Profit Utilization of Income Generating Projects in the Philippines

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公立大学の経営はどこの国でも楽ではなく、公的助成だけでは足りないので各種の利益創出プロジェクト（IGP）を手がけている。だが多くのIGPは運営が不適切で、必ずしも高等教育の質の向上に貢献してはいない。

Abstract

Income Generating Projects (IGPs) are regarded as means in compensating inadequate government subsidies in public higher education institutions (HEIs). This study aimed to determine the contribution of IGPs to the development of public HEIs. A survey was conducted to the persons with first-hand information about the IGP profit utilization. Weighted mean, frequency count, and percentage were utilized to analyze and interpret the data gathered from 37 accountants and 7 IGP directors from seven public HEIs in Panay Island, Philippines. The result of the study revealed that IGP profit was never used for instruction, research and extension functions of the HEIs. The respondents disclosed that expenses for these functions of HEIs were sourced out from government subsidy and income from tuition and other school fees. On the other hand, there was a minimal spending of IGP profit to administration services function of the HEIs. Therefore, IGPs do not have significant financial contribution to public HEIs development.

Keywords higher educational institutions, income generating projects, profit utilization, Panay Island

Introduction

Universities worldwide are considered as drivers of economic and suitable national development. Hence, education is the most powerful and vital success factor for humans and the society (Johnstone, 2005). Presently, the problem of underfunding in public universities is not surprising because government revenues have not grown in proportion with its expenditures (Aina, 2002; Kiamba, 2004). As a result, Income Generating Projects (IGPs) exist in public higher education institutions in the whole world. Public Higher Educational Institutions (HEIs) are empowered to put up an IGP to compensate the inadequate government subsidy.

In the Philippines, total State Universities and Colleges (SUCs) receipts increased by an average of 8% per year from Php21.8 billion to Php42.5 billion in 2012 and 2013, respectively. Unfortunately, the increase in total SUCs income was not in proportion to inflation and increase in student population combined (Manasan and Revilla, 2015). Hence, SUCs are authorized out of their income from tuition fees to allocate a budget for the establishment of a project or income generating activity or investment outlay in the form of commercial structures that would generate additional revenue. For its initial operations, the budget allocation that is based on the project proposal approved by the board would be utilized. After that, the succeeding expenses would be sourced out from collections of the said IGP as soon as it becomes viable (CMO No. 20, Series of 2011).

In Panay Island, there are 7 SUCs, namely: Aklan State University (ASU), Capiz State University (CAPSU), Iloilo State College of Fisheries (ISCOF), Iloilo Science and Technology University (ISAT-U), Northern Iloilo Polytechnic State College (NIPSC),

University of Antique (UA), and West Visayas State University (WVSU). The IGPs of these SUCs are poultry, piggery, fishpond, bakery, canteen, water refilling station, hotel, commercial spaces for rent and others.

Several researches have been conducted and published locally and internationally regarding IGPs. These researches focused on the factors on the success or failure of IGPs, management, best practices, analysis on the financial performance, among others. However, as of this writing no research has been conducted yet involving persons with first-hand information such as accountants and IGP directors on the utilization of IGP profit. This paper, then, examined if IGPs really contributed financially to the development of SUCs in the areas of instruction, research, extension and administration services.

Conceptual Framework

The declining government subsidy in public higher education is a dilemma in the whole world. To understand this trend in SUCs as organization that obtains resources for its survival, a theory that explains how an organization responds to changes in resources are essential and appropriate.

Resource Dependence Theory (RDT) presents helpful conceptual tools in understanding organizational responses to financial challenges (Hillman, et al. 2009). This theory argues that no organization is fully self-sufficient. Organization survival is, therefore, dependent on the extent that they can obtain and keep resources. Furthermore, when resources are insufficient, organizational stability is at risk. Organizational vulnerability occurs. Under this scenario, organizational efforts are focused on regaining stability and removing the source of the threat to the organization (Gebreyes, nd). From the resource dependence perspective, universities can handle resource dependence difficulties arising from government subsidy by venturing into income generating activities. With this, the dependence of SUCs on the government subsidy could be minimized and financial independence might be attained.

