

Enhancing the Effectiveness and Sustainability of Higher Education Sub-Sector in Kenya: Potential Revenue Diversification Initiatives in Public Universities

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Abstract

Although universities are expected to make strategic contributions, majority of public universities in Kenya continue to experience financial constraints due to inadequate government funding. The limited funding requires that these institutions make efforts to embrace revenue diversification so as to be fully operational. In view of the ongoing implementation of the competency-based curriculum (CBC), which is resource-intensive, these institutions are expected to ready themselves for the first batch of senior secondary school graduates by 2029. By embracing revenue diversification, they will improve equitable access to quality higher education in Kenya. There is need, therefore, for Kenya's public universities to enhance revenue diversification initiatives. This paper presents data on universities financing and enrolment trends, a marketing framework for non-profit organizations and proposed revenue diversification strategies, potential challenges and solutions and some recommendations on how these universities can generate additional resources so as to be financially sustainable.

Key words: Revenue diversification, Sustainability, Public universities, Financial sustainability.

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1. Introduction

The critical role of university education in the socio-economic development has been recognized by many nations in the world. For equity reasons, the major source of funding of public universities in many countries are governments. However, universities in many African countries are experiencing the challenges of inadequate and unsustainable sources of funds (Association of African Universities (AAU), 2015), thus limiting their ability to be fully operational. In Kenya, public universities as non-profit public institutions that largely rely on government funding, which is becoming increasingly insufficient due to the ongoing adverse micro-economic conditions (Njeru, 2023). Consequently, the inability of these institutions to adequately provide quality education and training as well as meet their financial obligations to their creditors is a key concern to all stakeholders. For instance, the Auditor General's Report on Public Universities for the year 2021/2022 revealed shocking details on how these institutions are deducting billions of Kenya Shillings from their employees' salaries without remitting the money to relevant agencies, including; National Hospital Insurance Fund (NHIF), bank and Savings and Credit Cooperative (SACCO) loans and savings, retirement savings, Pay As You Earn (PAYE) (*https://www.oagkenya.go.ke/wp-content/uploads/2024/06/Auditor-Generals-Report-on-Public-Universities-2021-2022.pdf*). During the year under review, thirty-one (31) public universities out of thirty-nine (39) or 79% of the universities were faced with uncertainty in relation to sustainability of services. Eighteen (18) universities had negative working capital of Kshs.42,680,055,914, an indication that these universities were unable to meet their short-term obligations as and when they fall due.

The funding crises facing Kenya's public universities paints a grim picture on the implementation of the Competency-Based Curriculum (CBC) whose implementation requires adequate preparation of universities in terms of infrastructure and human resources (Ministry of Education, 2020). Despite these challenges, the demand for university education in Kenya continues to increase, hence the urgent need for public universities to diversify their income and revenue sources (Muhavani, 2019). It is encouraging to note that, owing to continued government underfunding, universities in some African countries have continued to embrace revenue diversification (AAU, 2015, Leuhusen, 2017 and Nik Ahmad et al., 2019). For instance, a study on financing of universities in Africa, Masaiti (2015) found that the Zambian government propelled public universities to develop frameworks on devolution and self-governing philosophies of efficiency, equity, accountability and cost-effectiveness. In a study of the University of Technology in Jamaica, Oliver, Henry, Newman-Rose, and Streete

(2008) concluded that in order for the university to generate income, it requires to maintain sustainability and ensure that internal units have sufficient funds with which to create wealth/revenue.

Revenue diversification refers to a broad-based concept related to any form of additional revenue generation effort by organizations; it not only includes cost-recovery of traditionally supplied services, but also encompasses all forms of income generation from newer, non-traditional activities (Albrecht & Ziderman, 1995). World Economic Magazine, July 21, 2024, notes that relying on a single revenue stream can be risky for businesses. Hence, diversifying revenue sources by exploring various income sources, businesses can mitigate risks, enhance resilience, and tap into new opportunities that help ensure financial stability and sustainable growth. In the same vein, Banerjee (2024) points out that, for an organization to be financially stable, its financial status should be strong so that the business can continue to be operational and earn profit, year after year. Thus, such organizations earn revenue that meets demand, cover expenses and acquire a surplus that can be invested further for growth and expansion, ensuring financial stability, future sustainability and the ability to absorb risk.

