



**Introduction of Cost-sharing Scheme in Ethiopian Higher Institutions:
Opportunities and Challenges for Institutions of Higher Education**

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Introduction of Cost-sharing Scheme in Ethiopian Higher Institutions: Opportunities and Challenges for Institutions of Higher Education

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Abstract

The major problem facing almost all developed and certainly all developing countries is the basic dilemma that arises from continued high social and individual demand for access to various forms of studies and educational services at a time of growing constraints on public budgets. This situation is nowadays a principal source for strained relationship among the state, higher education institutions and the academic community. Higher education has to show that it can compete with other organized interests for financial attention from public funding sources. However, the existing and projected difficulties of public budgets should not be the sole context in which the financing of higher education is discussed. It is also timely to discuss these problems from the point of view of shifting the burden for expansion of higher education from public to private sources. Ultimately, if the university or any other higher education institution is expected to make a significant contribution to change and advancement in society, the state and society in general should perceive higher education less as a burden on the public budget and more as a long-term national investment for enhancing economic competitiveness, cultural development and social cohesion. This is also the framework within which the problem of cost-sharing responsibilities needs to be addressed.

Higher education in Ethiopia is characterized currently by a rapid increase in student enrolments and inadequacy of public funds needed to meet adequately the student population growth. On the one hand, the public universities have been dependent on government for their funding. This is because public funding is essential in ensuring access and equity as well as investment in most cost-effective programs. However, with the rapid growth of enrollments of students and declining funding from the government, it has become a matter of urgency to develop alternative approaches to funding. On the other hand, the central reality of most private institutions is that tuition fee payments by students are the financial basis for the institutions, and without them survival would be impossible. Both extremes – depending totally on government budget and only on students' tuition fees are questionable for the community. Cognizant of this fact, the Ethiopian Government is intending to implement students' cost-sharing scheme in 2003/2004 academic year. The purpose of this paper is, therefore, to analyze the prospects of private institutions of higher learning with regard to the introduction of cost-sharing schemes. The introduction of students' cost sharing scheme requires pre-planning and adequate preparation, and this paper tries to give suggestions to both the public and private higher institutions concerning the type of preparation they have to make for the years ahead.

1. Introduction

Human resources constitute the foundations upon which material development can be built, and education represents a major base for human resources development. In view of this, the World Bank (1991) argues that technological progress and increased productivity are closely linked with investment in human capital and the quality of the economic environment.

Institutions of higher education and research play a central role in developing the nation's human resource, yet many of them do not play this role effectively. It is generally acknowledged that the relevance of higher education should be analyzed in terms of its role and place in society, its missions, and relationships with the world of work as well as the state and public sources of funding and its interaction with other levels of education

The capacity to undertake scientific research and apply research findings to developmental problems is an important aspect of quality in higher education.

Institutions of higher education that are involved in education, training and research activities need to be connected to both the world's scientific networking and the specific needs and productive structure of the country. In support of this, Castells, M (1994) states that no country can afford to be completely out of touch with the international system.

Carnoy (1994), reviewing evidence from five developing countries, explores the role of institutions of higher education further and argues that building national capacities to manage science and technology requires more than strengthening university research and training. It also requires establishing close links between universities, government and productive sectors.

Mansfield, E (1994) reviews the evidence of the contribution of higher education to economic growth and development and finds high social return to investments in new industrial technology in developing countries. The benefits associated with investment on higher education are significant, but can only be realized in a system that gives priority to the systematic pursuit of quality of research and teaching.

In such systems universities will be able to better perform their developmental functions,

and move beyond their traditional goals of transmitting values, selecting elites and training to staff the civil service, especially where they focus on the need to build increased scientific and technological competence.

Financial and human resource constraints often make it difficult for many developing countries to pursue these objectives systematically. Castells (1994) argues that especially in the scientific and technological disciplines most relevant to development, few countries are able to address this quality challenge in isolation. He sees international and national cooperation as essential. The major problem facing Ethiopia is the basic dilemma that arises from continued high social and individual demand for access to various forms of studies and educational services at a time of growing constraints on public budgets. It is, therefore, timely to discuss these problems from the point of view of shifting the burden for expansion of higher education from public to private sources.