The underfunding of Kenyan Public Universities is a result of the expansion of the higher education due to the continuous increase in the demand for the university education without adding the corresponding available resources. This has affected the universities' quality of education which has declined significantly due to inadequate teaching materials and the like (Kiamba, 2004).

One of the main challenges for European universities is financial sustainability. The European Universities Diversifying Income Streams (EUDIS) project recognizes income diversification as a tool in generating additional income that contributes to the financial aspect of the institution. One of the major findings of the EUA research revealed that how the quality of public higher education was affected due to the reduced government subsidy. The increase in student population and reduced government funding are the major concern for maintaining the quality of teachings. Hence, income diversification which includes venturing into IGP is indeed one way to attain financial sustainability (Estermann & Pruvot, 2011).

According to Ahmad and Ting (2015), teaching staff participation is vital for the success of IGPs in Malaysian public universities. Faculty members are encouraged to give their feedback and comments to the management according to the present scenario that they are experiencing. Likewise, the management is encouraging them to be involved in various IGPs since funding is not enough to defray the expenses of the university and for its future development.

The research conducted by Murage and Onyuma (2015) presented the Egerton University income generating units' (IGUs) financial performance from 2003 to 2012. The financial performance was gauged through the secondary data from financial statements using the financial ratio analyses. Thereafter, these ratios were used to analyze the IGUs' financial performance for the past ten years. Moreover, the study of Urquillo (2015) dealt with measuring the performance of IGPs in Surigao del Sur State University. Financial statement and profitability ratio analyses and return on investment were among the tools used in measuring the IGPs economic performance.

Miranda et al. (2015) identified the correlation between the extent of implementation and the IGPs'

profile about length of operations, the number of IGP staff and average volume of clients. Based on the results of the study, the profitability IGP, like any other business organization, does not depend on how long it exists but on its operational performance. Moreover, the extent of implementation does not rely on the number of IGP staff but on the quality of IGP staff possessing necessary knowledge and skills in managing the IGP.

Under Republic Act No. 8292, it is within the power of the governing board to enter into a business venture for the efficient utilization of assets of the college or university. The profit to be derived from that endeavour could be used for the development of the SUC. Moreover, the law states that any income collected by the SUC either from tuition and other fees or income from other sources like IGP shall be retained by the college or university. The income may be disbursed through the approval of the board for instruction, research, extension, administration or other programs of the SUC.

On this study, the researcher endeavored to discover the compliance of SUCs to RA 8292 as regards venturing into IGPs. He wanted to know if profit has been utilized to instruction, research, extension and administration related expenses as prescribed in the above mentioned law and CHED Memorandum No. 20, Series of 2011. And this profit utilization contributed to the development of the SUC.

Methodology

The researcher identified 37 accountants and 7 IGP directors across 7 SUCs in Panay Island as respondents of this study. The researcher chose them as respondents since they have direct knowledge of the subject matter of the study particularly in the IGP profit utilization.

A researcher-made questionnaire was formulated based on CMO No. 20, Series of 2011 and it underwent face validity, content validity, and dry run to secure the reliability of the questionnaire. Thereafter, it was utilized as the primary tool in data gathering. To verify further the respondents' answers and gather additional information, an interview was conducted. Moreover, document analysis on the IGP Reports and manuals were undertaken.

