alone but the same in other developing countries. However Nigerian universities are facing serious financial problem which is affecting their products in terms of quality. This has reflected in the continuing dissatisfaction with the way that university education has failed to prepare young people for the world of work. In the report of a sub-regional training workshop published by IIEP (1994), low level of finance was identified as the most crucial problem affecting overall performance of universities. Institutions of higher education are so dependent on the government, not only in matters of finance but also in respect of managerial control and their affairs. The situation has been largely caused by the fact that the country has been experiencing serious economic and financial difficulties, the beginning of which was the drop in the price of oil in the international market in the early 1980s.

Even though there appears to be absolute increase in fund allocation to the universities, there is evidence to show that there is financial crisis in the universities. For instance a total of N3.05b was released in 1992, in 1993 it rose to N3.09b, in 1994, it was N4.48b and in 1995, it increased to N5.28b, and in 1996 the figure rose to N7.09b but dropped to N5.50b in 1997. recurrent expenditure rose sharply to N28.73b in 2000 and capital vote was N5.11b. In 2001, recurrent expenditure was N28.76b and capital vote N5.87b. However in 2002 recurrent expenditure increased to N30.64b, while capital expenditure dropped to N2.05b (Okebukola, 2003). From all indications, there has been steady increase annually to budgetary allocation to fund university education but the level of expenditure was grossly inadequate when compared with

fund requirement, which is as a result of the tremendous growth in enrolment. Generally, as a result of financial stringency, combined with the demands for improved efficiency, university educational institutions have been forced to reduce expenditure, seek new sources of funding and at the same time improve on the utilization of existing resources.

Statement of the Problem

Universities and other institutions of higher learning have the main job of turning out the most highly qualified individuals that the country need. They must as a result provide high-level training and research so as to master and develop the requisite expertise and technologies. The impact of financial constraints coupled with growth in student enrolment has been felt both quantitatively and qualitatively.

The 1980s and early 1990s have been a period of financial constraints but continued growth of student enrolment in Nigerian universities. It has now become clear that universities have no option but to adopt a variety of policies and strategies to cope with this much difficult problem. Hence the need for this study to explore the level of private sector participation in the funding of Federal Universities in the country.

Purpose of Study

The study was set out to investigate private sector participation in the funding of Federal Universities. The study examined the budgetary and actual allocations and expenditures of University of Lagos from 1998 – 2003. It tried to ascertain the level of private sector contributions to the University. The study also looked at the volume of internally generated revenue towards the funding of the university within the period of investigation.

Research Questions

With regard to the problem of the study, the following research questions will guide the investigation.

What were the budgetary allocation and expenditure of University of Lagos and also the revenue generated internally from 1998 to 2003.

What was the level of private sector contribution both in cash and kind to the University within the period of the investigation.

Research Methodology

The design of the study was a descriptive survey research. University of Lagos was the area of the study. The instrument for data collection was questionnaire, which was developed, validated and used for data collection. Reliability test was not necessary for the instrument of this study. This is because the instrument asked for factual information, which cannot be changed. Simple percentage was applied in the analysis of data.

Data Presentation and Analysis

Research Question 1: What were the budgetary allocation and expenditure of University of Lagos and the revenue generated internally from 1998/99 to 2003?

Table 2: Recurrent subvention and internally generated revenue in University of Lagos.

	1998/99	1999/2000	% Increase	1999/2000	2000/2001	% Increase	2000/2001	2001/2002	% Increase	2001/2002
Recurrent subvention	435,974,605	651,356,739	49.1	651,356,739	1,354,633,551	137.1	1,354,633,551	1,354,633,551	-	1,354,633,551
Internally generated revenue	338,858,552	338,393,692	-	338,393,692	352,878,181	819.0	352,878,181	436,981,178	23.8	436,981,178

Table 1 presents five years analysis of revenue and expenditure of the University that is from 1998/99 to 2002/2003 financial years. The analysis shows that in 1998/99, the budget for recurrent subvention was N719,898,644, while the actual expenditure was N435,974,605. Table 2 presents the percentage increase in actual recurrent subvention and actual internally generated revenue. From the table, the percentage increase in actual recurrent subvention 1999/2000 is 4.9 percent, while in 2000/2001 it jumped to 137.1% showing a great increase in recurrent subvention to the University. The subvention started dropping from 2001/2002.

In the case of internally generated revenue, the actual revenue to the University did not present any trend. This is because the revenue dropped in 1999/2000 from N338,858,552 in 1998/99 to N38,393,692 in 1999/2001. Whereas in 2000/2001, there was a quantum increase to N352,878,181 showing a percentage increase of 819.0. In 2001/2002, it dropped to 23.8 percent and jumped again to 86.0 percent in 2002/2003.

Research Question 2: What was the level of private sector contribution to the University within the period of investigation?

Table 3: Private Sector contributions (Donations and Endowments)

Year	1998/99	1999/2000	2000/2001	2001/2002	2002/2003
Donations	460,000,000	195,000,000	237,500,000	11,555,218	10,600,000
Endowments	407,680	5,000,000	2,200,000		
Total	460,407,680	195,000,000	239,700,000	11,555,218	10,600,000

A look at Table 3 shows that in 1998/1999, donations to the university was about N460,000,000, while endowments was N407,680 bringing the total amount to N460,607,680. In the year 1999/2000, 2000/2001, 2001/2002 and 2002/2003, the total amount both in donations and endowments were N195,000,000, N239,700,000, N11,555,218 and N10,600,000 respectively. There is no particular trend, in other words, there is fluctuation in contributions of the private sector to the university.

