



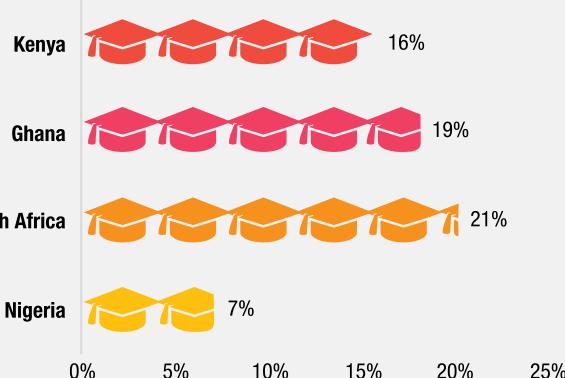
Closing the funding gap in social infrastructure

Making the case for adoption of endowment funds



Nigeria's GDP is growing below its population growth rate of 2.6%. The country is expected to become the third-most populous country in the world by 2050. This has serious implications for economic and human development in the absence of adequate funding. According to an Oxfam report in 2017, Nigeria was ranked 41st out of 41 countries in Africa for spending on healthcare, education and social security compared to South Africa that was ranked 2nd with a score of 0.512.

Education budget as a % of total national budget, 2017



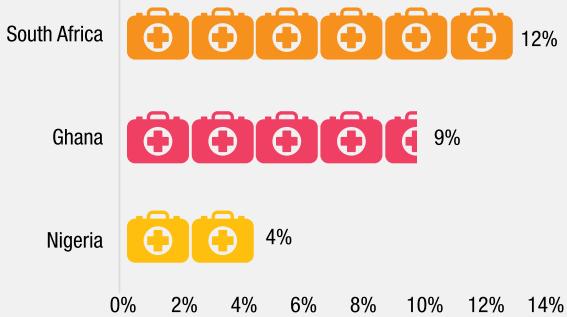
Seeking alternative sources of funding to boost social infrastructure

While Nigeria's allocation to tertiary education has declined over the years, other countries have actively taken steps to increase their spending commitments in these sectors. Relying solely on the government to fund tertiary education is no longer adequate because of the growing government budget deficit and a need to focus on hard infrastructure such as transport network and power. See below the graph showing decline in federal university education budget per student capita in Nigeria.

Federal University education budget per student capita in Nigeria (US\$)



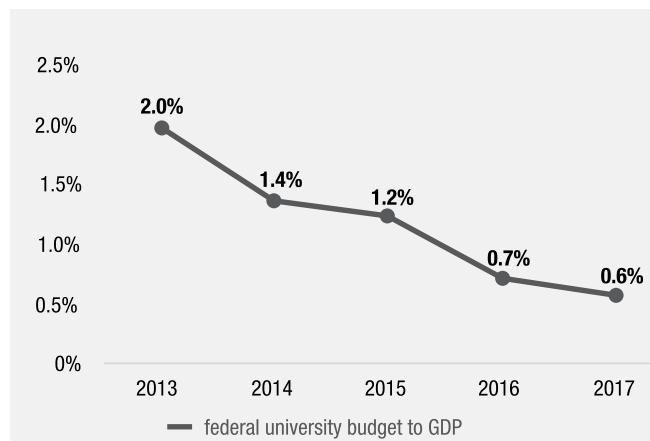
Health budget as a % of total national budget, 2017 (%)



Nigeria has the highest number of out-of-school children in the world. According to UNICEF, 10.5 million children are believed to be out of school, a figure that represents approximately 20% of the total statistic. The national budgetary allocation to the Education sector in 2017 of 7.3% was way below the UNESCO benchmark of 15% to 20%. In 2017, the education budget was N544bn, of which N95bn was allocated to universal basic education (UBE) and N330bn to tertiary education. To close the funding gap of N572 billion, the 2017 education budget should be in the region of N1.1tn.

The world over, the cost of providing tertiary education is expensive, however multiple avenues of funding are available, exclusive of government allocation and out-of-pocket payments. Nigeria needs to find sustainable ways to fund tertiary education. One of such sustainable strategies is through the adoption endowment funds, which have successfully established in the West and will take little or nothing to implement in Nigeria.