From a business perspective, **financial sustainability** is the ability of an organization to earn revenue or get a return on an investment, which enables it to meet all expenses and make a profit. Figure 1 shows what an organization can do to achieve financial sustainability:

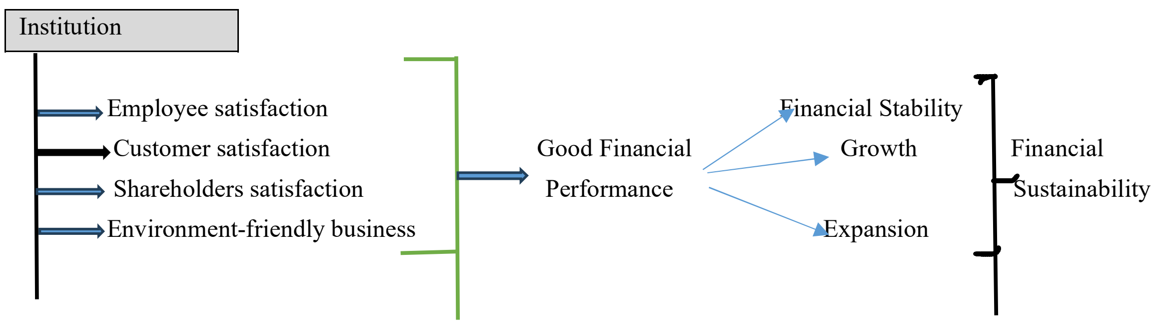


Figure 1. Financial Sustainability, (adopted from Banerjee, 2024).

A review of relevant literature on revenue diversification in African universities and elsewhere in the world confirms that revenue diversification in public universities is essential in generating additional revenue for supplementing government funding (World Bank, 2002; Woodhall, 2007). This paper is organized into the following sections; data on universities financing and enrolment trends, a marketing framework for non-profit organizations and proposed revenue diversification strategies, potential challenges and suggested way forward. The paper ends with a conclusion and some recommendations for sustainable revenue diversification.

2. Trends of Financing Universities and Enrolment in Kenya

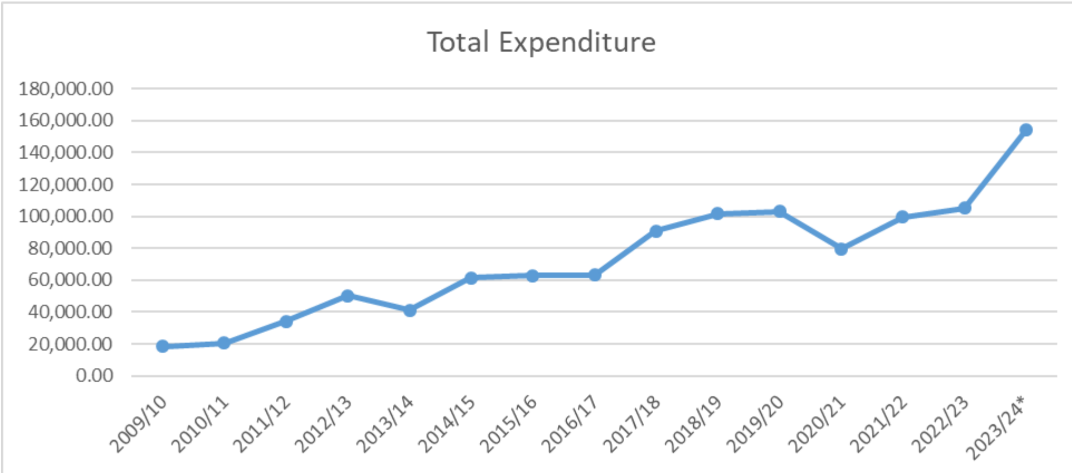
The growth in the number of public and private universities in Kenya has been accompanied by a corresponding growth in student enrolments (Commission for University Education, 2018). The rise in new courses offered by universities, the upgrading of public university constituent colleges to fully-fledged universities, the establishment of more constituent colleges and the expansion of private universities has boosted access to university education. However, the Government funding of the country's universities is not in tandem with the increasing enrolments. Table 1 shows data on enrolments and government funding between 2009/10 and 2023/2024 financial years.

Table 1: Disaggregated Data on University Funding and Enrolments for Kenya's State Department for Higher Education and Research

Year	Recurrent Expenditure (KES Millions)	Development Expenditure (KES Millions)	Total Expenditure (KES Millions)	Enrollment '000
2009/10	16,266.50	2,340.40	**18,606.90**	115. 6
2010/11	18,022.66	2,574.21	**20,596.87**	206.2
2011/12	29,197.80	5,183.31	**34,381.11**	218.6
2012/13	42,389.23	7,998.72	**50,387.95**	251.2
2013/14	37,976.67	3,085.08	**41,061.75**	361.4
2014/15	51,775.82	9,595.41	**61,371.23**	539.7
2015/16	57,971.43	5,002.01	**62,973.44**	543.7
2016/17	54,025.03	9,106.74	**63,131.77**	547.3
2017/18	87,311.67	3,569.62	**90,881.29**	537.7
2018/19	91,661.66	10,155.01	**101,816.67**	519.5
2019/20	96,846.68	6,295.41	**103,142.09**	509.4
2020/21	75,552.00	3,968.00	**79,520.00**	546.7
2021/22	95,713.00	3,744.00	**99,457.00**	562.1
2022/23	101,616.00	3,545.00	**105,161.00**	562.9
2023/24*	150,973.72	3,551.00	**154,524.72**	579.0

Source: Republic of Kenya, (2012, 2015, 2018, 2020, 2023, 2024).

