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# Privately Sponsored Students and Other Income-Generating Activities at the University of Nairobi*

Crispus Kiamba**

## Abstract

Beginning in the 1994–1995 academic year, the government sharply cut university funds from the Kenyan exchequer, challenging the University of Nairobi to diversify its revenue sources. In response, the university adopted the concept of the "entrepreneurial university" and created a wholly owned, independent, profit-making holding company, the University of Nairobi Enterprises and Services Limited (UNESL). Those involved in the planning determined that the university should concentrate on its core competence, which was adding value to knowledge. The most fruitful—and radical—development was the addition of the Module II (or parallel) programs that accept privately sponsored students, thus embracing tuition fees and the concept of cost-sharing at least for these students but for the benefit of the entire university. Overcoming initial resistance, Model II and other income-generating activities have allowed the university to greatly enhance its financial base and increase access to its educational programs.

## Résumé

Au début de l'année académique 1994–1995, le gouvernement avait brutalement supprimé les fonds universitaires en provenance du ministère kenyan des Finances, mettant ainsi l'Université de Nairobi au défi de diversifier ses sources de revenus. En réaction à cela, l'Université a aussitôt adopté le concept de « l'université entrepreneuriale », en mettant en place une société holding indépendante et rent-

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able – University of Nairobi Enterprises and Services Ltd (UNESL). Les responsables du planning devaient se focaliser sur sa principale compétence : apporter de la valeur ajoutée à la connaissance. Le développement le plus rentable (mais également le plus radical) fut l'ajout du Module II (ou module parallèle) intégrant les étudiants qui s'autofinancent, adoptant ainsi la pratique des droits d'inscription, ainsi que le concept de la participation aux coûts, au moins pour ce type d'étudiants, au profit de l'ensemble de la communauté universitaire. Le « Model II », ainsi que les autres activités génératrices de revenus, qui sont parvenus à vaincre le mur des nombreuses résistances à ce programme, ont permis à l'université d'améliorer substantiellement sa base financière et d'élargir l'accès à ses programmes d'éducation.

## Introduction

Cost-sharing refers to a shift of at least some of the burden of higher education costs from the government (or taxpayers), to parents and/or students, either in the form of tuition to cover part of the costs of instruction or as "user charges" to cover the costs of governmentally or institutionally provided accommodation. Proposing and implementing cost-sharing, however, has been a contentious issue (Johnstone, 2002, p. 72). The issue is even more problematic because paralleling the stream of students who are matriculating under government sponsorship is a group of students who pay full tuition fees to the universities. In addition, this category of students does not normally receive accommodation by the universities; in cases where they do, they must pay market prices, in contrast to the first category of students whose lodging is substantially subsidized.

In East Africa, forms of "dual track" tuition fees have been employed in Uganda (Ssebuwufu, 2002) and Kenya (Kiamba, 2002) and more recently and tentatively in Tanzania (Ishengoma, 2004a, 2004b). In Kenya, the category of students who pay full tuition is referred to variously as "parallel students," "Module II students," or "privately sponsored students," while the students who are either fully or partially supported by the government are referred to as "regular students" or "Module I students." The category of fee-paying student was developed recently as part of the strategy for direct income generation by public universities in Kenya with a view to supplementing decreasing government support (at least in real terms) to public universities. This paper examines the financing of public universities in Kenya with special reference to the experience of the University of Nairobi in the conceptualization and implementation of the category of full-fee-paying or fully self-supporting students.

## The Genesis of the Fee-Paying Students

Over the past decade or so, public universities in Kenya have continued to receive lower financial allocations from the government than their estimated expenditures, a trend which is expected to persist. Consequently, the cost of staff, learning and research materials, food, and lodging, coupled with inflationary pressures, made it difficult to sustain the operations of these universities. The implication of such a scenario was an increasing debt burden that threatened to compromise the very essence of the objectives and functions of the universities. The government, indeed, made it quite clear that it would no longer be able to fully finance public universities. The Kenyan 1994–1998 Development Plan stated:

> The central thrust of the new policies is to rely on market forces to mobilize resources for growth and development with the role of the government increasingly confined to providing an effective regulatory framework and essential public infrastructure and social services. The government will limit direct participation in many sectors and instead promote private sector activity.