Federal tertiary education budget to GDP (2013 - 2017) in Nigeria



For instance, Harvard University's endowment fund is estimated at \$US35.7 billion, and managed by Harvard Management Company, a subsidiary of the University, which serves as the school's investment manager. Harvard's endowment fund is larger than the GDP of half the world's economies. Contributions into the fund has enabled the school to provide industry-leading financial aid programs, ground-breaking scientific research and professorships in different fields.



Revenue per student and student population of selected US Universities (2017) vs Nigeria

Selected Universities	Student pop. (Undergraduate)	Revenue per student
Stanford	7,062	87,484
Dartmouth	4,410	201,333
Cornell	14,907	60,535
Brown	6,670	135,294
Princeton	5,394	336,268
Yale	5,746	642,573
Columbia	6,162	777,711
Harvard	6,766	738,989
Pennsylvania	10,033	916,395
LSE	4,949	69,428
Toronto	71,523	44,965
Nigeria	1,900,000	566

* Nigeria includes all 90 federal and state universities

From the table above, Nigeria's revenue per student of US\$566 when compared with selected universities in the US, UK and Canada falls far short of these higher institutions with diversified income streams from various sources.



Analysis of revenue sources of selected UK Universities

UK

University (UK)	Durham	LSE	York
Funding Council grants	11.4%	7.4%	11.8%
Tuition fees and education contracts	52.4%	56.4%	48.0%
Research grants and contracts	15.4%	9.1%	19.1%
Other income	18.1%	12.1%	20.1%
Donations and endowments	2.2%	2.7%	0.9%
Investment income	0.5%	1.5%	0.1%
Residences and catering			10.6%

Endowment funds are essentially gotten from charitable donations, private investments, among other sources – this becomes the principal, which is then invested with a fund manager to earn income. The income earned is then used for very specific purposes that are articulated in a charter. In most advanced countries that publically finance education through fiscal spending, endowment funds are increasingly being adopted as an alternative and viable means for funding university education.

Most higher education institutions in Nigeria have significantly profound alumni members who make donations to their alma mater via registered or non-registered alumni associations. These donations can be structured into an endowment fund for better and sustainable outcomes. In return for their donations, the alumni members earn income in the form of return on investment on an annual basis or as predetermined in the endowment charter.

Furthermore, funds under management in an endowment fund can be loaned to government for infrastructure projects in local currency. This is because we expect most endowments funds to have low risk appetites, particularly in the short term. Therefore, many will opt for government bonds and treasury bills and become a significant holder of Nigeria's debt like the Pension Funds.

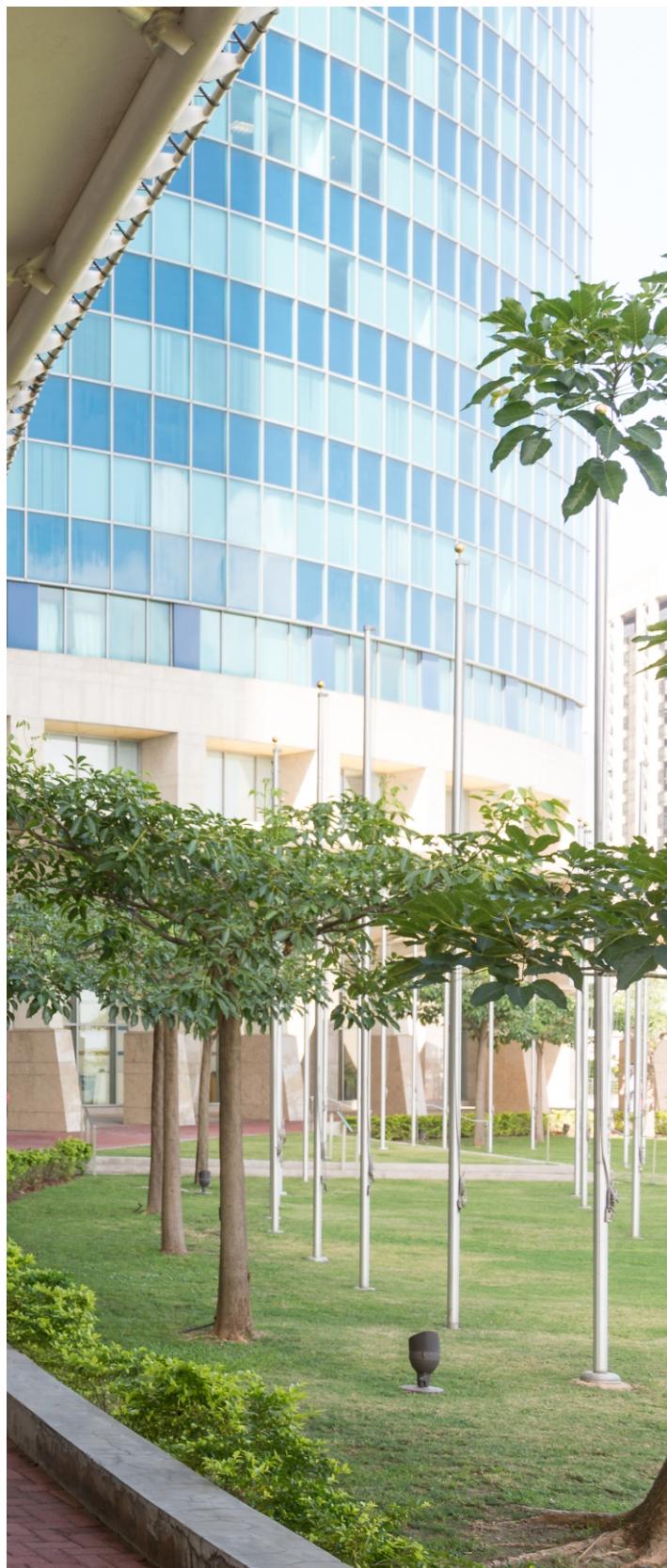
The endowment funds are not the only solution to funding social inclusion and closing the infrastructure deficit, but it is one way that fosters fiscal and monetary discipline. There is an urgent need for Nigeria to create a system outside the government to improve the outcomes in the areas of health and education. The famed Rhodes Scholarship program asks its scholars to "Give back what they took", using this analogy, Nigerians that can, should be able to give something back to their schools and communities even if all they took was just a piece of paper.