The graphical representation of government funding data is shown in Figure 2:



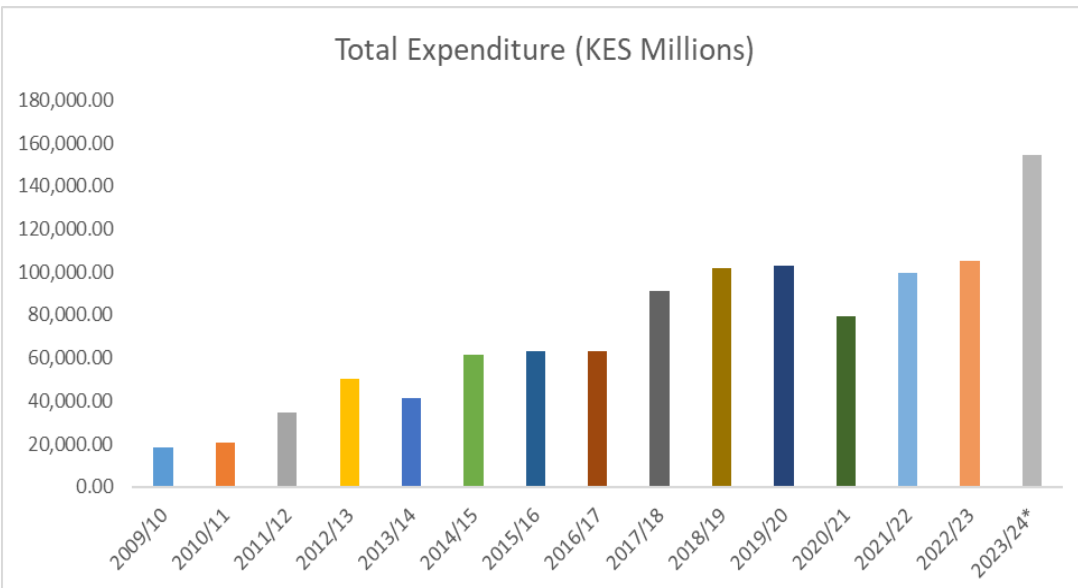
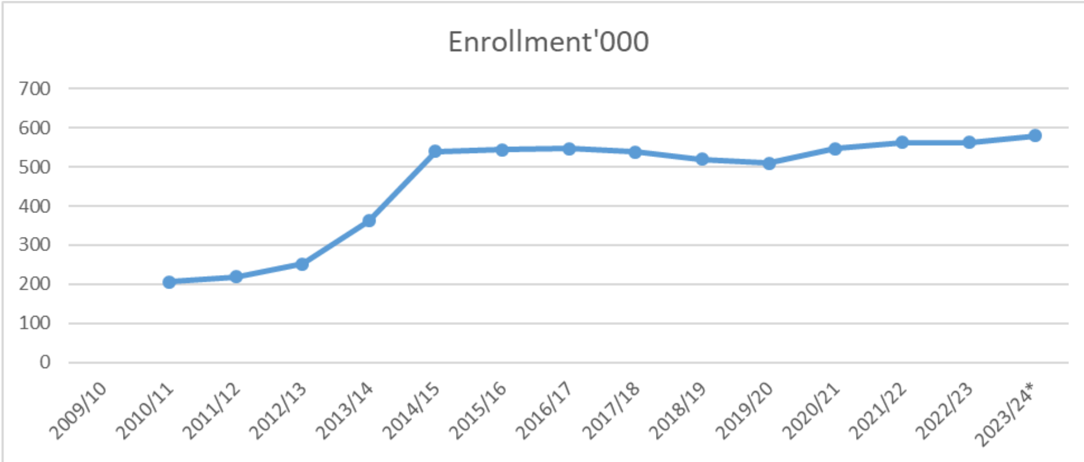


Figure 2: Total Expenditure on University Funding Over the Last 15 Years

Source: Republic of Kenya, (2012, 2015, 2020, 2018, 2024).