As a consequence, the government during the 1994–1995 fiscal year, reduced the education budget from 37% of its total annual recurrent budget to about 30% with the argument that higher allocations were not sustainable. In these circumstances, public universities were called upon to explore ways and means of financing university programs partly with funds generated from sources other than the exchequer. The need for public universities to diversify their activities to include income generation formed a major theme in the speeches of the chancellor and the president of the university of the country during the University of Nairobi's 1994 graduation ceremony. The evolving government policy was further emphasized by the Minister for Education at a vice-chancellors' workshop at Egerton University, Njoro, Kenya, in 1994:

> This is a turning point in the development of our pubic universities, where they are being called upon to adopt business-like financial management styles. It is also a point in time when universities have to plan well ahead about resources expected to be forthcoming from sources other than the Exchequer.... [The] time has come to seriously take account of the universities' potential to generate income internally. It is an open secret that some of our universities are capable of generating substantial amounts of money from the resources at their disposal.... Income from such sources should be exploited and treated as definite sources of university revenue.

Further, an academic staff industrial action about the poor terms and conditions of service during the 1994–1995 academic year deepened the financial crisis facing public universities in Kenya, literally bringing to a halt university functions and thereby creating the impetus for a quick solution to the crisis. The unrest, which initially was occasioned by the refusal of the government to register a universities academic staff union that was championing the staff's cause, lasted about six months. As the "mother" of the university system in Kenya, the University of Nairobi was the center of the staff unrest. Faced with this crisis, the university moved quickly to explore ways to generate additional income by using the resources at its disposal to the fullest advantage.

## The Business Model and the New Institutional Structures

Against this background, in 1994, the university set up the Income Generating Committee "to look into income generation activities in the university and make recommendations."[1] The committee introduced the concept of the "entrepreneurial university," adding a "business model" to the conventional mission of the university. To achieve this end, the committee stressed the need to identify university resources and their commercial exploitation. The model also assumed that universities must more vigorously market what they know best—namely, teaching, research, and service. But such marketing can be achieved only after careful analysis of the existing market opportunities, followed by a deliberate attempt to create new demands and new markets for the university's tradable goods and services. The committee further noted increasing evidence to show that any university, given its reservoir of expertise in the development and transmission of knowledge, could become adaptive and entrepreneurial simply through an innovative use of the existing conventional structures, but with appropriate change in delivery systems, personnel, and organizational structures.

To achieve the goals and purpose of an entrepreneurial university, the conventional academic programs and those generating income require differentiated organizational structures. The committee also observed that, while the organizational structure of academic departments and faculties was suitable for conducting conventional academic and research programs in a reasonably efficient and effective manner, such structure was less effective in an entrepreneurial undertaking. Alternative or complementary organizational arrangements—for example, private companies, industrial science parks, dedicated research institutes, etc.—had proved to be more efficient and effective. In a business-oriented model, the university would act as a "parent" or "holding" company with decentralized centers or entities acting as the entrepreneurial centers or "cost" or "profit" centers. Such entities would be created and maintained with the expectation that they would attain financial self-sufficiency. The heads of such centers would be expected to be managers, rather than the traditional heads of an academic department.

In its report, the committee therefore noted that the university should separate the management of the income-generating activities from its educational and research functions while ensuring that the income generated from these activities would fund the university's learning, research, and staffing objectives, thus justifying the adoption of business-like income generation and financial management strategies (University of Nairobi, 1994). The committee recommended that to ensure the observance of sound business practices in running income-generating activities, a limited liability company wholly owned by the university should coordinate such activities.

## University of Nairobi Enterprises and Services Limited (UNES)

Against this background, a wholly university-owned company, known as the University of Nairobi Enterprises and Services Limited (UNES) was incorporated on May 1996, as authorized by a resolution of the University of Nairobi Council, November 24, 1994, and in accordance with Part II Section 3(2)(d) of the University of Nairobi Act, to promote, manage and coordinate the income generating activities and consultancies (UNES, 1996). The university through UNES intended, therefore, to: (a) identify the resources within the University of Nairobi that could profitably be used for commercial activities; (b) apply those resources in the development of commercial ventures where competitive advantage could be gained; (c) contribute in other ways that might help the University of Nairobi to achieve its mission; (d) formulate and popularize strategies to allow a high degree of productivity within the university community; and (d) help, create, encourage, and support group initiatives in the university's competence areas that focused on the broader objectives of the company.[2]

UNES's Board of Directors represents the broad spectrum of the university's stakeholders. The chairman of the University Council, the vice-chancellor, the deputy vice-chancellor responsible for administration and finance, and the deputy vice-chancellor responsible for academic matters represent the university as the parent company. The permanent secretary of the national Ministry of Education, Science, and Technology and the permanent secretary of the national Ministry of Finance represent the government as the university's sponsor. The board also includes representatives from the private sector, the Central Bank of Kenya, the University Council, and members of the university's income-generating units.