Ultimately, if the university or any other higher education institution is expected to make a significant contribution to change and advancement in society, the state and society in general should perceive higher education less as a burden on the public budget and more as a long-term national investment for enhancing economic competitiveness, cultural development and social cohesion. This is also the framework within which the problem of cost-sharing responsibilities needs to be addressed.

Higher education in Ethiopia is characterized currently by a rapid increase in student enrolments and inadequacy of public funds needed to meet adequately the student population growth. On the one hand, the public universities are totally dependant on the government for their funding. This is because public funding is essential in ensuring access and equity as well as investment in the most cost-effective programs. However, with the rapid growth of enrollments of students and declining funding from the government, it has become a matter of urgency to develop alternative approaches to funding education. On the other hand, the central reality of most private institutions is that tuition payments by students are the financial basis for the institutions, and without them survival would be impossible. For many of private institutions of higher education, student fees are the single most important sources of revenues. Not only recurring costs but even capital costs can be covered by student fees. As private colleges do not receive

financial assistance from the government, they are subject to less rigorous control and enjoy considerable freedom in formulating financial policies, such as fixing student fees and generating revenues and allocating spending.

Currently both extremes—public universities'/colleges' total dependence on government budget on one hand, and private colleges' total dependence only on students' tuition fees on the other hand are not rational ways of securing financial support for running any higher institution of education in the country. Cognizant of this fact, the Ethiopian Government is intending to implement students' cost-sharing scheme (which is different from total dependence on government budget or on only students' fees) in 2003/2004 academic year.

The purpose of this paper is therefore to analyze the problems and prospects of institutions of higher learning (public as well as private) with regard to the introduction of cost-sharing schemes. The paper focuses on the cost-sharing issue of higher education in general and private higher education institutions in particular. It also aims at raising the level of discussion on cost of higher education and adding to the literature on the topic.

2. Review of Literature

2.1 The Nature of Private Higher Institutions

While private universities share common roots and some similar functions as public institutions, they also have special characteristics. Most important among these is the financial base of private institutions. They are responsible for their own funding. Internal governance and management and other factors are also distinctive. Thus, it is essential to consider the role of private higher education and the specific problems facing them.

Private higher education is one of the most dynamic and fastest-growing segments of post secondary education at the beginning of the 21st century. A combination of unprecedented demand for access to higher education and the inability of the government to provide the necessary support have brought private higher education to the forefront. Not only has demand overwhelmed the ability of government to pay, but there has been a

significant change in the way that higher education is considered. The idea of an academic degree as a “*private good*” that benefits the individual rather than a “*public good*” for society is now widely accepted. The logic of today’s market economies and an ideology of privatization have contributed to the resurgence of private higher education. Yet, it is little understood because the large majority of the literature in the field deals with public higher education.

Private higher education is expanding worldwide, and will without question continue to grow. Private higher education has long dominated higher education systems in Japan, South Korea, Taiwan, and the Philippines. There has been a dramatic shift from public to private post secondary education in Latin America, and Brazil, Mexico, Colombia, Peru and Venezuela now have at least half of their students in private universities. Private higher education is the fastest growing sector in many countries in Central and Eastern Europe.

2.2 Financing Institutions of Higher Education

Full public financing of higher education - while theoretically questionable, might have been feasible at a time when higher education was reserved for a selected few and public resources were relatively buoyant, but at a time when the system of higher education in many developing countries have become mass institutions with broad functions of training and knowledge generation, this financing arrangement is no longer feasible and may in fact have become counterproductive in its effect on quality of teaching.

Quite a few important arguments have been presented in the literature against private financing of higher education and in favor of public financing of education, some of which have universal validity such as education produces externalities, education is both a public and a merit good; education is a valuable investment that contributes to economic growth, reduces poverty, and improves income distribution; and it is an important instrument of social mobility.

Under these circumstances, people will not be able to make adequate investments in education on their own and markets will not be able to ensure adequate levels of education for the population resulting in sub-optimum social investment and causing

huge social losses.

Hence, the state should finance education. These arguments are applicable in varying degrees to all levels of education-primary, secondary, and tertiary. For example, while primary education is regarded as a pure public good, higher-level education is regarded as a quasi-public good. The externalities produced by different levels of education are of different magnitude, and since they cannot be quantified, it may not be possible to say whether they are greater at the primary level or at the higher education level. Higher levels of education are also found to produce dynamic externalities that significantly contribute to economic growth, arresting diminishing returns (Romer, 1986 and 1990; Schultz, 1988; Lucas, 1988 and McMahoan, 1997 as quoted by Philip G. Altbach, 1999).

