Revitalising the Nigerian University System: The Imperatives of a Market Driven Funding Mechanism

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Abstract
The needs assessment report of Nigerian public universities (2012) exposed a disturbing level of decay in public universities in Nigeria. The report, among other things advocated better financial management as a panacea for revitalising the university system. This paper compared the direct funding allocation mechanism (which is the major way of funding public universities in Nigeria) with indirect funding mechanisms. Results from the comparison showed that indirect funding mechanisms like education vouchers applied to both public and private universities would increase the capacity of private universities to compete with the overly dominant public universities. It was therefore concluded that a mixture of a market driven mechanism like the voucher system mixed with the current direct system of funding will be better suited for driving innovation and entrenching financial prudence in the Nigerian universities.
Keywords: Management, Innovation, funding, Financing, Prudence, Education vouchers.

1. Introduction
The needs assessment report of Nigerian public universities (2012) was funded by the federal government to provide empirical information needed to guide actions for revitalising the university system. The findings from the report gave a grim picture of the state of public universities. It, among other issues stressed the inadequacy of government funding to the universities. The comprehensive report also advocated better financial management of universities in order to check the decay and revitalise the system. Corroborating the stand of the needs assessment report, Akpanuko (2012) opined that the decay occasioned by poor management is so deep that Nigerian University system is no longer able to meet its expected obligations and perform its valuable duties. Nigerian universities are owned by the Federal Government, state governments or private investors. According to Baniro (2012), during the 2006-2007 session, of the total of 122 universities in Nigeria, enrolment in the 36 federal universities accounted for 56% of total enrolment, the 36 state universities accounted for 37% while the 50 private universities accounted for only 3%.

Given that the demand for (government subsidized) public university education far outweighs supply and government funding of public universities is guaranteed there is little or no pressure on university managers to be prudent or innovative. In 2012/2013, there were 128 universities in Nigeria with 520,000 (29.96 per cent) admission spaces. In that year, a total of 1,735,729 applied for the Unified Tertiary Matriculation Examination (the examination used to select students seeking admission in Nigerian universities). (Adesulu, 2014).

The purpose of this study is to propose a funding allocation mechanism that will better stimulate prudent and innovative management of universities so as to help enforce the revitalisation of Nigerian universities. In order to achieve the above stated purpose, this study shall answer the following questions:

i. What are the major types allocation mechanisms applied in funding Universities?
ii. How are market driven funding mechanisms better suited for revitalising Nigerian universities than the present funding mechanism?
iii. How should the present funding mechanism be adjusted or changed to stimulate prudent and innovative management of universities?

2. Types of fund allocation mechanisms for financing educational institutions
Two general types of fund allocation mechanisms applied in financing education in countries around the world are: Direct Funding; and Support of Student/Indirect Funding (Salmi and Hauptman, 2006).

2.1 Direct Funding of Institutions
These are funding mechanisms that make resource transfers directly to institutions to support their running costs. Direct public funding of institutions is the type of allocation mechanism currently used by the Nigerian government in funding universities. The main goal of government here is to ensure adequate funding for rapid growth and to treat the institutions equitably. Several funding mechanisms are grouped under direct funding mechanisms some of which according to Pakravan (2006) are:

i. *Historical (incremental) funding mechanisms*, under which funds are allocated by government to universities, based on the amount or a certain percentage allocated in the previous years. This mechanism is popular for its administrative simplicity. Unfortunately, it does not create meaningful incentives for institutions to improve performance.

ii. *Formula funding mechanisms,* under which funds are allocated on the basis of the characteristics of an institution as the size of student population. This mechanism is objective and reduces lobbying and other forms of backroom deals. The down side of formula funding is that governments that apply this funding mechanism traditionally set upper and lower limits between which increases or decreases in student enrolment attract changes in funding (Pakravan, 2006). These limits are intended to protect weaker institutions from going under but they become a disincentive for competition and innovation.

iii. *Strategic funding mechanisms,* under which institutions are funded to the extent that they adjust their behaviours to be in line with government objectives. They can be used to stimulate competition in a situation where the funds are dependent on institutions submitting proposals that advance government objectives. The disadvantage of using projects as basis for funding is that it gives too much room for lobbying and backroom deals between those submitting funding proposals and government agents involved with giving approvals for the proposals.

iv. *Performance-based funding mechanism;* under which funding is linked to specific academic, administrative or financial outcomes. It is effective in stimulating improvements in the quality and efficiency of services and programme delivery. The down side is that it can increase the likelihood of cheating to meet performance measures.