Case studies

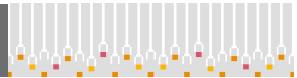
Oxford University Endowment Fund

The Oxford Endowment Fund (CUEF) was created in 2009 and its investment philosophy consists of four pillars, namely; to pursue fundamental long term investment themes, manage risk holistically, partner with exceptional investment talent and use multiple drivers of return, all in a bid to generate significant real returns. The fund largely invest in risky assets such as equities and use property and credit as diversified sources of return. In addition to the risk assets, Oxford invests in cash and bonds to increase the fund's liquidity and balance the fund's risk profile.

Sources of Funds	Comprises of 25 Colleges, 6 charitable trusts and the University of Oxford
How is the fund invested	Oxford invests in long term capital across asset groups. They are aggressive investors who believe tensions and inefficiencies in markets provide investment opportunities
Asset Allocation	Public Equity (53.2%); Private Equity (23.6%); Credit (8.6%); Property (5.9%); Cash and Bonds (8.7%)
Governance Structure	Consists of the Endowment Management team which has 23 team members and an Investment Committee.
Endowment value	£3bn; y-o-y increase £66mn
Investment Returns	11% annualized return over 3 year period and 10% since inception. The endowment fund has grown by £1.2bn since inception.
Fund Channeling	The endowment is used to fund education, scholarships and research for the university. One of the beneficiaries of the endowment programme is the Moritz – Heyman scholarship which allows students irrespective of their backgrounds to attend Oxford without any financial constraints
Other Sources	External research funding (40%); Government Grants (14%); Other income from Oxford University Press, research and philanthropic support (23%); Tuition fees (22%); Investment income (1%)