On the other hand, liberals have argued against state financing and they are in favor of the privatization of higher education on a number of grounds. The two main arguments in favor of private financing can be summarized in two phases: excess demand and differentiated demand. First, demand for higher education exists over and above the quantum that the government can provide. It is increasingly maintained that government lacks the resources to meet the growing-demand for higher education and hence, there is no solution other than privatization of the system.

Second, it is argued that privatization of higher education is important to meet differentiated demand. Government monopoly of the provision of higher education, it is felt, does not lend itself to satisfying the popular demand for diverse types and quality levels of higher education. Furthermore, privatization of higher education is also favored on the grounds of efficiency, job market relevance, responsiveness to market signals, and income distribution.

Tan (1992) explores the implication of particular ways of financing for the quality and efficiency of higher education and lays out the basic arguments for sharing the burden of financing higher education more equitably between public and private sources. More broadly, Tan argues for the need to gain a better understanding of societal and private benefits and explores effects of various subsidy allocation mechanisms on institutional efficiency and equity.

Ziderman (1995) further explores the financing issues after concluding that “ *...while a case can be made for the active role of government in higher education particular with regard to finance, the extent of state dominance typically found in developing countries cannot be justified in terms of an economic rational alone. Some retreat by the state, particularly in the realm of financing, can be justified*”. He reviews the scope for alleviating the financial pressure on the higher education system through the development of non-government source of funding.

2.3 Financing Private Higher Education

There are many models of funding private higher education. In the large majority of cases, private higher institutions are financed by collecting tuition fees from students. The central reality of most private institutions is that tuition fees are the financial basis of the institution, and without them, survival would be difficult, if not impossible. Tuition fee levels must be adequate to provide sufficient funds for institutional survival. This requires careful planning relating to student numbers, the cost per student, and the expenditure levels.

Particularly, most new private institutions do not have much of a financial cushion. The fact of tuition fees dependency means students must be able to afford to pay the fees charged. This, in turn, has an impact on the social class of students who study, and the kinds of programs that are offered. In this way, private institutions may exacerbate class or other divisions in society.

A relatively small proportion of private institutions have other financial resources. Universities sponsored by religious organizations sometimes have funds from these groups, or at least rely on help with staffing. However, most private institutions remain dependent on tuition revenues. Government support is not available to private institutions. Although direct funding is not possible, students in private institutions should be eligible for government loans and grant. Private universities should also compete for government research funding. In India, the large majority of students studying at private colleges are financed in part with government money. The Philippines has a fund for private universities that provides some resources. Japan and a

few other countries provide very limited financial support to students of private colleges.

2.4 Ownership and Profit

Traditionally, colleges and universities have been nonprofit institutions, operating under legal authority from the state to provide education and engage in research and other education-related activities. These institutions have been owned by non-profit agencies, such as religious organizations, scientific societies, and others, which have legal authority to own and manage them. For the most part, these arrangements do not permit the institutions to earn a profit, while they are guaranteed a high level of autonomy.

Today, there is a growing trend for-profit by private higher education institutions. These institutions may specialize in such fields as business management, computer studies, or related areas that might be in high demand. Profit-oriented higher education is without question a major phenomenon worldwide and will continue to expand in Ethiopia, and higher education system will need to accommodate to this trend.

2.5 Cost and Quality

Private institutions seek to '*fit*' into the academic system of a nation because their survival depends on being able to attract students and afford '*products*' that are attractive and appropriate. Virtually many of the newer private colleges are graded toward the bottom of the academic rank. This is due in part to the fact that it takes a long time to build up an academic reputation and status, but also these institutions offer applied programs and have very limited resources, although these are important exceptions to this generalization. On the economic side, these institutions seem to have lower unit costs. In fact, they have to keep tuition fee's levels affordable for the lower-middle class students. It is commonly believed that the low unit cost of private institutions are the result of the intensive use of part-time staff and the concentration of academic programs in the social sciences, which do not require expensive laboratories as do the natural sciences and engineering.