2.2 Support of Students/Indirect Funding of Institutions

These are funding mechanisms that indirectly support institutions through resources transfers. Two major categories of indirect funding mechanisms are educational vouchers (demand-side education vouchers) and subsidies in form of grants, scholarships tax benefits and subsidised loans. Evidence to prove that universities would respond to market forces brought about by support of student funding mechanism is documented in the research on the use of vouchers for secondary schools in the United States. Caroline Hoxby of Harvard University, a leading scholar in this field, has built up an impressive core of research showing that student-based funding (SBF) increases competition between schools and provides very real incentives for them to improve their productivity and performance. Hoxby (2000) argued that the same benefits would flow from the application of SBF to colleges and universities and that the effect might even be stronger in the world of post secondary education (PSE) because of the scope for institutions to differentiate themselves from each other with respect to tuition, program mix, educational approaches and areas of specialization. SBF might therefore, over time, induce competing institutions to try to create a niche for themselves in the market.

3. Education Vouchers

An education voucher is a certificate of funding issued by the government, which students have control of and are able to direct towards the public or private school of their choice to fully or partially pay for their tuition at that school for that year, term or semester. This implies that students eligible for university education receive vouchers from government which represent a certain amount of money to be spent on education. The value of the voucher is related to some notion of the average per capita costs of education. The university receives the vouchers from enrolling students and redeems the value of the voucher from government. There are a host of pros and cons of voucher schemes found in literature particularly within the context of primary and secondary education. We shall however limit our discussion of the pros and cons of voucher schemes to the peculiar nature of university systems and especially taking into consideration the Nigerian environment. The positive effects of vouchers are:

- It enforces the discipline of the market on the providers of education and they are forced to run their universities in prudent and innovative ways that improve quality and therefore attract students and parents.
- Some proponents of a voucher system also have asserted that vouchers would encourage equality of educational opportunity as well as improve access to university education. The reason for this is that through the aid provided by vouchers, lower income families would find it easier to enroll in a private school which hitherto was the exclusive preserve of higher income families.

It is for this reason that Patrinos (2012), advocates of the voucher system believe that competition will lead to efficiency gains, as schools – public and private – vie for students and try improving quality while reducing expenses. The idea is that when private schools are encouraged to attract students, they become innovative and thereby bring improvements to the learning process. Likewise, public schools, to attract students and the resources that come with them, seek to improve themselves to provide an education at par with the private schools. Furthermore, Vouchers would enforce the discipline of the market on the providers of education.

This means that the introduction of market forces leads to competition and competition will strengthen efficiency, because only the most cost-effective providers will be able to survive (Jongbloed and Koelman, 2000).
Some of the disadvantages of voucher schemes if applied in the funding of universities are:

- Vouchers would cause massive fluctuations in funding and enrolment resulting in non-professional interference and job insecurity for teachers.
- A voucher scheme would be accompanied by practical difficulties because it implies a huge effort in keeping track of individual university careers. (Salmi and Hauptman, 2006, Jongbloed and Koelman, 2000).

Other forms of student support/indirect funding mechanisms are ***subsidies*** provided to students or their families in the form of grants and scholarships, tax benefits, and subsidized loans. They involve the provision of some portion of the public funds for tertiary education to students and their families. This implies giving money to students or parents to fund the student's university education. (Salmi and Hauptman, 2006, Jongbloed and Koelman, 2000).

The challenge with this type of funding mechanism within the Nigerian context is that due to the high incidence of poverty in Nigeria, some parents and students that find themselves in desperate conditions would likely divert the funds to other pressing needs thereby defeating the purpose of the financial support.

4. Lack of incentives for financial prudence and innovation as demerits of the current funding mechanism applied in the Nigerian public university system.

According to the Needs Assessment Report of Nigerian Public Universities (2012), Nigerian public universities generate funds in the following manner: Recurrent allocation from government (which contributes 68% of the total annual public universities' spendings), Capital Allocation (7%), TETFund (4%), Research Grants (3%), Service Charges (2%), Internally Generated Revenue (16%) and Donations/Aid/Endowment (less than 1%). The bulk of the annual expenditures of the universities comes from direct allocation from government. This funding formula has been based on several factors such as year of establishment, number of degree students admitted, number of academic and non-academic staff, and ratio of science and humanities based disciplines. Essentially, Nigerian public universities are financed using a mix of historical and formula funding mechanisms which can be categorised under direct funding mechanisms (Famurewa, 2014, p.4, Okojie n.d, Olayiwola, 2012). This fund allocation mechanism to a great extent guarantees continual funding without strong enough incentives for improving the quality of educational services the universities provide.