Case studies



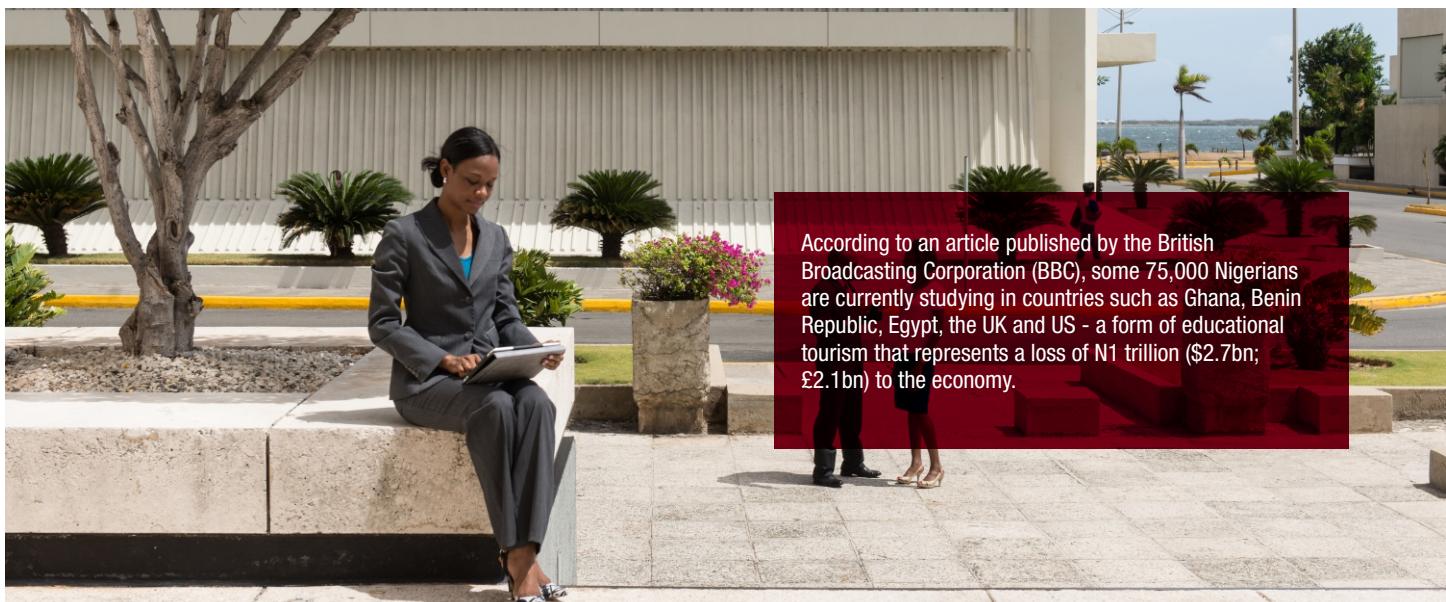
Princeton University

Princeton's Endowment underpins the University's teaching and research mission and supports an exceptional financial aid program. The Princeton University Investment Co. (PRINCO) is the university office that manages the endowment. The endowment is made up of more than 4,000 funds that have been established since the University's founding in 1746, created to provide a scholarship for undergraduate financial aid. In addition to supporting daily

operations, the endowment is set up to sustain the University for many decades to come, through periods of economic growth as well as through downturns and recessions. Although only a relatively small portion of the endowment can be spent each year, its payout provides the largest portion—nearly 54 percent in FY 2017-18—of Princeton's operating budget revenues.



Sources of Funds	Donated from alumni, parents, and friends through annual giving fundraiser.
How the fund is invested	Investment strategy: a high return objective through an aggressive equity-biased approach (95%).
Asset Allocation	Private Equity (27%); Independent Return (25%); Real Assets (18%); Int'l Emerging Equity (10%); US Equity (9%); Int'l Developed Equity (6%); Fixed income/cash (5%)
Governance Structure	PRINCO is organizationally distinct from the University, but not a separate legal entity. Its staff members are University employees, and its President reports both to the University President and to the Chair of the PRINCO Board of Directors. PRINCO staff also work closely with the University's Office of the Vice President for Finance and Treasurer, which has responsibility for finance and accounting. Management through a global network of over 75 investment firms.
Endowment value	\$25.9bn; y-o-y increase \$2.9 bn
Annual return on investment	14.2%; Avg. return past decade: 8%
Use of Funds	The endowment supports the scholarship, teaching and research of Princeton's outstanding faculty members. It also supports the classrooms, laboratories, libraries and academic programs as well as campus life priorities including athletics and religious life.
Principal Sources of funds available	Percentage contribution as at June 30 2017 Tuition & fees net (6%); Government grants/contracts (16%); Private gifts, grants/contracts (6%); Investment earnings (endowment fund) (61%); Auxiliary sales & services (5%); Other sources (6%)
How the University determines how much of the endowment can be spent?	The University has a spending framework, which stipulates that the amount of pay-out distributed per unit of endowment will increase each year by a specified standard percentage, provided that spending remains within a specified range as a percentage of market value. That annual growth percentage currently is 5%, the target spending rate range is between 4% and 6.25%.