A managing director, competitively appointed by the Board of Directors, handles the company's day-to-day administration, assisted by administrators, finance staff, and a company secretary. UNES contracts with academic staff to provide technical assistance in their areas of competence. In turn, the UNES managing director sits on the university's management board and the senate, both of which are chaired by the vice-chancellor. Further, the managing director furnishes regular reports to the University Council, the University Management Board, and the college academic boards on the financial status of the new programs. These interactions between the traditional university structure (the council, managing board, senate, and college academic boards) and the UNES allow for the interpenetration of ideas and decisions and the relative involvement of stakeholders in the decision-making processes of the new environment.

## Education as Core Competence

As indicated earlier, it was clear that the university's competitive advantage in income-generation was in the knowledge-driven areas; hence the company's motto became "Adding Value to Knowledge." The knowledge-driven sectors of the economy were seen not only as areas of core university competence, but also as those sectors that were growing and breaking scientific ground. In becoming involved, the university would thus not only be conducting good business but also showing that the new educational opportunities created by the company would save money that would otherwise have been spent abroad, therefore benefiting the country's foreign exchange.

Given the available human and other resources of the university, the university regarded the establishment of continuing education programs as a top priority. Using slack periods in scheduling (evenings and weekends), the university was able to open strategic windows of educational opportunities to the many Kenyans who meet university admission requirements but who cannot be admitted because of the limited capacity of the regular programs. These opportunities are also available to those whose full-time jobs and other personal commitments do not allow them to pursue further studies on a full-time basis. These educational programs have enabled the university to generate revenue that supplements the exchequer's support to finance its functions.

## The Module II Academic Programs

During early 1998, the university resolved to engage in activities where it has core competence, or comparative advantage, and in particular those areas that are knowledge driven. Thus, it began introducing academic programs for privately sponsored (Module II) students. The first of these programs was a master's degree in business administration (MBA) in the Faculty of Commerce, soon followed by a bachelor of laws program in the Faculty of Law, a bachelor of commerce in the Faculty of Commerce, and a bachelor of education in the

**Table 1:** Undergraduate Enrollment Modules I and II, 2002-2003

| Faculty, Department, Academic Program | Module I | Module II | Total |
|---|---|---|---|
| Agriculture | 647 | 6 | 653 |
| African studies | 367 | 6 | 373 |
| Architecture, design, & development | 526 | 122 | 648 |
| Arts | 2,328 | 743 | 3,071 |
| Commerce | 1,075 | 1,345 | 2,420 |
| Computer science | 157 | 85 | 242 |
| Dental sciences | 84 | 43 | 127 |
| Education | 1,363 | 1,232 | 2,595 |
| Engineering | 1,207 | 233 | 1,440 |
| External studies | 0 | 5,064 | 5,064 |
| Law | 485 | 610 | 1,095 |
| Medicine | 917 | 581 | 1,498 |
| Pharmacy | 160 | 136 | 296 |
| Science | 1,487 | 284 | 1,771 |
| Social sciences | 0 | 288 | 288 |
| Veterinary medicine | 287 | 122 | 409 |
| Grand total | 11,090 | 10,900 | 21,990 |

Faculty of Education. By the end of 1998, similar programs were introduced in the faculties of medicine, pharmacy, dental sciences, engineering and the Institute of Computer Science.

Creating a particular academic course under the Module II program was determined by a number of interrelated factors including the demand that existed for the program, the presence of "champions" in the departments, and the lack of resistance by staff. In this connection, largely professional programs like commerce and business administration, law, and medicine were trail blazers. The experience gained from these programs was quickly used in launching programs in the other faculties and departments. Further, the financial benefits from these "champion" programs were spread throughout the university, to some extent jolting the "doubting Thomases" into developing Module II programs in their departments.