Of course, the argument concerning cost leads directly to the discussion about quality. Low costs are not always indication of poor quality rather an indication of healthy administration and internal efficiency closely linked to the quality debate, which is the

issue of the profit motive, which lies behind the purpose of many private institutions.

2.6 The Introduction of Cost-Sharing in Ethiopian Institutions of Higher Education

It is recognized that the only long-term means of generating significant non-government funding is through cost-sharing or cost recovery from students. Cost-sharing/cost recovery requires institutions to charge tuition fees and eliminate all subsidies for non-educational costs (such as accommodation and food services). However, currently all public institutions in Ethiopia do not charge even a nominal tuition fee.

Serious consideration is now underway to introduce genuine cost-sharing through the levying of tuition and residence fees. Several studies have recommended that universities should aim at generating income equivalent to 30% of their recurrent expenditure requirements from student fees. This implies that the remaining 70% of their fund should be covered by other means. It is, therefore, of some concern that the introduction of cost-sharing calls for the possibilities of other forms of financing (relatively limited) over the introduction of tuition fees, on the grounds that charging fees is too sensitive issue because of the possible adverse consequences on issues of social justice, mobility and equity.

The rationale for tuition, accommodation and catering fees can be briefly summarized as follows:

- 1 As a result of attending a university, students will benefit through significantly greater lifetime earnings (i.e. high private rates of return from higher education), and therefore should pay at least a reasonable proportion of the cost.
- 2 Some students often come from families with at least a degree of ability to contribute to the cost of higher education.
- 3 They must make institutions more responsive to student needs and develop the concept of treating students as clients, with consequent improvements in efficiency, quality and level of service.
- 4 If students have to pay for their education they will value it more. So, there will be an incentive for them to complete the programs quickly in order to reduce the costs, and they will be less likely to take action that disrupts their education or

reduces the quality of the service they are receiving.

- 5 In a competitive, fee paying environment, universities will be forced to become more efficient and economical (tackling such issues as gross overstaffing) or risk losing students to alternative forms of higher education.
- 6 Pressure/incentives will be applied on universities to privatize non-core activities (such as catering, cleaning, security), thus offering further opportunities for dialogue with the private sector.
- 7 Universities will have to relate training level to the market for graduates: they will have to react quickly and adapt to changing markets or lose market share in terms of students; students will be applying pressure as they will see where the market for graduates is and demand appropriate training programs at the universities.

If realistic student fees were introduced, fee income would become a major source of funding for universities and the possibility of these being multiple sources of funding for universities becomes reality. Figure 1 is a model of the possible funding of universities through multiple sources.

Figure 1: Model of the Possible Funding of Universities through Multiple Sources

2.6.1 Financial Support for Students

For universities, the objective of diversifying their sources of income is primarily to secure a stronger, more stable financial base, a greater degree of independence from government, and (as a by-product) incentives to become more effective and efficient and of greater relevance to their communities. The only way to diversify funding to a significant extent is to charge students a fee for the service they receive. How and who pays that fee is essentially irrelevant to the university. However, it is clearly not practical politics for universities to ignore the problem of how students pay fees. Consequently, universities, governments and the private sector must debate the development of a rational scheme of student support as a vital component of overall financial reform and the greater involvement of the private sector.

There is little information available on the capacity of our students to pay full cost fees in situations where tuition fees are absent or limited to only few private institutions. In few big cities such as Addis Ababa, Nazareth, Awassa and Mekele where there are large networks of private institutions, there is strong evidence that middle class families can and pay the full cost of education at private Colleges and University Colleges. However, in most localities there is a perception that the majority of potential students or their families cannot be able to afford full cost for their studies. Thus, the major challenge of charging such fees is the fear that it will result in reductions in enrollment and further distortions to the profile of students in favor of those from wealthy/middle class families.

There are a number of points to be considered:

- 1 An investment in a higher education is probably the single largest investment that an individual makes in his/her life.

- 2 Even full cost student fees would represent only a relatively small proportion of the total private costs of attending a higher education institution.
- 3 In most private higher education institutions, access is already skewed in favor of students from higher income groups: poorer students have less access to private higher education not so much because of high fees but because of disadvantaged access to primary and secondary schooling, social attitudes to higher education (particularly acute for girls) and the overall private costs of attending a university.
- 4 Extrapolating from the ability of many students to pay secondary school level fees, it is possible to deduce that many would find the necessary means to pay for their tertiary education (either from their families or communities, or through part time vocational employment).