As can be seen in Table 1 and Figure 2, total public expenditure on universities has grown from KES 18,606.90 million in 2009/10 to KES 154,524.72 million, with fluctuations in some years over time. Considering that the number of universities has been increasing within that period, there are concerns regarding the capacity of these institutions to effectively provide the required services as mandated. Figure 3 shows university enrolment trends between 2009/2010 and 2023/2024.



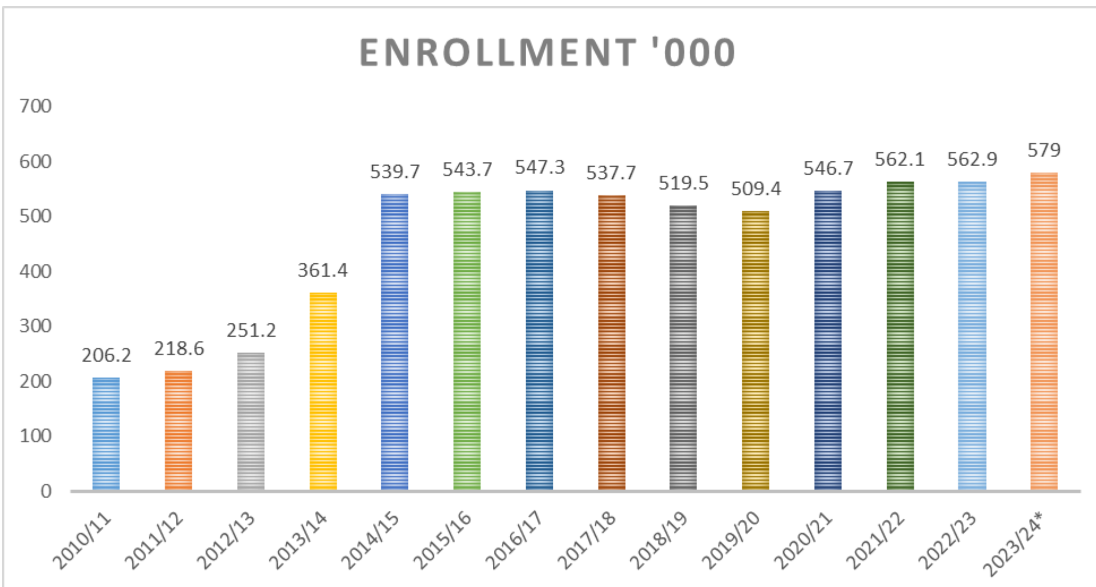
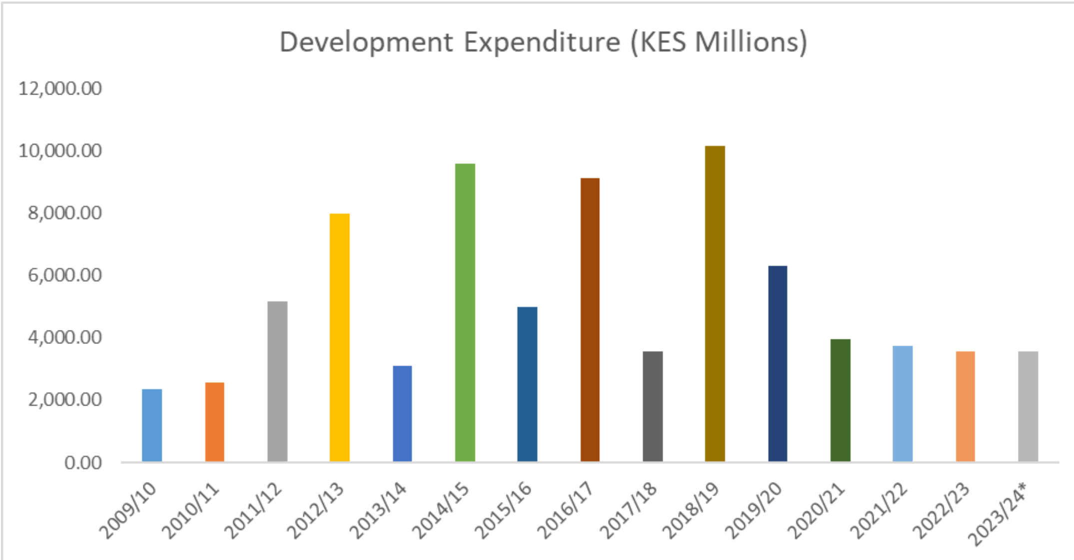


Figure 3: Total University Enrollment Over the Last 15 Years

Source: Republic of Kenya (2012, 2015, 2020, 2018, 2024).