The fact that these funds are pretty assured results in mediocre financial management systems. For instance, in public universities in Nigeria, it is common place to see councils/managers spend millions to erect super-gates when they lack functional libraries; purchase exotic vehicles for university officers though they lack basic classroom furnishings; are more interested in hiring more support staff (even when there is clear over-staffing) instead of recruiting/training more academics. These managers are hiring personal staff, including personal assistants, special advisers, bodyguards, personal consultants, etc. instead of utilising establishment positions in the universities. It has become very clear that Nigeria's university system is broken, crippled by flawed policies in both the management and financing of school and corrupt expenditure of school money; leaving it in need of sweeping reforms (Needs Assessment Report of Nigerian Public Universities 2012). Furthermore, the astronomically high demand for university education and the relatively costly private universities implies that public universities which are heavily subsidised by government can afford to be mediocre since the vast majority of Nigerians cannot afford to enrol in private universities. This mediocre management prevalent in public universities has given rise to poor quality university education to the extent that no Nigerian university was listed among the first 6000 universities in the 2012 Shangai Ranking Consultancy (Kpolovie and Obilor 2013).

If education vouchers are used to subsidise private university education to the extent that tuition fees become affordable to a lot of students who hitherto could only afford public universities, the resultant increase in competition for students in the overall university system would definitely bring about financial prudence and innovation in the management of both public and private universities.

5. Discussion of findings

For the Nigerian university system to be revitalised, there is need for a fund allocation system that rewards innovation and financial prudence. The current (direct) funding mechanism applied in Nigerian public universities is based on student enrolment which is guaranteed. The extremely high demand for public universities means that students who cannot afford the relatively expensive private universities will make do with whatever quality of schooling provided by public universities. An element of indirect funding as the use of education vouchers applied to both public and private universities would help many students afford private universities so that the dominance of public universities will be challenged. The greater ability for students to choose between public and private universities will spur a healthy competition in Nigerian universities that will bring about some innovation and financial prudence that is lacking given the current funding allocation system. Okolo (2014), indicated that handing over the running of public universities to individuals would put workers on their feet and make universities more productive (Okolo 2014). This assertion alludes to the idea that encouraging private university education in Nigeria will stimulate increased productivity. Some element of indirect student based funding applied to both private and public universities will enforce market discipline in the university system thereby bringing about improvement in productivity and performance. Furthermore, the voucher scheme, apart from stimulating competition can be effectively used to address the acute problems of access to university education as well as equality of educational opportunity as it can subsidise private university education for families with lower income. The use of vouchers need not totally put aside the direct funding mechanisms currently in use. Some aspects of the current system could be retained while the voucher scheme replaces other aspects as the direct government allocation for financing recurrent expenditure. Though it is appreciated that a voucher scheme requires detailed plans and complex administrative measures to prevent abuse, the scope of this present study is to advance the imperatives of a market driven funding mechanism for revitalising the Nigerian universities.

The needs assessment report of Nigerian public universities advocated government funding of public universities to the tune of at least N50,000 (fifty thousand naira) per student in the total number of student enrolment in each university. This amount could be applied across board for the funding of both private and public universities and would encourage prudence and innovation if allocated indirectly using instruments as educational vouchers. The voucher scheme can also be used by government to encourage students to seek distance education, which is a more economical way of accessing university education. For instance, whereas a voucher might cover 50% tuition fee for the conventional face-to-face university, government can offer vouchers that cover 90% of tuition fee of distance educational institutions.

6. Implication to Research and Practice

The study has shown broad changes required to improve the innovativeness and financial prudence of public universities can be stimulated by adjusting funding mechanisms. Researchers and education policy makers can use the knowledge of funding mechanisms to improve education at all levels.

Since a voucher scheme requires detailed plans and complex administrative measures to prevent abuse, further case studies would be required to work out administrative implications of introducing the voucher system as recommended in this study.

7. Conclusion and Recommendations

The recurrent allocation given directly to Nigerian public universities should be given to both public and private universities through education vouchers given to students who will then tender same to any university (public or private) that offers them admission. In other words, the recurrent expenditure currently being allocated directly to public universities should be supplanted by the education vouchers which university students shall tender as a part or the whole of their tuition fees. The table below gives a brief account of the current funding mechanism for public universities and the funding mechanism for both public and private universities in Nigeria as recommended in this study:

The current (direct) government funding mechanism for public universities	**Mixed government funding mechanism for public universities.** **(*Proposed in this study*)**	**Government funding for *Private* universities.** **(*Proposed in this study*)**
Recurrent allocation (which contributes 68% of the total annual spendings),	***Educational Vouchers*** presented by students and redeemable from government for recurrent expenditure (which contributes 68% of the total annual spendings),	***Educational Vouchers*** presented by students and redeemable from government to subsidise the cost of studying in private universities.
Capital Allocation (7%)	Capital Allocation (7%)	
TETFund (4%)	TETFund (4%)	
Research Grants (3%)	Research Grants (3%)	Other sources of funding as determined by individual private universities.
Service Charges (2%).	Service Charges (2%).	
Internally Generated Revenue (16%) and Donations/Aid/Endowment (less than 1%).	Internally Generated Revenue (16%) and Donations/Aid/Endowment (less than 1%).	

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