**Table 2:** Diploma Student Enrollments, 2002–2003 Academic Year

| Faculty, Department, Academic Program | Module I | Module II |
|---|---|---|
| Agriculture | 0 | 16 |
| Architect, design, & development | 0 | 5 |
| Arts | 0 | 145 |
| External studies | | |
| Early childhood education | 0 | 60 |
| Business management | 0 | 600 |
| Sales and marketing | 0 | 163 |
| Public relations | 0 | 131 |
| Human resource management | 0 | 100 |
| Total | 0 | 1,220 |

Currently, there are Module II Programs in almost all faculties of the university. They enroll about 14,880 students, compared with about 13,000 students registered in the Module I programs. Tables 1, 2, and 3 capture the 2002–2003 numbers of students registered, comparing the numbers in the Module I and Module II programs. It is clear that within a period of six years, the number of students in the new programs have not only equaled but surpassed those in the traditional programs in which students are subsidized entirely by the government.

## Managing Resistance to the New Programs

Early on, there was some resistance to the introduction of the new parallel programs, especially from students. Demonstrations against these programs closed the university for a month. The justification for the programs, however, was so solid that the university administration decided that there was no going back. Sponsors of the new program also realized that, except for setting up the committee and considering its report, the University Management Board had perhaps not sufficiently involved students and staff in consultations about the novel idea; hence, the broader university community did not initially feel "ownership" over the new policy. For example, the aforementioned Income Generating Committee was a committee of the university management rather than a committee of the university. There was therefore an impression that the new policy was "top down" rather than "bottom up," a perception that hampered easy acceptance by the stakeholders.

**Table 3:** Postgraduate Student Enrollments, 2002/03 Academic Year

| Faculty, Department, Academic Program | Module I | Module II | Total |
|---|---|---|---|
| Agriculture | 182 | 10 | 192 |
| Architect, design, & development | 71 | 16 | 87 |
| Arts | 493 | 626 | 1,119 |
| Commerce | 263 | 1,329 | 1,592 |
| Dental sciences | 16 | 0 | 16 |
| Education | 105 | 346 | 451 |
| Engineering | 29 | 0 | 29 |
| External studies | 0 | 146 | 146 |
| Housing & building research | 5 | 2 | 7 |
| Law | 33 | 0 | 33 |
| Medicine | 386 | 10 | 396 |
| Nuclear science | 4 | 0 | 4 |
| Pharmacy | 5 | 0 | 5 |
| Population studies | 49 | 9 | 58 |
| Science | 178 | 263 | 441 |
| Veterinary medicine | 56 | 4 | 60 |
| Grand total | 1,875 | 2,761 | 4,636 |

In view of this, the university launched an aggressive campaign to hold consultations and workshops to sensitize, train, and identify new opportunities for all academic units. The university administration together with the committee managed this process. Government statements in the print media and at public ceremonies such as commencements demonstrated official support for the new policy directions in the higher education sector. (For example, on November 21, 2000, the Minister for Education, Science and Technology, in response to a parliamentary question, defended the University of Nairobi Enterprises on the floor of the Parliament.)

It is important to realize that, by the time parallel programs began in 1998, the concepts of cost-sharing and student loans were already accepted realities in public universities, having been instituted during the 1980s. To some extent, therefore, the parallel programs seemed like a continuation of university financing strategies. This perception obviously helped the university community and other stakeholders accept the new programs. The funds generated from new academic programs were used in visible and credible projects—especially government initiated capital/development projects in the university that had been stalled for many years. Thus, the fact that most stakeholders were receiving a fair share of the benefits was also important in enhancing the acceptability of the new programs.

## Income-Generating Activities

A policy has evolved, and indeed continues to evolve, of distributing or apportioning income or benefits from the different income-generating activities or projects to the various stakeholders or entities of the university. Such distribution has not necessarily been uniform due to varying contributions from the participants and the university. At present, these major categories of income-generating activities have been recognized, based on the value of respective inputs by the participants (staff) and the university:

1. Pure Consultancies. In this category, the investment is greater on the part of the participants than it is on the part of the university due to the high intellectual input from the participants. An example was providing two seasons of financial, managerial, and other advising to a local enterprise on the establishment of a commodities exporting subsidiary.
2. Specialist-Based Production Units. This category includes production units whose survival requires specialized or technical human resources in the teaching departments. The university provides initial physical and material investments and any subsequent investments of the same type. Examples of this category are the body embalming facility at the Department of Human Anatomy, the diagnostic services facility at the Department of Diagnostic Radiology in the Faculty of Medicine, and the computer assembly facility at the Institute of Nuclear Science.
3. General Production Units. This category includes income-generating activities which are artisan-based without heavy dependence on specialized human resources of a professional nature. Ideally the cost of employment is met as part of the production costs with worker-incentives coming from bonus payments based on the surplus income that these units realize. Examples are the farms at the College of Agriculture and Veterinary Sciences and timber and metal production workshops at the Estates Department, College of Architecture and Engineering, and College of Biological and Physical Sciences.
4. Module II Programs. These programs, also referred to as "parallel programs," are academic programs in which the registered students are privately sponsored and therefore paying full tuition as distinct from

the "regular" or "Module I" programs in which students receive about 80% sponsorship from the government under a cost-sharing arrangement. It was clear early in the initiation of the Module II programs that they should be considered a special category in the distribution formula, largely because the service providers (staff teaching in the academic programs) were spread across the entire university.

5. Seminars, Workshops, and Short Courses. This category includes workshops and seminars conducted by the various units and/or individuals in which the corporate name of the university is used. Also included in this category are certificate courses that are completed within three months.

Table 4 shows the current formula for distributing the revenue earned from the various categories of income-generating activities to the respective stakeholders as approved by the University Council. The development of the distribution policy is the result of intensive discussions at many levels of the university including faculties, colleges, the Management Board, and UNES Board, with final approval coming from the University Council.

**Table 4.** Revenue Distribution Formula

| Unit/Entity | Resource/Cost Element | MII % | PC % | SBPU % | SWC % | GPU* % | AF % | MF % | RF % | EF % | ID % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| IGU Staff | Direct Service Providers | 35.0 | 65.0 | 35.0 | 57.0 | 12.0** | 0 | 0 | 0 | 0 | 0 |
| Department | Consumables | 3.0 | 1.5 | 18.0 | 3.0 | 12.0 | 5.0 | 0 | 5.0 | 2.5 | 0 |
| | Telecommunications | 1.0 | 0.5 | 0.5 | 0.5 | 2.0 | 0 | 0 | 0 | 0 | 0 |
| | Transport | 0.75 | 0.25 | 0.5 | 0.3 | 1.0 | 0 | | 0 | 0 | 0 |
| | Management & other support services | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 0 | 0 | 3.0 | 0 |
| | Marketing | 0 | 0.5 | 1.0 | 4.0 | 1.0 | 15 | 0 | 0 | 0 | 0 |
| | Equipment & Furniture | 2.5 | 1.0 | 2.5 | 2.5 | 2.5 | 0 | 0 | 0 | 0 | 0 |
| Faculty | Consumables | 1.0 | 0.5 | 1.0 | 0.5 | 2.8 | 5.0 | 0 | 10.0 | 20 | 0 |
| | Telecommunications | 1.0 | 0.5 | 1.0 | 0.5 | 1.0 | 0 | 0 | 0 | 0 | 0 |
| | Transport | 0.75 | 0.25 | 0.5 | 0.25 | 0.25 | 0 | 0 | 0 | 0 | 0 |
| | Management & other support services | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 10 | 0 | 5.0 | 10 | 0 |
| | Equipment and furniture | 0.5 | 0.25 | 0.5 | 0.20 | 1.0 | 10 | 0 | 0 | 0 | 0 |
| College | Management/other services & sec. | 2.2 | 1.0 | 1.0 | 2.0 | 2.2 | 0 | 0 | 3.0 | 10 | 0 |
| | Physical space & safety | 0.5 | 0.25 | 0.25 | 0.25 | 1.5 | 0 | 0 | 0 | 0 | 0 |
| | Utilities | 2.5 | 2.0 | 2.5 | 2.0 | 7.5 | 0 | 0 | 0 | 20 | 0 |
| | Transport | 0.5 | 0.25 | 0.5 | 0.25 | 1.5 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| TLibrary | Management | | | | | | | | | | |
| | & other support services | 0.75 | 0.25 | 0.75 | 0.25 | 0.25 | 0 | 0 | 0 | 0 | 0 |
| | Consumables | 0.25 | 0.25 | 0.25 | 0.25 | 0.75 | 0 | 0 | 0 | 0 | 0 |
| Central | | | | | | | | | | | |
| Admin. | Management | | | | | | | | | | |
| | & other support services | 2.0 | 1.0 | 2.0 | 2.0 | 2.0 | 0 | 0 | 0 | 0 | 0 |
| | Meetings | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0 | 0 | 0 | 0 | 0 |
| | Public relations/alumni | | | | | | | | | | |
| | affairs | 0.25 | 0.25 | 1.0 | 0.25 | 0.25 | 0 | 0 | 0 | 0 | 0 |
| | Physical space, safety | | | | | | | | | | |
| | & insurance | 0.5 | 0.25 | 0.25 | 0.25 | 5.0 | 0 | 0 | 0 | 0 | 0 |
| | Rates and ground rent | 0.5 | 0.25 | 3.0 | 0.25 | 5.0 | 0 | 0 | 0 | 0 | 0 |
| | Records, certification | | | | | | | | | | |
| | & equipment | 0.25 | 0.25 | 0.20 | 0.25 | 0.25 | 0 | 0 | 0 | 0 | 0 |
| | Debt reduction – general | 1.0 | 0.7 | 1.0 | 1.0 | 2.0 | 0 | 0 | 0 | 0 | 0 |
| | Debt reduction – pension | 2.0 | 1.0 | 1.0 | 1.0 | 3.0 | 0 | 0 | 0 | 0 | 0 |
| | Utilities (including | | | | | | | | | | |
| | telecommunications) | 9.8 | 2.0 | 2.5 | 2.5 | 10.0 | 0 | 0 | 0 | 0 | 0 |
| | University-wide adminis- | | | | | | | | | | |
| | trative responsibilities | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0 | 0 | 0 | 0 | 0 |
| University-wide service | | | | | | | | | | | |
| | providers | 4.0 | 1.0 | 1.0 | 1.0 | 2.0 | 0 | 0 | 0 | 0 | 0 |