As shown in Figure 3, the enrollment in Kenya's universities has been increasing from the academic year 2009/2010 to 2023/2024. This increase in enrollment depicts increased effective demand for university education. Due to the increased enrollments, the development expenditure is expected to increase to improve on the infrastructure to be used by these students. Figure 4 shows the government development expenditure for the past 15 years.



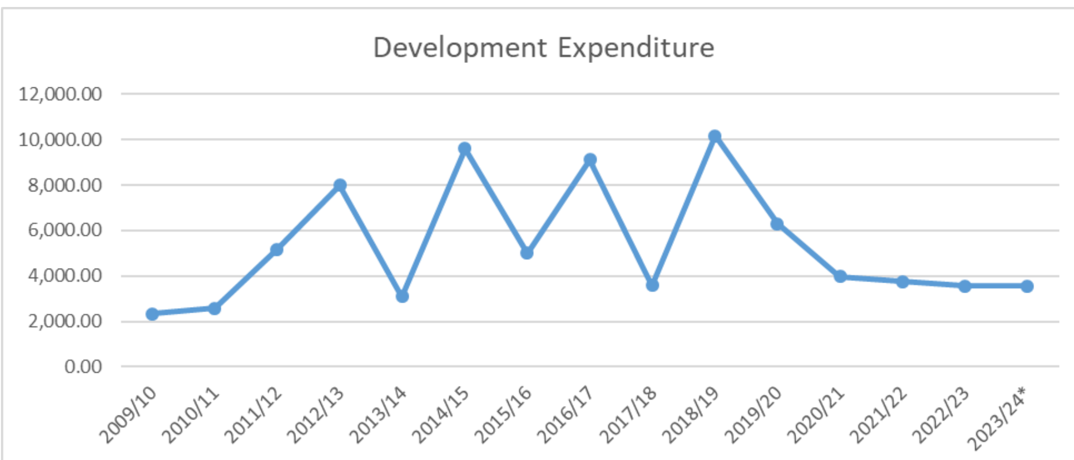
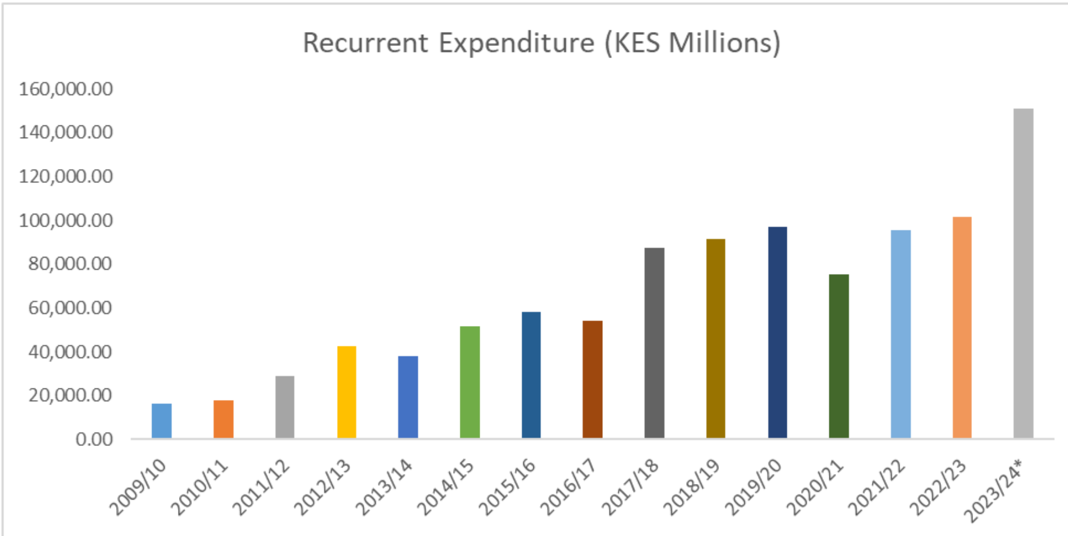


Figure 4. Development Expenditure on University Funding Over the Last 15 Years

Source: Republic of Kenya, (2012, 2015, 2020, 2018, 2024).

As shown in Figure 4, the government development expenditure on university education has been erratic and declining from the year 2014/2015 to date, with the exception of 2016/2017 and 2018/2019. This implies that the infrastructure development is insufficient for the enrollments in Kenya's universities. Figure 5 shows the government recurrent expenditure on universities in the last 15 years.



