Higher Education Financing in Ethiopia: Revenue Diversification Strategies

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Abstract
This paper explores revenue diversification strategies being instituted by Ethiopia public universities to bridge the financing gap occasioned by the limited public funding and resource utilization by the universities The study which is exploratory in nature samples the eight public universities that have been in existence for more than three years leaving out the remaining thirteen public universities that were set up two years ago. Among the strategies employed to varying degrees include: private sponsored students programs such as the extension, summer, distance programs, and short term trainings, commercializing service units such as student and staff lounges and farming. It is however only the private student programs that were found to significantly contribute to internally generated revenue.
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1.0 Introduction

1.1 Background

Ethiopia has an area of 1.1million square kilometers and an estimated population of 80 million with diverse languages, culture and topography. The male/female proportion is roughly the same. 15% of the population is urban and 85% is rural (Ministry of Education, 2005:5)

The country is currently engaged in a highly ambitious effort to expand and re-align its higher education system in more direct support of its national strategy for economic growth and poverty reduction (Yizengaw, 2003). 21 public universities now stand in the place of the previous two-university 'system.' An aggressive expansion policy designed to raise the country's insignificant tertiary enrolment ratio to more respectable levels is producing results. Total tertiary enrolments in universities and non-university tertiary institutions, both public and private, surged from 42,132 in 1997/98 to 192,165 in 2002/05 (Ministry of Education, 2005:12), more than quadrupling in seven years. The annual enrolment growth rate of 50.86 per cent was possibly the highest in the world during this period, Ethiopia's tertiary-level gross enrolment ratio (GER) was 1.5 per cent in 2005 which was a great leap from the GER of 0.8 in 2003, which placed it among the lowest ranking countries of the world. In comparison, the current tertiary level GER for sub-Saharan Africa is 4 per cent (Saint, 2005:5). [Note1]

Over the past six years, government has boosted its financial effort on behalf of education. Public investment in education has risen as a share of GDP from 3.2 per cent to 4.5 per cent. This level of financial effort is higher than the 3.9 per cent registered for sub-Saharan Africa as a whole (World Bank, 1998). Education expenditure has also increased as a proportion of the overall government budget from 9.5 per cent to 16.8 per cent. Such increases still fall short of reaching the general range of 20 per cent to 25 per cent for most developing countries, suggesting that scope remains for further increases in the government's education financing effort over the coming years (Saint, 2005:7).

1.2 Current Financing Arrangements

The Government provides virtually all of the financing used to run the public tertiary system. This includes the provision of free non-academic services to regular students: meals, lodging and health care. Full-time students (39 per cent of all students) pay no significant tuition fees, although part-time and private students (the majority of the total enrolled) do pay. Part-time students are charged tuition of Birr 30 to 50 per credit hour, or Birr 90-150 (US$10–17) for the normal three credit course load taken each semester. Some institutions charge evening students additional fees of Birr 26 to 58 per credit hour for laboratory courses (Ibid) [Note 2]

Annual recurrent expenditures per university student are roughly Birr 7,457 (US$860) when government-provided food, lodging and health care are included and Birr 5,500 (US$636) when student welfare subsidies are excluded. This latter level of educational investment is low in comparison to sub-Saharan Africa (US$1,500) and to neighboring nations like Kenya (US$1,800), Tanzania (US$3,236) and Uganda (US$800). Experience indicates that it is extremely difficult to provide higher education at an acceptable standard for less than an annual per-student expenditure of US$1,000 (Association of African Universities and the World Bank, 1997).

Student welfare subsidies and fee-free higher education are increasingly at odds with prevailing practice in other African countries, especially in the Anglophone sphere, where various forms of student cost-sharing are emerging (Johnstone, 2003). The government has recognized this by indicating in the new *Higher Education Proclamation* that cost-sharing will be a key component for the future financing of tertiary education development.

Consequently, the government introduced a university graduate tax in September 2003 designed to re-coup gradually the cost of meals and lodging, together with a small portion of tuition costs. The mechanism of cost-sharing via a 'graduate tax' deserves recognition for its innovativeness both in Ethiopia and more generally. Cost-sharing based on the current 'graduate tax' will not immediately relieve the financial pressures on the system produced by rapid enrolment expansion. By the year 2020, for example, the share for higher education in total education spending would be some 4 to 5 percentage points lower with cost-sharing than without it. The income from cost-sharing would then represent a significant and fairly reasonable 20 per cent of the total cost of running the higher education system in the outlying years, say towards 2015 (Saint, 2005: 25).