In any event, those able to pay tuition fees and residence fees without recourse to support from government should be encouraged to do so. Thus, relieving the burden on the state and diversifying the sources of funding – benefits by themselves.

Regarding government funding as only providing a certain number of student places and allowing the balance of the universities' capacity to be taken by private fee appears to be a very definite step in the right direction and is also an interesting indicator as to the demand and the ability to pay for higher education. Nevertheless, it is clear that a cost sharing/recovery scheme will, on the margin at least, decrease access to higher education for well qualified students from poorer backgrounds, and, therefore, cannot be equitably implemented without an effective students support system whereby government, the private sector and donors, together with families and communities, provide needy students with financial support for their education.

The way forward is to steadily, in a phased manner, introduce full cost recovery fees whilst simultaneously developing targeted student support systems. Figure 2 below presents a model of possibilities for multiple sources of support for students. In an environment where universities are seen as more autonomous, effective and responsive and where genuine cost sharing is in place, there will be a host of opportunities to considerably increase the number of students sponsored by the private sector and other

non-government sources.

All systems of student support should be closely targeted so as to provide the support where it is needed by excluding:

- 1 Those students and their families who can afford to meet the costs of attending a university.
- 2 Those students who are less likely to succeed in their studies.

The assessment of need is not easy in Ethiopia (or anywhere else for that matter), but should take at least the following points into account:

- 1 The occupation and educational background,
- 2 Assets and type of housing of the student's family (including visits and spot checks by assessors).

In order to maximize advantages to all parties, it is essential that the bulk of financial support to students be supplied in the form of loan that has to be repaid. Loan allows students to invest in higher education and overcome any inability to pay for their education, by deferring payment until employment and benefiting from the returns of higher education.

There is a wealth of literature on student loan and scholarship schemes to provide financial support to poor but academically gifted students. A variety of loan schemes have been developed in both the industrialized and developing world, all of which are dependent on students repaying their loans from earnings after graduation.

Figure 2: Model of Possible Multiple Sources of Support for Students

The experience with fixed loan repayment schemes (mortgage type loans) in developing countries has generally been disappointing, and it appears that loan repayment schemes that are contingent on a graduate's income (income contingent loans) are likely to be more effective, particularly if the loans repayments are recovered through the income tax system.

Any state funded loan scheme should be a revolving fund with loan repayments being paid into the fund to assist future students: in the long term, it could become self-sustaining. In addition, there is considerable potential for private sector support and advice (e.g. from banks) for the development of loan delivery and collection schemes. Student loan schemes should not be limited to government loans only – the private sector should also construct such schemes.

The establishment of a comprehensive, effective loan system for students in higher education is a complex and somewhat technical issue, which cannot be dealt in depth in this paper. The primary issues, which have been succinctly summarized by Ziderman and Albrecht (1995), are:

- 1 The lending mechanism/institution
- 2 The repayment mechanism
- 3 Targeting needy and able students
- 4 Interest rates and subsidies
- 5 Mechanisms for minimizing default

An absolutely crucial factor – apart from the technical aspects of developing a loan system – is to make potential students and society as a whole aware of the rationale for tuition and other fees, and of the advantages to society of loan schemes. This is where governments and politicians should play a responsible, leading role in making the public aware of the true situation of higher education funding in the country, why it is equitable and fair for students and their families (rather than taxpayers) to pay most of the cost, and why the quality of the education and the living environment (accommodation, meals, facilities) should improve as a direct consequence of their fees.

3. Conclusions and Recommendations

In a world, which has literally become a global market, there is a wide consensus that who ever has high level of knowledge and skill will be able to exploit opportunities in any part of the world. It is being aware of this trend that the Ethiopian government gives great emphasis to the expansion of higher institution in the country. In its policy document, the government clearly indicated that the expansion of higher institution in

Ethiopia is not only the responsibility of the government, but also the responsibility of all citizens.

The Ethiopian higher education is characterized by a unique paradox reflecting the tension between the old and the new, between tradition and innovation. On the one hand, universities are very conservative institutions. On the other hand, higher education institutions are faced with formidable challenges: the social challenge of the growing demand for post-secondary education, the financial challenge of doing more with fewer resources, and the technological challenge of supporting knowledge-based economic growth strategies.