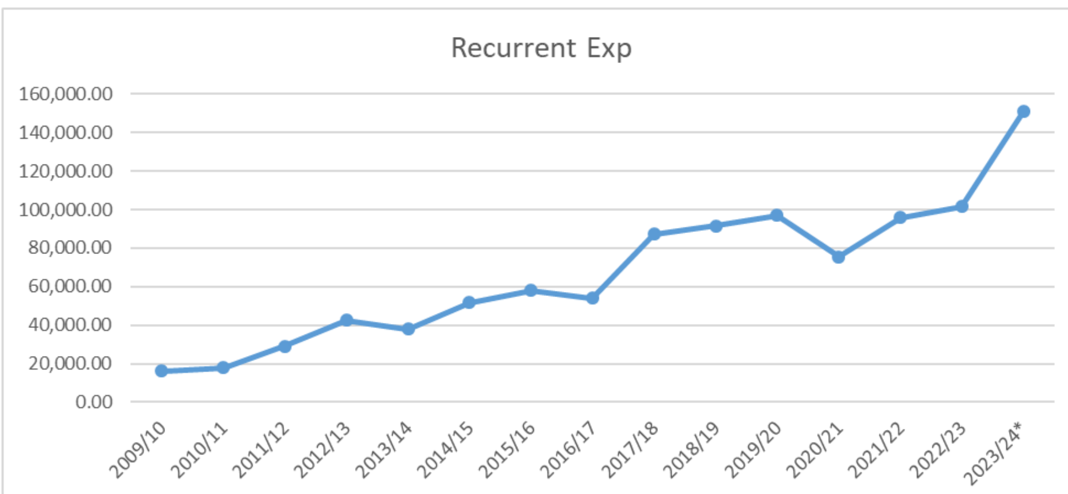


Figure 5. Recurrent Expenditure on university funding over the last 15 years

Source*:* Republic of Kenya, (2012, 2015, 2020, 2018, 2024)

From Figure 5, it is evident that the recurrent expenditure for the country's universities has been rising between 2009/2010 and 2023/24 financial years. This is occasioned by increased student enrollments, which means that these institutions require more utilities and manpower, hence the inevitable increase in salaries and wages, among other requirements. Inevitably, rapid student enrolment growth and declining state revenues have triggered the need for the reforms, which will require students to meet a higher proportion of costs (Munene, 2024), as the country faces socio-economic challenges with limited fiscal resources. From the data presented, it is quite evident that public university funding is not sufficient to cater for both recurrent and development expenditures in the country's universities.

It is evident, therefore, that without coming up with innovative ways of generating additional funding, the universities' financial woes will increase to a level that some of these institutions may be forced to shut down. Hence the need for diversification of revenue sources for the universities to cater for the budgetary deficits. A conceptual framework for revenue diversification comes in handy.

3. The Conceptual Framework for Developing a Marketing Framework for Revenue Diversification in Kenya's Public Universities

Owing to the unsustainable socio-economic dynamics, the funding crises are not new among African universities, hence the need for researchers to explore potential ways of generating additional income to keep these institutions functional. Adopting the human capital theory (Schultz, 1959 and Becker, 1964) and the theory of public expenditures articulated by Musgrave and Musgrave (1989), Riechi (2003) conducted a descriptive survey on revenue diversification initiatives at the University of Nairobi. The findings of the study, which are still relevant to date, were compared with data from Makerere University in Uganda and the University of Dar es Salaam in Tanzania as well as those in other public universities in Kenya. The study concluded that availability of funds from non-governmental sources enabled these universities to move from a situation of hand-to-mouth dependency on public funding to one where autonomous initiative, planning and allocation were becoming possible.

In his conceptual framework of funding for non-profit organizations, Kotler (1985) perceives a "responsive organization" as one that makes every effort to sense, serve and satisfy the needs and wants of its clients and publics within the constraints of its budget. According to him, the concept of "responsive organization" makes the following assumptions: (a) Each organization has a mission; (b) To perform its mission, the organization needs to attract resources through exchange; (c) The organization will undertake exchange with a large number of publics; (d) The publics will respond to the organization in terms of their image of the organization, and (e) The organization can take concrete steps to improve the satisfaction it creates for various publics. As non-profit organizations, universities are expected to be sensitive to their environments. The main publics of an organization are conceptualized in Figure 6.

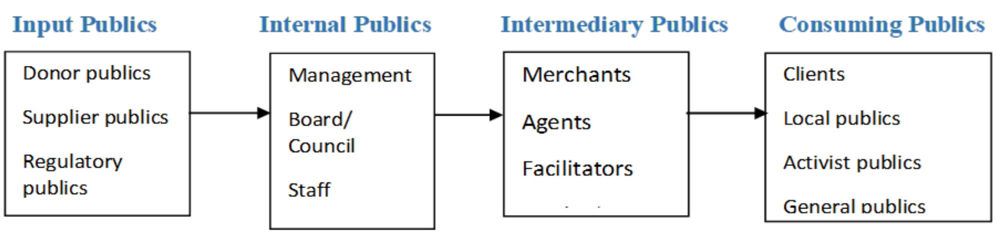


Figure 6: The main Publics of an Organization
Philip Kotler (1985)