2 Experience on revenue Diversification Strategies in Sub-Sahara Africa

2.1 Encouraging privately sponsored students.

This strategy has been the main source of alternative financing for most public universities, there is need to institute demand driven academic reforms, if this alternative is to be sustainable. Demand driven academic reforms are the most effective way of attracting private students to courses for which individuals, families and companies are willing to pay. (Court, 1999:6)

In Makerere University for instance the change in the student body since 1993 has been intertwined with an explosion of new degree and diploma courses. The university now offers bachelor's degrees in business administration, nursing, tourism, urban planning, biomedical laboratory technology and many pursuits not previously available or contemplated. Their practical and professional career purpose suggests than an estimate of demand rather than a prescription of supply is influencing the academic curriculum. However, demand is not confined to the vocational and the practical; bachelor's degrees with specializations in drama, music and dance can also be pursued through evening courses. Another way to encourage self-sponsorship as well as utilize available facilities is to offer courses during evenings and weekends when working people can attend (ibid).

2.1 Commercializing service units and enforcing user fees.

In Makerere University units previously subsidized from central university funds have been contracted out to private management. Notable examples here are the bookshop, which brought a return to the University 6 million shillings in 1997, and the bakery which provides bread to the student halls of residence. Other formerly subsidized units, such as the guest house and printing shop, are now run by the university on commercial basis. Previously diverse non-tuition user fees were often waived in the past and are now strictly applied and constitute an additional source of revenue for the institution (Court, 1999:5). Other areas with potential for commercialization include: library services for the community surrounding the universities, agricultural technologies extension services such as banana tissue culture, mechanical and electronic and electrical repair and maintenance for engineering faculties.

2.3 Institutionalizing consultancy arrangements.

While demand for consultants from East Africa universities has grown greatly in the past ten years and individual staff members have profited, few universities have been able to put in place a system that retains some of the profit for the institution that houses the consultants and provides their overheads. Makerere is making the attempt through the establishment of the Makerere University Consultancy Bureau, a limited liability company with 51% of shares owned by Makerere staff as individuals and 49% by the university as an entity. The bureau engages in merchandizing and provides consultant service lines in business, organizational development, water and sanitation, and public health. It also maintains a data base that is used to link consultant skills to task requirements (Court, 1999:6).

2.4 Contracting Out Non-Core Services
The contracting out of the non-academic services needed by the university is increasingly frequent in Africa. Among the more common contracted services are the following: provision of student meals, management of residence halls, computer maintenance, campus security, university vehicle maintenance and repair, care of the grounds and gardens and minor facilities maintenance. (Kigotho, 2000)

These arrangements facilitate university management by lessening the supervision burden for university staff, reducing the non-academic workforce with its associated personnel management responsibilities and social benefits, improving performance levels (poorly performed contracts are not renewed) and introducing greater flexibility in the application of university funds. The University of Dar es Salaam is a particularly good example of achievement in this area (Mkude 2003). The University of Nairobi has already contracted out campus security and is also in the process of contracting out other non-core services (Kigotho, 2000).

2.5 Establishing enterprise services.
Many universities maintain farms to generate revenue, which carry out dairy farming, floriculture, dry crops farming, and cereal seed multiplication. Other income generating sources include petrol stations and mortuary services the University of Nairobi has incorporated an enterprises company (the University of Nairobi Enterprises and Services) headed by a competitively sourced chief executive, to identify and exploit the university's revenue generating potential (ibid).

f) Instituting overhead charges.
In majority of Kenyan public universities, individual professors with external research contacts, for example, surrender a percentage of the contract to the university (Sanyal and Martin, 1998)

4. Findings

4.1 Revenue Diversification Strategies
Though it was possible to ascertain the actual revenue generated by most universities, Addis Ababa and Gondar Universities while willing to reveal all the sources of internally generated revenue blatantly refused to reveal the amounts of internally generated revenue. It was however possible to estimate revenue generated by the extension and summer programs. This was done by multiplying the number of students in the respective programs by the normal credit hour load per academic year and the cost per credit hour. The strategies are described in detail below.

4.1.1 Extension Students Program
The extension students program is offered to self or company sponsored students outside the regular working hours i.e. 5pm to 8pm, Monday to Friday and on weekends. The program targets workers who wish to upgrade their qualifications and high school graduates who met the minimum university entrance requirements but could not meet the target set for government sponsorship.

The survey results indicate that all the universities employed the extension students program as a key strategy for revenue diversification. The contribution of this revenue source to total revenue generated by the university ranged from 14% in Jimma University to 61% in Hawassa university (see table 1). In general most of the revenue from the extension program was generated from the social sciences oriented faculties.

While faculties in the social sciences such as the faculty of business and economics had extension students enrolled in almost all the courses offered, the natural sciences oriented faculties had very few courses on offer in the extension program. The medical science faculty for instance could only offer medical laboratory course and in some cases pharmacy. The cost charged by the universities for the extension program ranged from 38 birr per credit hour for social sciences related courses to 61.28 birr per credit for health related courses such as medical laboratory

Due to the times in which this program is offered, the catchment for the program is limited to the cities/towns where the universities are found. It is surprising that though the universities charge different fees for similar courses, they donnot advertise their programs. Since different cities/towns have different costs of living, in part due to the cost of housing and food, this program could attract more students (outside the catchment areas) especially the high school graduates who do not qualify for government sponsorship, if the universities were to advertise their programs.