This study used weighted mean, frequency count and percentage in the analysis of the data gathered. The researcher computed the weighted average using the formula given:

$$\mu = \sum fx / n$$

Where:

μ = weighted average
$\sum$ = summation notation
f = number of responses under each scale
x = weight assigned to each scale
n = number of respondents

Furthermore, the percentage was computed by dividing the frequency of each factor to the number of respondents and multiplied by 100.

$$P = f / nx100$$

Where:

P = Percentage
f = frequency
n = number of respondents
100 = constant number used as multiplier

Results and Discussion

Table 1. Profile of the Respondents

Variables	Category	F	%
Name of SUC	A	5	11%
	B	7	16%
	C	6	14%
	D	7	16%
	E	7	16%
	F	5	11%
	G	7	16%
Type of Respondents	Accountants	37	84%
	IGP Directors	7	16%
Educational Attainment	Doctorate Degree	6	14%
	Masters Degree	10	23%
	Baccalaureate Degree	28	64%
Length of Service in the SUC/Number of Years in Service as IGP Director	0 to 5 years	25	57%
	6 to 10 years	7	16%
	11 to 15 years	5	11%
	16 years and above	7	16%

There were forty-four (95.65%) respondents answered and returned the questionnaire out of the total population of 46. Of the 6 doctorate degree holders or 14% of the total respondents, only one is an accountant and the remaining five are all IGP directors. During the interview, the researcher discovered that though majority of the IGP directors are doctorate degree holders, none of them graduated in a business course. Generally speaking, it implies that doing business it is not within the core competence of the IGP directors. This might be one of the contributory factors why IGPs did not thrive in SUCs.

Furthermore, 57% of the respondents were with 5 years or less length of service in the SUC. It is worth mentioning that 6 out of 7 IGP directors belong to this category. The researcher discovered that there is no continuity on the person managing the IGP since IGP director position is just a designation. Likewise, IGP director's attention is divided in his teaching function and designation. These present scenarios could be attributed to the low performance of IGPs in the SUCs.

Government facilities would only last approximately up to six (6) years then reach its critical level. This is due to the assumption that only 40% of government institutions are effective workers (Susada, J. et. al, 2017). Hence, expenses related to maintenance and/or procurement of instruction related facilities are necessary.

As depicted in Table 2, there was minimal utilization of profit for instruction related expenses as shown in some indicators and none at all in other indicators. Interview with the accountant revealed that expenses on instruction function of the SUCs were financed by the government subsidy and income from tuition and other school fees. They said that IGP profit is very small. Hence, it could afford to augment the expenses on instruction. Thus, if the administration got its share from IGP profit it was spent most of the time in the administration services and portion of the profit reverted back to the IGP itself for additional capitalization.

Table 2. IGP Profit Utilization to Instruction

	Indicators	WM	Description
1	Repair of ceiling and/or repainting of classrooms	1.84	Less
2	Construction of new classroom building	1.48	Never
3	Renovation and/or construction of faculty room	1.55	Never
4	Purchase of classrooms chairs and tables	1.68	Never
5	Purchase of projector and/or smart TV and IT equipment	1.75	Never
6	Purchase of laboratory facilities and/or sports equipment	1.80	Less
7	Purchase or reproduction of instructional supplies and materials	1.89	Less
8	Funded student seminar workshops and/or industry tour.	1.61	Never
9	Funded faculty seminars, trainings, workshops and/or scholarship grants	1.70	Never
	Mean	**1.70**	**Never**

Nonetheless, though IGP has no significant contribution to instruction in terms of money but some IGPs have instructional value. The IGPs are used for further learning of students. For instance, review center, hotels and canteens where students undergo their OJT.

In general, the IGP profit was never utilized in the research services function of the SUC as illustrated in Table 3. The same also to instruction, research services office sourced its expenses from the government subsidy and from income from tuition and other fees collected from students. Interview with the College/University accountants disclosed that in practice the profit of the IGP revolved within the IGP itself. Only one SUC is practicing the transfer of IGP profit from IGP bank account to income bank account. Likewise, out of the College/University IGP profit share none went to research or if there is, it is difficult to identify. The reason for this was once the College/University gets its share, it is not programmed on how much would be spent to research services office and other functions of the institution but rather it was lumped to the income from tuition of the University.