**Table 4.** Revenue Distribution Formula (contd)

| Unit/Entity | Resource/Cost Element | MII % | PC % | SBPU % | SWC % | GPU* % | AF % | MF % | RF % | EF % | ID % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Academic Div. & BPS | Management & support services | 1.0 | 0 | 0 | 0 | 0 | 12 | 0 | 27 | 12 | 35 |
| | Adverts, admissions & exams | 0 | 0 | 0 | 0 | 0 | 40 | 0 | 50 | 22.5 | 65 |
| UHS | Management & support services | 0 | 0 | 0 | 0 | 0 | 0 | 35 | 0 | 0 | 0 |
| | Out-patient student health | 0 | 0 | 0 | 0 | 0 | 0 | 65 | 0 | 0 | 0 |
| UNES | Management services | 7.25 | 3.0 | 7.25 | 2.0 | *** | 0 | 0 | 0 | 0 | 0 |
| Develop. Fund | Physical development | 4.0 | 3.3 | 2.3 | 3.0 | 6.0 | 0 | 0 | 0 | 0 | 0 |
| | Staff training & development | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0 | 0 | 0 | 0 | 0 |
| | Library collections & equipment | 3.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0 | 0 | 0 | 0 | 0 |
| | Research grants | 1.0 | 1.0 | 1.0 | 1.0 | 2.0 | 0 | 0 | 0 | 0 | 0 |
| | Research & development | 0.5 | 0.5 | 0.5 | 0.5 | 2.0 | 0 | 0 | 0 | 0 | 0 |
| Staff Welfare | Staff health support fund | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0 | 0 | 0 | 0 | 0 |
| | Staff education support fund | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Student. Welfare | Student activities support fund | 0.5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

*Key to abbreviations:*
MIIP = Module II (parallel) Programs
PC = Pure Consultancies
SBPU = Specialist-Based Production Units
SWSC = Seminars, Workshops, and Short Courses
GPU = General Production Units
AF = application fees
MF = medical fees
RF = registration fees
EF = examination fees
UHS = university health services
ID = identity card

* Distribution under this category is based on surplus funds (gross revenue less production costs)

** A bonus payment to staff in these units is calculated as a percentage of the surplus

***UNES is paid a 7.25% management fee as part of its production cost. Where departments/faculties jointly conduct programs or income-generating activities, they share allocations on the basis of their respective inputs.