As shown in Figure 6, an organization is considered to be a resource-conversion machine in which *input publics* supply resources that are converted by *internal publics* into useful goods and services. *Intermediary publics* carry them to designated *consuming publics.* Clearly, organizations' objectives revolve around their relationships with these publics. Therefore, in order to carry on their missions, organizations should be able to attract and maintain members, materials, staff, facilities, and equipment. Thus, every organization is resource-dependent (Kotler, 1985). It is in the light of this condition that fund-raising is an increasingly important process in the life of non-profit organizations, including universities.

In the same vein, Fogal (1994) pointed out that fund-raising is important to leaders of nonprofits for a number of reasons. The first, which is most obvious and most practical is that, fund-raising generates essential income for non-profit organizations. An equally important (but typically less obvious) reason for fund-raising to be a priority for leaders of non-profit organizations is that the level of success of fund-raising initiatives measures the degree to which an organization's purpose or mission is affirmed. It may be argued that donors' support for a particular organization or institution reflects their perception (or image) of that entity as an effective vehicle in meeting a community need. As Kotler would say, the organization's image is important in generating the right response for donors (as publics) to release their funds.

4. Potential Revenue Diversification Strategies for Public Universities, Possible Limitations and the Way Forward

It is evident, therefore, that, as a solution, public universities should continuously explore the potential for generating earned income. Considering that earned-income ventures are serious endeavors that require a significant amount of research and planning, these institutions should conduct regular labour market needs assessments as well as tracer studies of their graduates so as to obtain evidence for improving their academic programmes and develop new ones as may be necessary. While presiding over a graduation ceremony in one of the public universities, the then Cabinet Secretary (CS) for Education urged universities to explore innovative ways of generating own funds instead of relying on fees and government funding, which is no longer sustainable (https://www.kenyanews.go.ke/2023). He further pointed out some strategies of addressing the financing crisis which included, but not limited to use of technology to cut costs, exploring new markets, improving efficiency in operations and seeking partnerships and endowments.

In a study on alternative sources of financing university education in Ghana, Lamptey (1988), aptly pointed out that universities should cultivate a marketing philosophy into their activities so as to generate their own funds. Being non-profit organizations, whose mandate is to teach, undertake research and disseminate knowledge, public universities are at the center of many publics as shown in Figure 7.

