

Policy Brief

Funding Higher Education in Ethiopia: Challenges and Prospects*

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Executive Summary

During the last two decades, there has been a massive expansion of higher education in Ethiopia. This increased the number of universities from two to thirty-one in a period of eleven years (2000–2011), followed by a rapid increase in enrolment, which desperately necessitated funding higher education in the country. In order to shift a portion of the burden of higher education costs from the general tax payer to the primary beneficiaries of higher education (i.e. students), cost-sharing was introduced in October 2003, and Ethiopia has chosen a modified version of the Australian model of Graduate Tax.

To attain a sustainable financing of higher education, there are two essential and complementary measures to be taken, namely the efficient use of available resources and supplementation of government funding. The efficient use of public funding presumes institutional autonomy and reforming of the budget management system. Supplementation of public funding calls for diversification of funding sources and strategies through a combination of various schemes that include rationalization of social expenses, cost-sharing by beneficiaries, reorientation of student admissions, expansion of distance education, faculty and institutional entrepreneurships and development of the private sector.

2. Background

In Ethiopia, as in many other developing countries, the strong pressure and progress witnessed in primary enrolment in the past

*The research reported in this document was carried out in 2010–2011. Developments since that time are unfortunately not covered.

decade has automatically increased the number of candidates seeking to enter secondary and tertiary education. As recently as 2007, the estimated illiteracy rate in Ethiopia was 35 per cent, but in 2010 enrolment in primary education reached more than 80 per cent of the school-age population and a high proportion of secondary school graduates are also heading to higher education (MOE 2010b).

Meanwhile, in spite of the enormous effort made to expand higher education during the past decade, Ethiopia still has the lowest Gross Enrolment Ratio (GER) even compared to the average GER for Sub-Saharan Africa. The GER for higher education in Ethiopia increased from 3.6 per cent in 1999 to 5.3 per cent in 2008–09— which was 0.7 per cent below the African average of 6 per cent in 2000 (MOE 2010a). As indicated in the various policy documents, with such a low level of skilled human resources, achieving the development agenda of the Ethiopian government, namely the poverty-reduction program as well as the vision to become a middle-income country by 2025 will be hardly possible. This has compelled the Ethiopian government to venture on an aggressive expansion of higher education designed to raise the country's insignificant tertiary enrolment ratio to a more acceptable level and produce the workforce desired for sustainable development.

Due to such pressures, higher education institutions have been faced with the twin challenges of responding to the growing demand for access to higher education and simultaneously improving the quality of education. At the same time, a rapid increase in enrolment has become a challenge to the sustainable financing of higher education. Any attempt to improve the quality of education will also add to higher education's

daunting financial requirements. During the last decade, nevertheless, there has been a massive expansion of higher education in Ethiopia that has resulted in a dramatic increase in the number of universities, which has grown from two to thirty-one in a period of 11 years (2000–2011). As a result of this expansion, undergraduate enrolment, which was around 35,000 in 1995, reached 420,387 in 2009-10. Postgraduate enrolment has increased from 788 in 1995 to 14,272 in 2009-10 (MOE 2010b).

Consequently, a characteristic feature of the Ethiopian higher education system of the past decade has become the shift from an elite system of higher education, whereby a small proportion of the students were privileged to access higher education, to the expansion and diversification of higher education on the grounds of equity and open access. This radical change in the philosophy of higher education was followed in 2003 by the introduction of a cost-sharing scheme to ease the burden of financing higher education. What is more, funding and provision of higher education in Ethiopia has been predominantly public; for example, enrolment in public institutions in 2009-10 comprised 82 per cent of the total enrolment (MOE 2010b). Financially, Ethiopian universities receive assistance mainly from the state and, as a result, higher education activities have long depended on the political will and commitment of the government. The spectacularly increased requirement for funding higher education in the decade preceding 2003 necessitated a change of the status quo and led to the introduction of cost-sharing by direct beneficiaries.

3. Discussions and Conclusions

In financing higher education in Ethiopia, the government covers the lion's share while some support comes from donors. The contribution of private funding introduced through cost-sharing is not as significant as it should be, and private higher education institutions are not in a position to significantly share the public burden of financing higher education.