**Table 5:** Income Earned from the Various Income-Generating Activities through UNES, 1997–2002 in Kenya shillings (ksh)

| Year | Module II Programs | Other Projects | Total |
|---|---|---|---|
| 1997/1998 | 12,964,110 | 66,696,046 | 79,660,156 |
| 1998/1999 | 233,153,499 | 82,001,499 | 315,154,998 |
| 1999/2000 | 377,144,631 | 84,160,615 | 461,305,246 |
| 2000/2001 | 602,836,675 | 78,166,941 | 681,003,616 |
| 2001/2002 | 944,096,451 | 73,359,334 | 1,017,455,785 |
| 2002/2003 | 1,209,512,592 | 106,877,915 | 1,316,390,507 |
| Grand total | | | 3,870,970,308 |

**Source:* University of Nairobi (2003).
Note: US$1 = Ksh 76

## Actual Revenue Generated

Table 5 shows the income earned by the university through the income-generating projects managed under UNES, especially the Module II academic programs, since 1996 when UNES was incorporated and the new programs began in 1997. To a great extent, the university has been able to achieve its financial objectives as stated in the UNES Corporate Strategic Plans for 1997–2001 and 2001–2007 (UNES, 1997, 2001).

## Application of the Funds Generated

Table 6 illustrates the areas where funds have been applied in accordance with the distribution formula. Staff salaries and related welfare areas was the largest category, taking about 45% of the total. In view of the poor terms and conditions of staff employment, which were important reasons for starting the new ventures, a substantial proportion of the new income has been allocated to improve staff benefits. Rough indications are that the extra compensation has gone some way toward enabling the university to attract, motivate, and retain competent staff and to slow down the heretofore accelerating brain drain. Expenditures on academic materials and equipment to improve the learning environment, including teaching materials, library acquisitions, etc., amounted to about 28%. These expenditures have obviously improved the quality of teaching and research that had hitherto suffered greatly. Expenditure on utilities amounted to about 8%. Expenditure on capital projects, especially on stalled

**Table 6:** Summary of Total Expenditure and Commitments (1997–2002)*

| Expenditure Items | KSHS | Percent of Total |
|---|---|---|
| Capital development projects | 392,298,125 | 10 |
| Teaching methods | 324,951,349 | 8 |
| Office & teaching equipment | 126,466,877 | 3 |
| Purchase of books & journals | 109,483,156 | 3 |
| Raw materials | 191,027,953 | 5 |
| Utilities | 37,745,953 | 9 |
| Colleges & university-wide | 344,701,308 | 9 |
| Staff welfare | 103,317,687 | 3 |
| Research grants | 49,616,687 | 1 |
| Service providers | 1,604,355,208 | 41 |
| UNES management fees | 269,483,649 | 7 |
| Refundable caution money | 17,522,433 | 1 |
| Total | 3,870,970,385 | 100 |

* *Source:* University of Nairobi (2003).

projects that the government started during the 1980s, also received priority because of the need for more classroom space. Renovating and maintaining university property has also been given priority ; the physical deterioration of the university estate has largely been checked.

Table 7 presents the total funding environment of the university over the last 10 years. Thus, it illustrates the increasing importance of the university's new efforts at income generation, especially through Module II programs. The contribution of Module II income to the total university income rose dramatically from about 3.8% in 1997–1998, 14% in 1988–1999, 19.6% in 1999–2000, 23% in 2000–2001, 29% in 2001–2002, and 33% in 2002–2003. Within six years, therefore, income from Module II was contributing about one-third of the university's total income. As a proportion of the total government allocation to the university, Module II constituted about 6% in 1997–1998 but, six years later, was contributing about 68% in 2002–2003. By the end of the 2002–2003 financial year, income from students/parents (a combination of Module I and Module II fees) contributed almost 40% of total university income and over 76% of total government allocation to the university during that year. The total government allocation dropped from about 70% of the total university income in 1995–1996 to about 49% in 2002–2003.