Table 3. IGP Profit Utilization to Research Services

	Indicators	WM	Description
1	Funded research trainings and seminars attended by the faculty	1.68	Never
2	School research activities like research in-house review and the like	1.61	Never
3	Funded research presentations and publications.	1.59	Never
4	Funded research-based project proposal	1.68	Never
5	Improvement or renovation of research office	1.48	Never
6	Funded the purchase of air conditioning unit, office chair, table and cabinet for Research Services Office	1.48	Never
7	Funded the purchase of IT equipment like desktop and laptop computer including internet connectivity for Research Services Office	1.59	Never
	Mean	**1.59**	**Never**

Table 4. IGP Profit Utilization to Extension Services

	Indicators	WM	Description
1	Funded faculty extension trainings and seminars	1.64	Never
2	Funded improvement/renovation of extension services office	1.50	Never
3	Purchase of extension services office supplies and materials	1.57	Never
4	Funded skills training and livelihood programs to the community	1.73	Never
5	Funded the payment of salary of job order employee at the extension services office	1.64	Never
6	Funded the purchase of air conditioning unit, office chair, table and cabinet	1.55	Never
7	Funded the purchase of IT equipment like desktop computer and laptop including internet connectivity for extension services office	1.52	Never
	Mean	**1.59**	**Never**

With an average of 1.59, this means that majority of the respondents answered that the IGP profit was never used to extension services. Just like the instruction and research services, the expenses of extension services office were funded by government subsidy through government subsidy and income collected from tuition and other school fees. For instance, faculty training and seminars related to extension and/or purchase of office supplies and materials were sourced out from MOOE and/or income collected from tuition fees. Hence, the IGP main objective of augmenting the expenses on mandated functions (e.g. instruction, research and extension) of the SUCs was not truly achieved.

Table 5 revealed with the average of 1.94, the IGP profit was utilized to administration services to a less extent. This is the only one among the four functions of the SUC where the respondents agreed that IGP has a financial contribution. This could be noticed in the table presented above where IGP profit was used in the payment of water, electricity and communication bills, purchase of administration office supplies and materials, purchase office equipment, furniture and fixtures and payment of travel expenses of the administrative staff. However, no expenses were incurred charged to IGP profit on the repair of administration offices and motor vehicles as well as purchase of motor vehicles gasoline, oil and lubricants. The reason was that renovation of administration offices usually requires substantial amount in which IGP profit could not afford. Likewise, gasoline, oil and lubricants expenses were generally paid out of government subsidy and income from tuition fees of the SUC instead of getting it from the IGP profit.

Table 5. IGP Profit Utilization to Administration Services

	Indicators	WM	Description
1	Water, electricity and communication bills paid out of IGP profit	2.32	Less
2	Purchase of administration office supplies and materials	2.14	Less
3	Funded repair of administration offices	1.73	Never
4	Purchase of office equipment (aircon, photocopier, etc)	1.91	Less
5	Purchase of office furniture and fixtures (office tables, chairs, cabinet, etc.)	1.93	Less
6	Funded travel expenses of administrative staff	1.84	Less
7	Funded the repair of motor vehicles and/or purchase of gasoline, oil and lubricants	1.73	Never
	Mean	**1.94**	**Less**

As depicted in Table 6, twenty-one (21) or 47.72% of the respondents said that there is an existing monitoring scheme in place. From those respondents who said that there is an existing monitoring policy, their response showed that there is a moderate extent of monitoring the contribution of IGP to instruction and administration services and less extent of implementation of monitoring policy towards research and extension services. The implication of this is that there is a room for improvement in the reporting of IGP profit utilization. Based on the existing scenario, there is no standardized report submitted by the accountant to the SUC President and Board of Trustees/Regents showing the utilization of the College/University share on the IGP profit.