There is also lack of internal efficiency in the use of available resources, coupled with the

out-dated system of budgeting, which has been in place for several years. This system is based on “the previous year's expenditure as a baseline and makes incremental changes based on general considerations such as the country's economic performance, government revenues, inflation rates, or institutional growth” (World Bank 2010). It is more and more clear that higher education institutions in Ethiopia must adopt the performance-based budgeting modality, with sufficient institutional autonomy and the required capacity, including professionally qualified management, in order to correct the major institutional imbalances as well as the internal and external inefficiencies prevalent in the system. Doing so would help reduce costs and enhance public expenditure efficiency provided that there is greater rigor and transparency in the management of expenditure.

Hence, securing sustainable financing of higher education requires first and foremost the efficient use of available resources, which calls for institutional autonomy and system reform in the management of budget expenditures. The devolution of management and spending authority from the central ministry to higher education institutions is the most crucial aspect of public sector financing reform. This should be coupled with the adoption of a performance-based funding formula, which is believed to be a more motivational and responsive budgeting system. The proposal for adopting the performance-based funding formula has been under discussion for over a decade. In 2011-2012 fiscal year, the Ministry of Finance and Economic Development implemented a version of the performance-based budgeting modality called “program-based budgeting”. Though it is too early to evaluate the success or failure of this system, it has been implemented in the absence of institutional autonomy and without any institutional capacity or expertise in place. Essentially, a shift in the direction of greater autonomy and flexibility, that is, towards managerial models associated with private enterprises known as the “new public management” (Altbach *et al.* 2009) would be helpful in achieving the

desired output universities are expected to deliver to the public.

Financing higher education needs to be stable, adequate and long-term. In order to support such a demanding enterprise, cost-sharing by beneficiaries (students) has to be complemented by other income-generation schemes; only a combination of multiple strategies could secure sustainable financing of higher education. In order to shift the burden of higher education costs from the general taxpayer to the beneficiaries of higher education (parents, students and purchasers of university services), supplementation of government funding through diversification of funding strategies is mandatory. To achieve an optimal balance between attaining sustainable financing of higher education and quality considerations, a combination of various strategies needs to be employed, depending on the capacity and institutional environment in which the particular institution finds itself. Such strategies include: rationalisation of social expenses; cost-sharing by beneficiaries; reorientation of student admissions; expansion of distance education; faculty and institutional entrepreneurship; and development of the private sector. The successful implementation of all these strategies requires the involvement of all stakeholders; and, of course, the “institutional capacity and political will” (Woodhall 2003) of the political system must be there.

4. Recommendations

Based on the findings of the study, the following recommendations should be envisaged,

- Government funding needs to disengage from housing, catering and other non-academic services provided to students. These services can be delivered by the private sector. Private-public partnerships could reduce the cost of social benefits without disengaging the government while increasing the efficiency of expenditure. Flexibility in fund management, which is tied to institutional autonomy, needs to be in place as per the provisions of the 2003 and 2009 Higher Education Proclamations.

- Much could be done in developing and expanding virtual universities and distance learning in all Ethiopian public universities. The idea of creating the Ethiopian Open University for developing distance education in the existing universities should be reactivated and a viable strategy designed to make use of the advantages of distance learning. The initiative to establish the Ethiopian Virtual Campus in order to connect 14 public universities in e-learning, a joint venture currently underway between the Ministry of Education and UNESCO, is an encouraging step in the right direction.
- The development of private higher education is an essential feature of a vibrant system and needs to be encouraged and supported, as it has been in other African countries. If developed well and strengthened, private higher education institutions can be an alternative to public institutions and could also share the burdens of public institutions.
- Cost-sharing should not be limited to undergraduate students and public institutions. It has to expand to apply to graduate students of public institutions and should also include private institutions, as they form part of the higher education system. Entrepreneurial activities on the part of institutions need to be encouraged and a comprehensive strategy for income generation schemes by public institutions should be mandatory. University-industry/business partnerships need to be encouraged. For sustainable financing of higher education in Ethiopia, the prospects of such partnerships need to be investigated and used more widely. Attempts should be made to attract and persuade private philanthropic institutions that have the potential to complement public funding by way of endowment and providing scholarships.

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