**Table 7.** Sources of Total University Funding, 1992–2002

| Year | Bursary (Government HELB*) | Loan (HELB) | Direct Fees (Module I) | Government Allocation Grant | Grants/ Donor Support | Fees (Module II) | Other | Total |
|---|---|---|---|---|---|---|---|---|
| 92/93 | 15,256,840 | | 130,443,600 | 648,435,600 | 86,265,900 | | 171,502,300 | 1,051,904,240 |
| 93/94 | 11,915.350 | | 127,202,120 | 780,447,460 | 122,580,180 | | 186,148.980 | 1,030,427,824 |
| 94/95 | | | 131,701,680 | 943,108,220 | 130,961,020 | | 151,631,200 | 1,357,402,120 |
| 95/96 | 19,812,099 | 84,816,000 | 91,379,821 | 1,109,897,220 | 138,296,120 | | 140,78,300 | 1,444,201,260 |
| 96/97 | 21,062,650 | 79,952,000 | 137,814,590 | 1,078,320,000 | 135,588,240 | | 138,065,820 | 1,590,703,300 |
| 97/98 | 21,802,000 | 69,512,000 | 303,910,945 | 1,305,564,580 | 148,692,850 | 79,014,955 | 144,572,301 | 2,073,069,631 |
| 98/99 | 23,414,000 | 71,464,000 | 175,212,979 | 1,377,787,160 | 114,958,414 | 305,158,167 | 130,323,388 | 2,198,318,108 |
| 99/00 | 22,418,000 | 73,304,000 | 198,821,213 | 1,480,440,764 | 202,660,698 | 524,332,347 | 178,259,276 | 2,680,236,298 |
| 00/01 | 25,913,000 | 70,656,000 | 166,190,480 | 1,589,748,454 | 216,556,264 | 681,682,389 | 178,259,276 | 2,929,005,863 |
| _ | 24,957,000 | 71,072,000 | 158,648,135 | 1,625,717,154 | 404,996,193 | 1,015,998,465 | 182.397,849 | 3,301,388,947 |
| 02/03 | 25,780,000 | 74,032,000 | 158,648,135 | 1,791,438,854 | 221,193,358 | 1,209,512,592 | 182,580,247 | 3,663,185,186 |

* HELB = Higher Education Loans Board, the body that manages loans to university students.

In summary, the contribution of direct income generation, especially income from the new Module II programs to university financing, had become a significant phenomenon by the end of 2002–2003. Given the university's strategic thinking in income generation, as reflected by the UNES Corporate Strategic Plan for 2001–2005 (especially in the planned consolidation and expansion of current business areas accompanied by diversification into new areas where the university has competitive advantages), the significance of income generation will even become more important to financing the university.

## Conclusions

The introduction of direct income generation, as part of the idea of an entrepreneurial university, has been very challenging but has had an important impact on the financial environment of African universities where it has been introduced (Marginson & Considine, 2002; Ogot, 2002). At the University of Nairobi, this development is especially significant because of the new category of full-fee-paying students and the related Module II or parallel academic programs. Once the decision was made to start the process, the university proceeded rather professionally. First, it conducted a thorough exercise in identifying the potentially viable areas for income generation (and, by the same token, viable Module II academic programs); and second, it adopted a theoretically justifiable organizational restructuring to ensure that management issues were addressed very early during the process—hence, the creation of a university wholly owned subsidiary company to manage the new environment. New interactions between the traditional organizational structure and UNES have been put in place. Indeed, the experiment continues to evolve. The process has stood the university in good stead because it has provided an expanded income base and related innovations in organizational arrangements and financial management.

Initially, however, the new efforts were not without problems. Indeed, problems persist in certain areas. Early resistance threatened the innovation; but following an aggressive campaign to ensure that both staff and students were involved and owned the process, the university launched a process that greatly enhanced its financial base and capacity to realize its core objects and functions. The policy for distributing the revenue generated by the new activities has undergone several revisions and improvements to ensure that it fully supports critical university functions. Increased access to university education and safeguarding the foreign exchange rate have also been nationally important results of the new phenomenon.

However, if public universities like the University of Nairobi continue to play their role as significant social institutions, they will still require enormous financial investments from their respective governments. As has been recognized, beyond the traditional mission of creating and transmitting knowledge to society, public universities are still essential to most basic research. Although a market-driven and entrepreneurial culture creates greater resilience in the university's capacity to weather financial storms, it is not above criticism. As the University of Nairobi case shows, academic programs with strong market and resource opportunities, like commerce, business administration, law, and medicine, have the tendency to be the winners. Others, such as the arts and other technical areas (especially because of the relatively high costs), with fewer market opportunities, can become impoverished backwaters. This condition risks the loss of nationally important and strategic academic and developmental disciplines. In short, there is an ongoing need to find the appropriate mix of activities and programs to meet the strategic needs of the university community.

## Notes

1 I served as a member of this committee.

2 Vice Chancellor Matthew Luhanga (2002) described a very similar Income Generation Unit (IGU) at the University of Dar es Salaam.

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