Discussion

The analysis of revenue and expenditure in research question one, did not show any discernable pattern. However, it should be noted that the actual subventions was on the increase yearly. For instance there was an increase of 4.9 percent in 1999/2000 and by 2000/2001, it jumped to 137.1% which was a substantial one. It however dropped to 0.001 percent in 2001/2002.

Worthy of note also was the column for internally generated revenue where the difference between the budgeted revenue and the actual revenue was not much. Interestingly, in some years, the actual revenue realized were more than the budgeted revenue. For instance, in 1999/2000, N28,766,661 was the budget and N38,393,692 was realized. Similarly in 2002/2003, the budget for internally generated revenue was N523,542,416 and the actual revenue generated was N813,737,218, showing a difference of N290,194,802. Eventhough there was no percentage increase in 1999/2000, however in 2000/2001, 819.0% was the increase which is rather substantial.

University of Lagos went into commercial ventures which had been successful to a large extent. This is in line with the government directives that universities in the country should generate five percent more of their current expenditure each year so as eventually to earn 50 percent of the budget (Babalola, Okunola, Adeyemi, 1996). The University in order to reduce uncertainty and financial over dependence on government grants devised a policy of budgeting to build up financial reserves. For instance the institution had reserves amounting to 22.29 percent of its annual income. Similarly, University of Sierra Leone following footstep of University of Lagos had 38.21 percent (IIEP 1995). However, all these achievements mean only between three and six months continuation of services without receipt of government grants.

It has been discovered that generally, financial difficulties are caused by high operating costs and low cost recovery. Most universities including University of Lagos withdrew from providing canteens, and charge small amount for student accommodation. Rigid policy exist in that the hostel fees are pegged at very low rates by the government. However, there was an attempt by the government sometime last year to increase hostel accommodation to N10,000 but as a result of stiff opposition both from students and some members of the society it was suspended.

It should be noted however that diversification of sources of financing may have repercussions on management, because it makes it possible to have other categories of personnel (contractual) to be employed. It will also increase the possibilities of research allocation. (Shantayanan 2004).

There was no subvention for capital projects in 1998/99 and 1999/2000. The capital projects in 1999/2000 which amounts to N229,910,583 was the surplus from recurrent of the previous year. It was only in 2000/2001 and 2001/2002 that the University had N7,920,000 and N100,623,006 for capital projects from the government. The institution got only N41,655,239 in 2001/2002 for teaching and research which is one of the major work of the universities.

Research question two which was to find out the level of private sector contribution both in cash and kind to the University within the period of the investigation happened to be one major interest of the study. Analysis of data reveals that these contributions come in form of donations and endowments as mentioned above. Donations are in kind and not in cash. The figures above are just estimated values of projects donated to the University, for example, students hostel, borehole, medical centre, etc. Endowments are gifts to the University for specific purposes. The borehole for instance was provided by Education Trust Fund (ETF).

The analysis shows that the year 1998/99 saw the highest donation, N460,000,000 and this was the amount that was estimated for the building of the newest hostel. It appears that more projects were carried out in form of donations than endowments. This is because in 1999/2000, while donations amounted to N195,000,000, endowments were N5,000,000 and in 2000/2001, donations were N273,500,000 and endowments N2,200,000. In some years like 2001/2002 and 2002/2003, there were no endowments as can be seen in the table. In 2001/2002, Ford Foundation carried out a project that was worth N5,055,218, Mobile Producing, N1,500,000 and WEMA Bank, N5,000,000, bringing the total gifts and donation to N11,555,218. Similarly in 2002/2003, L.M. Ericson Nig. Ltd. Made a donation in form of the purchase of 27 KVA Generator to University of Lagos. The project is bigger and on-going project and it is yet to be commissioned.

It seems that there was no capital subvention except in 2000/2001 and 2001/2002. The government it appears pays more attention to recurrent revenues and others. What the institution does is to divert the surplus from recurrent subvention to execute some capital projects. Thus the private sectors contribution is a very big relief. With increasing financial constraints, continued expansion of higher education and demand for greater effectiveness, Nigerian Universities may have to devise more aggressive ways of involving private sector in the funding of higher education.

Conclusion and Recommendations

Nigerian Universities have been stimulated to look far beyond the traditional subventions from the government to run the universities. As a result, some institutions like University of Lagos have been lucky to be involved in projects that have improved the financial requirement. Some universities in the country have introduced some form of structural reforms in order to help in the achievement of more efficient and effective use of public funds, increased outputs and better quality of research and teaching. Moreover, it is now obvious that all the areas of need in the universities cannot be solved at the same time because of limited resources, it becomes imperative for the universities to prioritize their needs.

The study concluded by making the following recommendations: Nigerian universities as a matter of urgency should introduce uniformed school fees which would be within affordable reach to the citizens. This is because qualitative education does not come cheap, quality goes side by side with money. Revenue from students can go a long way in helping to solve some of the financial problems.

There is need for the government to increase revenue allocation to the universities so as to save the universities from collapse. The government has no choice but to continue to invest heavily in university education because of the numerous benefits the society in general derives and the development of the professional competence of different professional fields, which contributes towards all round development of the country.

Given that their financial situations are much more critical, universities in the country may introduce more radical responses to meeting their needs than have emerged so far in the developed countries. They should also intensify their efforts in the area of generating fund internally.

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