Confronted with the need to adjust to rapidly changing circumstances, both the public and private institutions of higher learning as well as the government should take the following considerations.

1. Institutional and Financial Diversification

While public subsidies are likely to remain the main source of funding for higher education in Ethiopia, they are becoming increasingly insufficient to ensure the financial viability of higher education systems, which are rapidly expanding under the pressure of the rising social demand. Therefore, there is a need to diversify the sources of funding of institutions of higher education to improve the long-term financial position and become less dependent on shrinking government budgets and purely on students' tuition fees. Thus higher education institutions need to diversify revenue sources through different mechanisms.

Financial support from industrial and commercial firms can be generated in the form of grants or scholarships for specific training or research programs directly relevant for these companies.

Measures to mobilize additional resources appear to be most successful when integrated into comprehensive reform strategies, which include developing a large range of institutions with a variety of missions, such as short-cycle programs and open learning systems, and promoting private higher education institutions to complement the public

network.

Polytechnics, short-cycle professional and technical institutions, community colleges, and Open University programs can represent cost-effective alternatives to traditional high-cost university programs. The shorter duration of courses and the consequent lower cost per graduate make it financially easier to meet the demand for more access to post-secondary education.

Short-cycle institutions are also more able to provide efficient and flexible responses to identified labor needs for middle-level technical and managerial personnel. Distance education programs and open universities can serve large numbers of students at one time and at lower costs than campus-based higher education courses, provided the dropout rate remains low.

As part of a differentiation strategy, private institutions can also play a significant and useful role in expanding access to higher education. Private institutions are often more flexible in rapidly responding to changing demands of students and employers.

2. Establishing a Supportive Policy Framework

In Ethiopia like in almost all countries of the world, the government has traditionally played a dominant role in the financing and provision of higher education, but this strong role had its origin in political and economic circumstances--- elite systems, strong public sector demand for graduates, and stable economies--- which have changed radically.

Currently, the government's relationship with higher education institutions should become more indirect than direct, more supervisory than interventionist. It does not mean that the role of the state is less important, but rather than continuing to be the main, if not exclusive financier and provider in the higher education sector, the most important responsibility of the state is increasingly becoming the development of an enabling policy framework.

This implies a focus on coordination, regulation, accreditation, and the provision of guidance and incentives for both public and private higher education institutions to meet national training, research and services needs in a complementary manner.

In this context, the role of the Government should be:

- 1 Developing a coherent and logical policy framework
- 2 Developing incentives and market oriented systems to implement policy
- 3 Ensuring that there is increased management autonomy for public universities
- 4 Remaining for the foreseeable future overwhelmingly the largest provider of financial support to students and thereby, through manipulating its support mechanisms and amounts, influencing where growth/cutbacks occur.
- 5 Supporting capital development (this could be on a competitive basis open to private institutions as well)
- 6 Funding basic research and technology development and transfer (in many fields these benefits cannot be derived by individuals or private investment alone, and therefore the State is inevitably the major source of funding)
- 7 Ensuring that disadvantaged groups are able to secure support to attend higher education institutions, rather than dissipating scarce resources on subsidizing the rich.

3. Providing Students' Support Services

Universities (public as well as private), the governments and the private sector must develop a rational scheme of student support and consider it as a vital component of their overall financial reform. Furthermore, although direct funding is not possible, students in private institutions should be eligible for government loans and grant. Private universities should also compete for government research funding. In India, the large majority of students studying at private colleges are financed in part with government money. The Philippines has a fund for private universities that provides some resources. Japan and a few other countries provide very limited financial support to private colleges.

4. Strategic Planning

In a differentiated higher education system, universities and colleges, polytechnics, technical institutes, and private institutions all have different but related training

functions. It is an important responsibility of the state to articulate their activities in a complementary manner so as to optimize the contribution of each component to the country's human resource strategy.

Guiding the development of a differentiated higher education system requires a well-defined legal framework and consistent policies. It also needs to be based on a long-term vision for the sector as a whole, and for the role of each type of institution within that whole.

Last but not least is the introduction of students cost sharing scheme requires pre-planning and adequate preparation. Both public and private higher institution should make necessary preparation before launching cost sharing scheme.

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