Table 6. Existence of Monitoring Policy and Extent of Implementation in Determining the Contribution of IGPs

Indicators	F/WM	%/Description
Existence of monitoring scheme in determining the contribution of IGPs to instruction, research, extension and administration services	21	47.72%
Extent of implementation of monitoring scheme:		
Instruction	2.57	Moderate
Research	2.38	Less
Extension	2.38	Less
Administration	2.90	Moderate

Table 7. Existence of Policy on Retention and Discontinuance of IGP

Indicators	F/WM	%/Description
Existence of policy as basis for decision making in retaining or discontinuing an IGP	37	84.09%
Degree of Implementation	2.68	Moderate

There were thirty-seven (37) or eighty-four point nine percent (84.09%) of the respondents said that there is an existing policy as basis for decision making in retaining or discontinuing a particular IGP. However, it was observed by the researcher that the answer of the respondents were not consistent with others even if they are connected in one institution. When the researcher asked for a copy of the IGP manual from the accountants during the interview, it was found out that majority of them do not have a copy. A copy of the IGP manual was with the IGP directors. Hence, this might be the reason why some are not aware of the policy and the degree of implementation is moderate.

In addition, most of the SUC IGP Manual was crafted many years ago and was not yet revised. There are SUCs undergoing revisions of its manual. Upon verification of the existing policy in the IGP manual, this provision in one of the IGP manuals was found and I quote, "*The continuance or stoppage of an income-generating project will be based on its income performance for the last three years. In addition, the instructional value of a*

project will also be considered in the evaluation. If a project is not viable for the last three (3) years and without instructional value to the University then it will be stopped".

Though there is an existing policy found in the IGP manual but there are no tools or template reports to measure the viability of the projects within three years. With this, the researcher assessment is that there is a need for suggested template reports should be made for adoption of all SUCs.

Table 8 showed that in 2017, the IGP profit was 17.405 million only or just 0.98% of the combined MOOE and capital outlays government subsidy, internally generated funds and IGP profit of the 7 SUCs in Panay Island. Generally speaking, based on the data presented the SUC operations will not be affected financially when the IGP will be discontinued. Likewise, this implies that the SUC is very dependent on the government subsidy and tuition and other fees collected from students.

Table 8. Percentage of IGP Net Income to the Total Budget of the SUCs in Fiscal Year 2017 (in thousands)

FY 2017	Amount	%
Government Subsidy (MOOE & Capital Outlays)	**857,548**	48.12%
Internally Generated Funds (Income collected from tuition and other school fees)	**907,236**	50.90%
IGP Net Income	**17,405**	0.98%
Total	**1,782,189**	**100%**

Source: DBM website and SUC Accountants

Note: Maintenance and Other Operating Expenses (MOOE) is net of scholarships, Tulong Dunong and other government financial assistance to students. Capital Outlays budget pertains to property, plant and equipment projects of SUCs funded by the Philippine government.

The annual government funding depends on the SUC absorptive capacity and its project implementation readiness. The budget utilization rate (BUR) in the previous year serves as one of the bases in the granting of the budget for the next fiscal year. Once, the BUR is higher or 100%, the SUC will get a higher budget the next year provided that proposed projects are shovel ready upon evaluation of DBM. This is one of the reasons why in SUCs, income generating projects did not flourish in SUCs at Panay Island. The SUC top management as well as finance personnel focused on the utilization of funding from government so that they could get higher budget the following year. Likewise, it has also another income stream from tuition and other fees that could subsidize its expenses. Hence, SUCs are too complacent since they could survive without the IGP.

Conclusion

The researcher concluded that IGPs do not have significant financial contribution to the development of SUCs in Panay Island. Republic Act 8292 which mandated SUCs to venture into IGP in order to augment its expenses on instruction, research, extension and administration services was not achieved since IGPs are generating a very minimal profit. This, in effect, do not have significant impact on the finances of the SUCs. Since the IGP concept is a mandate of the government, SUCs have to comply with it.

Hence, IGPs are oftentimes managed by an educator, and not by a businessperson. This led to the deficiency in proper financial accounting and reporting as well as insufficient policies and guidelines in the implementation of IGPs. In the end, the resources of the SUCs are spread into various IGPs having insignificant amount of profit and loss for some, instead of having a minimal number of IGPs but each is earning a huge amount of profit. Lastly, when the costs outweigh the benefits of operating an IGP, it is best to rent it out to private businesses. With these, public HEIs will be assured of its profit.

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