Step 1

Decide on the objective of the endowment fund

There needs to be clear objectives that the endowment fund plans to achieve. Globally endowment funds are used to finance general purpose expenses (such as salaries, equipment, books etc), to fund specific programs and scholarships as well as infrastructure projects. One pressing need that comes through in the Nigerian higher education system is the need to pay academic and non-academic staff properly. For Federal Universities, the Federal Government is bound to pay 100% of staff salaries but because of the liquidity challenges experienced by the government this has become very difficult, leading to labour strikes. State universities are allowed to pay salaries from internally generated revenue (IGR) in addition to government subvention but depending on the state, the ability of the university to generate IGR still depends on the economic activities within the host state. In the Princeton and Harvard case studies, the endowment funds support teaching and research to outstanding faculty members. This means beyond salaries, university staff need to be encouraged to become revenue generating centres for the university through research, consulting and teaching (i.e. being able to attract students to the university).

The pressing need to fund remuneration of staff and encourage better teaching and research outcomes from faculty members can be articulated in a charter or a strategic plan to guide the affairs of the endowment fund.

Step 3

Raise funds

In developing the endowment fund's charter or strategic plan, the best way to raise money is through the alumni. Contributions should be categorized based on size into a general and a special fund. The general fund will be for smaller contributions that can be pooled before being invested, while the special fund can be invested directly by the fund.

To get the full benefit from raising funds from the Alumni, universities and endowment funds will need to undertake the following steps:

1. Given most public universities do not have up-to-date contact information on ex-students, universities and endowment funds may have to use technology to gather this very important information. A possible way is to use analytics on social media to find alumni groups and individual students. A low tech way to gather contact information is to approach organized alumni groups of the university that already exist.
2. A system should be put in place to verify alumni information and constantly update contact information when an ex-student changes address or job. This will enable the university keep in touch with ex-students through correspondence, periodicals on current news, issues and needs of the institution.
3. Going forward, higher institutions should take student engagement seriously as the current students will become the biggest asset of the school after graduation. Public universities need to set up committees to engage graduating classes, so the process of alumni identification starts before students leave the institution.

Other donors endowment funds can source from include:

1. Institutional investors – These are donors from the organized private sectors that are looking to do some Corporate Social Responsibility (CSR) programs.
2. Not-for-profits – These includes charities and foundations that are looking to improve higher education outcomes. This can include intervention bodies like the Tertiary Education Trust Fund (TETFUND) set up to manage, disburse and monitor the education tax to public tertiary intuitions in the country.
3. Individuals this includes high net worth individuals, parents, staff, friends and well-wishers of the institution.

One of the teams within the endowment fund should be dedicated to fund raising. Depending on the type of donor the fund raising team will need to target them appropriately. For instance, to raise funds from high net worth individuals, institutional investors and charities, the fund raising team can hold periodic fund raising themed events. This events can showcase the talents of the current students and faculty through art exhibitions, science shows, sport events, music concerts etc.

There should be a recognition system for all donors regardless the amount contributed. For instance, small donors can be given a plaque annually while bigger donors can get buildings, departments or even programmes named after them.

Step 4

Report outcomes

This is probably the most important step as it ensures the sustainability of the endowment fund. One way to achieve this is with properly reported and audited financial statements. The current IFRS framework is very clear on how to account for endowment funds under IFRS 9 – Financial Instruments (formerly under IAS 39). At a minimum the endowment funds should follow the provisions of IFRS in its financial reporting. For non-financial KPIs, the fund should follow best practices for environment and impact assessment using IFRS disclosure standards as a minimum standard. This report must be sent to all donors and be made public for all interest groups.

In the West, the endowment funds use only investment income from to carry out projects but because the need is so great in Nigeria to fund the education system, Nigerian endowments funds may have to dip into their principal in the early stages. The impact of the endowment funds need to be felt almost immediately once set up. This deviation from best practice should be clearly communicated to stakeholders highlighting the amount taken out of principal and the project being funded.

Conclusion

There is an urgent need to improve the outcomes in our higher education institutions, unfortunately the government is not capable of being the sole source of funding for public higher education institutions. There is a saying in Nigeria that if you wait for a crab to blink you will wait a long wait. If the education system is waiting for the government to increase its budget to the UNESCO benchmark of between 15-20% to achieve the needed outcomes, they may have to queue up behind other pressing needs like power and transportation. If the endowment funds had been running properly in the country, we will have better outcomes today but like the Chinese say, the best time to plant a tree was 20 years ago and the next best time to plant is now.



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