4.1.2 Summer Students Program

The summer/*kiremt* students program is offered to self or company sponsored students during the summer i.e. mid July to mid September. During this period the regular (government sponsored) students are on vacation. The program targets workers who wish to upgrade their qualifications and cannot enroll in the extension program due to the distances from the universities. The catchment for the program is therefore not limited to the vicinity of the universities.

5 Recommendations on Revenue Diversification Strategies

5.1 Supportive Legal and Regulatory Structure

A review of the *Higher education proclamation* and the various *proclamations for the establishment of the universities* with regard to revenue diversification reveals that: that among others the universities are legally empowered to own property, provide consultancies. It can therefore be argued that the legal and regulatory environment offers more support than constraints to revenue diversification. This concurs with World Bank, (2000:47) argument that higher education institutions flourish in a legal and regulatory environment that encourages innovation and achievement, while discouraging corruption and duplication of effort.

5.2 Decentralized and Participatory Management

The *Higher Education Proclamation* has decentralized much of the administrative, budget and other authority to individual universities in the interest of greater institutional autonomy, flexibility and responsiveness. In order to realize these benefits, decentralization requires committed and visionary leadership.

Much of the reform accomplishment with regard to Makerere University which has been hailed by the World Bank, (2000:50), has been credited to the commitment, energy and imagination of the university leadership. As a result of government support, the university management had greater autonomy than ever before to make structural decisions affecting the institution, including the ability to raise funds from private sources.

5.3 Flexibility

Findings of the study indicate that the universities rarely or never conduct market and labor studies, if the revenue diversification strategies are to be sustainable, universities They need to be able to adapt quickly to changing enrollment levels, to the rise and fall of different fields of study, and to changes in the mix of skills demanded in the labor market. They need keep pace with significant external changes. Basic demographic data can help forward planning; enabling institutions to prepare for changes in cohort size, secondary school enrollment, and graduation rates World Bank, (2000). More needs to be done by universities in Ethiopia on this score.

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Notes

Note 1: This is an example.
Note 2: This is an example for note 2

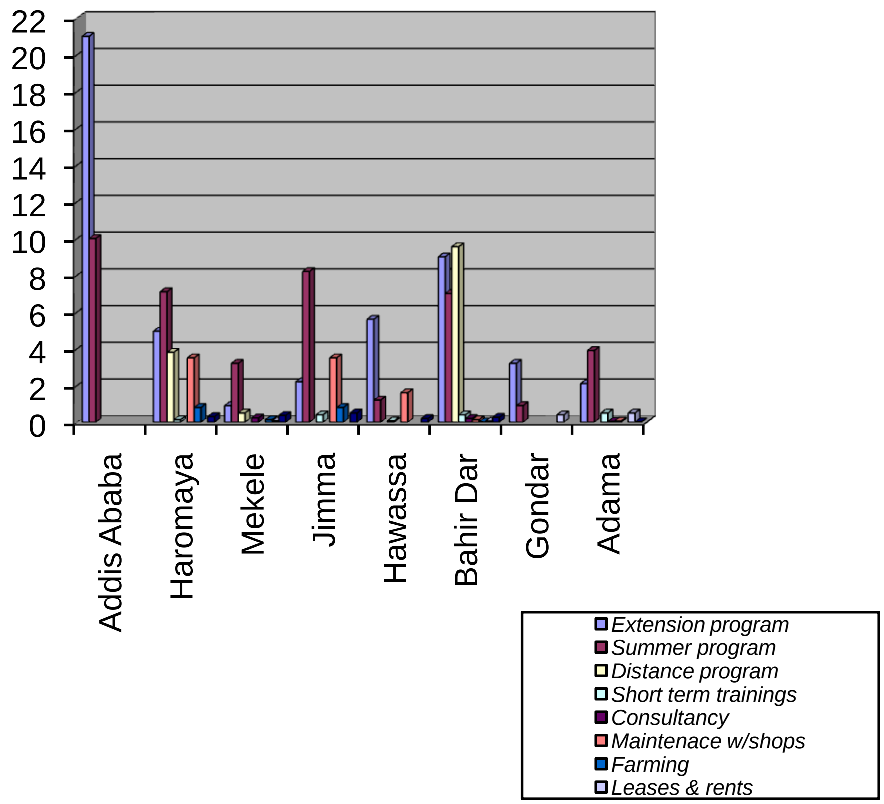

Figure1: The amount of revenue generated by each revenue diversification strategy (million birr)

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Table 4.1.1: Revenue Generated from Extension Students Program

University	*Contribution to total generated revenue*
Addis Ababa University	*
Haromaya University	30%
Mekele University	17%
Jimma University	14%
Hawassa University	61%
Bahir Dar University	27%
Gonda University	*
Adama University	29%

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