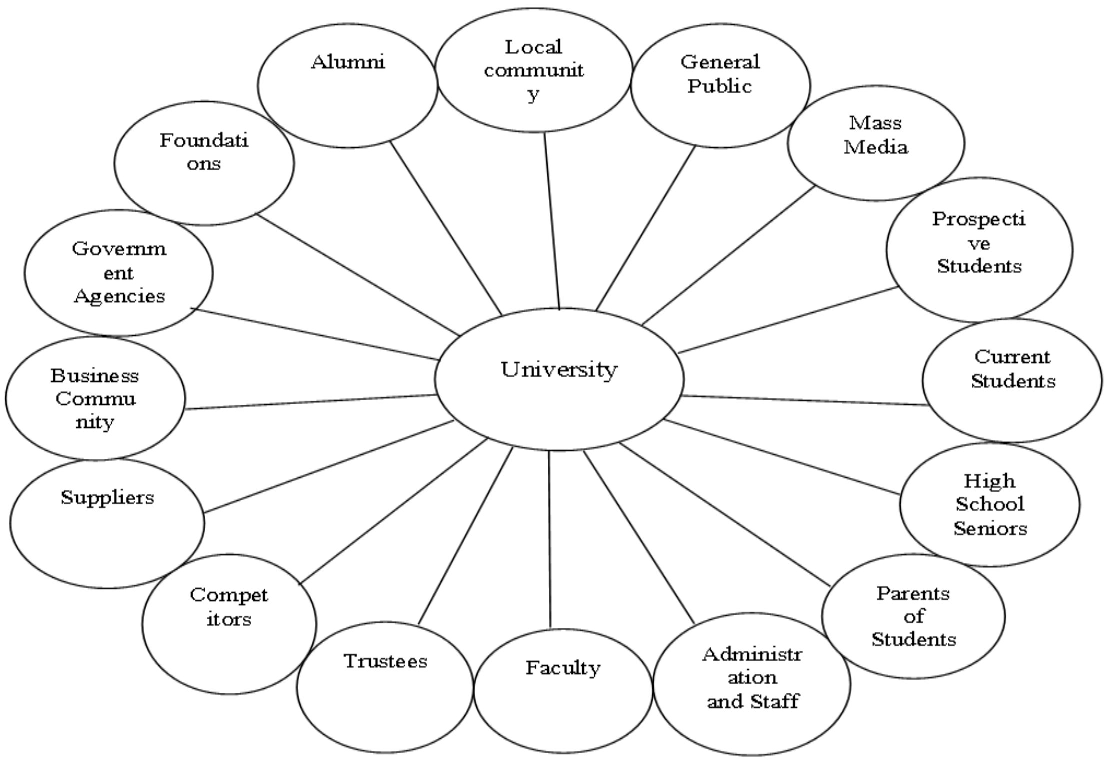


Figure 7. The University and its Publics

As can be seen from Figure 7, public universities are indeed privileged to be at the center of many publics who can be potential collaborators in the revenue generation initiatives, if appropriate initiatives can be taken. For instance, if Faculties of Education in Kenya's public universities can keep in touch with their graduates who become teachers, they will tap on their networks so as to widen business opportunities wherever they are. As members of alumni, teachers can become potential marketers of the institutions that trained them, hence making it possible for these universities to attract increasing numbers of students who become sources of revenue for these institutions. This will become more practicable when universities conduct regular needs assessments and tracer studies of their graduates who can provide timely information on the need to develop new and more relevant academic programmes.

By tapping on their existing and potential publics, public universities can enhance their revenues through the following sources:

- Through grants and donations from donors through relevant government ministries and agencies;
- Using research evidence, public universities can mount innovative and alternative academic

programmes for self-sponsored students or those sponsored by organizations, thus generating fee revenue;

- Public universities with technically skilled staff can generate income from well-equipped, libraries, workshops and other training facilities;
- Revenue can also be generated by, not only renting out conference facilities, but also allowing visitors to take meals at the University Restaurants;
- Public universities offering practical-oriented courses can come up with various production units: for example, Agricultural Departments and Faculties can come up with animal products such as rearing of improved chicken breeds such as "*kienyeji*" (traditional) breed, which are on high demand in Kenya; units for hatcheries; enhance vegetable farming and grow fruits of high quality; Building and Civil Engineering Departments can introduce short courses such as Tiling, Painting or/Decoration; while Mechanical Departments can establish Garages and Welding/Fabrication Workshops to provide services at a fee.

However, the success of these institutions in generating additional revenue is limited by the following factors: unskilled management; centralized management; shortage of skilled information technology staff; lack of operational capital; lack of direct access to the revenue generated by the relevant staff, university departments and/or faculties; low staff morale; slow decision-making process; slow response to business opportunities; and natural hazards (Riechi, 2003).

In view of the changing socio-economic environments in which they operate, public universities, as non-profit organizations, have to adopt innovative strategies in addressing these challenges. Although some efforts are being made to address these challenges, some of them would be difficult to overcome **without changing the management structure of public universities** and **encourage the spirit of entrepreneurship to flourish in these higher education institutions**. This is because, as Kotler (1985) aptly observes, problems facing non-profit organizations (including public universities) would be analyzed as straightforward marketing problems, if found in the profit sector.

5. Conclusion

Based on the findings of relevant studies and reports, with increasing enrollments, it is evident that government funding is becoming increasingly inadequate for public universities for them to be effective in fully discharging their mandates. However, should these institutions adopt innovative ways of generating income, they can survive in the face of scarce and declining resources. This means that diversification of revenue sources is the way out for them, going forward.

This will increase their capacity to accommodate more students, including those from disadvantaged backgrounds who can benefit from internal scholarships and other necessary support. With the persistent socio-economic challenges, it is evident that revenue diversification is essential in public universities, not only in Kenya, but elsewhere in developing economies. Without seeking alternative sources of revenue, public universities will not have the capacity of meeting their mandates.

6. Recommendations

Given the diverse competencies and skills among academic and non-academic staff in Kenya's public universities, they can consider embracing the following important factors that are associated with successful revenue diversification in public universities: a. Internal policy and legal frameworks to guide revenue generation from non-government sources; b. Adoption of innovative management strategies; c. Educating all stakeholders and consensus building; d. Governmental support of the revenue diversification process; and e. The ability of public universities to exploit their natural strengths, specific expertise and comparative advantage for revenue generation.

This study was based on literature review and documentary analysis, including a number of government documents on public university funding, enrolment and recurrent expenditure in Kenya. Further, the study was limited to public universities only leaving out private universities and hence its findings may not necessarily be generalized to private universities.

Therefore, considering that the paper focuses on a contemporary issue, there is need for:

i. An in-depth study on efficiency of revenue diversification strategies in public universities; and

ii. A comparative study on public and private universities on revenue sustainability.

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