Ethiopian Government Incentive Structure: A Comparative Analysis on Export and Education Sector

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Abstract

This study aims to analyze the trade and incentive regime in Ethiopia in the context of the trade liberalization and other market-oriented reforms, initiatives in the early 1990s. As part of the market-oriented reforms, initiatives have been taken to facilitate private sector participation in export trade. Major reform measures were implemented to achieve this objective. For example, foreign exchange retention scheme was introduced to allowing exporters to retain part of their foreign exchange proceeds. There is also a bonded manufacturing warehouse scheme and an import duty rebate scheme aimed at providing exporters of manufactured goods at world market prices. And Export Promotion Council (EPC) consisting of high level government officials, exporters, and service providers led by the Prime Minister was set up in 1992 to design; implement and monitor development polices. Since the establishment of EPC, various incentives were put in place to promote the growth of export products. These incentives will be examined in this paper in an attempt to show the possible salutary effect of equivalent government measures in other areas such as the private higher education sector which the researchers argue deserves equal, if not more, attention.

I INTRODUCTION

Over the past two decades, there has been a shift in perceptions regarding the appropriate role of the state in the economy. With trade, financial liberalisation and sweeping privatisation programmes, the role of government has moved away from direct intervention towards providing a more enabling environment for private sector enterprise, while still ensuring balanced and sustainable social development. In a relatively free market economic system, government take the view that markets work, assume a *laissez*

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faire (let alone) approach and allow the forces of supply and demand to set prices and allocate resources.

Nonetheless, the government still plays a pivotal role in the process of development. The precise role of government, of course, depends on the type of economic systems and its role might relate to economic problems of what goods and services to produce, how to produce them and who is to receive them. In most countries, governments encourage market led development by using the tax system as an incentive for enterprise and a tool for income distribution and creating a stable macroeconomic environment through balanced budgets, balance of payments and manageable national and foreign debts.

This short paper explores Ethiopia's incentive structure on export and education sector in an attempt to show what a government can do to promote a particular sector. It begins with the discussion of the various schemes that currently exist to encourage promotion of Ethiopian exports. We note here that the government is keen to see the growth of the export sector and has strong, albeit difficult to implement, incentive structure. The second part of the paper discusses the incentive structure that exists on education sector and its limitations. It also tries to draw broad lessons from the experience of other countries and suggests ways of improving the existing support system. Finally, we conclude by pointing out what the education sector could learn from the strong intervention by the government on education sector.

II. ETHIOPIA'S INCENTIVE STRUCTURE ON THE EXPORT SECTOR

As part of the market-oriented reforms taken since the assumption of power by the current government, initiatives have been taken to facilitate private sector participation in export trade. Perhaps the two major reform measures implemented to achieve this objective are the dismantling of government monopoly in coffee trade and abolishing the mandatory approval requirement for export contracts by the National Bank of Ethiopia. Under the latter policy exporters were required to obtain the approval of the bank of the invoicing price before any shipment was made. This approval requirement, which constituted an important element of the foreign exchange control regime, hampered exporting by limiting flexibility of deciding prices in line with market conditions and through and delays in obtaining approval.

In response to the slow growth of export and as part of trade reform, efforts have been made by the government to promote export activities on several fronts. The strategy principally includes the removal of bias against export activities inherent in protective import policy. Duty Drawback (DDB), Bonded Warehouse (BW) and Voucher Schemes have been introduced. All export taxes have been eliminated. As with import, export-licensing procedure has been streamlined. In the following pages we will discuss the salient incentive schemes in Ethiopian export development strategy.

1 Incentives to Access Inputs at World Price

The government has introduced three schemes to ensure access to inputs at world price for Ethiopian exporters. These schemes are Duty Drawback (DDB)[3], Bonded Warehouse (BW), and Voucher Scheme (VOU) incentive structure. In practice, the schemes have been met with mixed results.

Duty Drawback (DDB)

Under the DDB[4], the exporter is refunded with all the indirect taxes and duties he paid for raw materials imported or locally produced provided that those materials are used for exportation. The draw back is paid by the Ministry of Finance. As compared with the earlier system (1993), the reformed DDB scheme has been improved but is still burdened with several conditions. For example, partial and occasional exporters cannot benefit from this scheme where raw materials equivalent in price and quality to those they imported are locally available. There is no refund when the duty paid is less than 1,000 Birr. Also, the commodity produced with the raw material imported under DDB should

[3] Export Trade Duty Incentives Scheme Proclamation No. 249, 2001 repealed an earlier legislation, Proclamation No. 69, 1993 and brought improvements to the DDB.

[4] For a detailed description of the formula, see World Bank, *Developing Exports to Promote Growth*, April 25, 2002.

be exported within one year. Because of these requirements, the DDB scheme has mainly benefited large and regular exporters. First-time and small exporters are the ones who should be encouraged, but as things stand now, they face some difficulties in taking advantage of the system. Even with the new streamlined scheme, few exporters are using it, as they prefer the voucher system.

The Voucher System

The Voucher Scheme (VOU) is popular because the exporter does not pay any duty when he imports those raw materials to be used for exportation. The voucher is a document with monetary value that is printed by the Ministry of Finance. It is used as a "deposit for duties and taxes payable on imported raw materials," as defined in the regulation. Basically, it is a promissory note to pay the duty promised by the exporter when the exporter fails to export the goods produced out of the imported goods under the voucher. The voucher is issued to eligible producers by the Customs Authority. The exporter needs to apply for the eligibility certificate from the Ministry of Trade and Industry (MTI). To benefit from this scheme, exporters must:

a) have a manufacturing license (a business license to manufacture);

b) submit an annual business and export plan;

c) submit input-output coefficient; and

d) declare materials wasted in the process.

For new exporters, the conditions are more relaxed. Only an investment permit or a trade license and an annual export plan are required.

When the imported raw materials arrive at the customs post, the exporter deposits the vouchers in the amount of taxes and duties assessed for the goods with the Customs Authority. The goods are then cleared for transfer to the exporter’s private warehouse.

The Bonded Manufacturing Warehouse (BMW)

For several reasons, including the lack of proper, secured warehouses, only three exporters (Garment Express, Addis Izmir and Nazareth Garments) are utilizing the scheme. The law provides that beneficiaries of BMW are those ineligible for the VOU. It remains unclear whether an exporter eligible to use the VOU can also make use of the BMW.

The main conditions to be a beneficiary of BMW are:

a) a manufacturing license (business license for manufacturing);

b) customs licensed warehouse; and

c) paying allowance to customs officials and warehouse license fees.

Under the scheme, the imported raw materials are directly transferred from the port of arrival and stored in a bonded warehouse. The customs official and the exporter shall jointly lock the licensed warehouse. The law also provides that the raw materials designated for production each time must be removed in the presence of the customs official.

The scope for improving the system of duty drawback should include a better system of pre-set ratio of inputs used up for major exports (currently very few). This would replace the current rudimentary system, which relies almost completely on the exporter's voluntary declaration of the ratio of raw material used up for the final product.

Refunds can be expedited by improving and modernizing the communication network between Customs and the Treasury. This would minimize the processing time for duty drawbacks known to have been extensive, which seriously affected exporters' cash flow.

The use of Bonded Warehouse facility should be encouraged because this method has the advantage of avoiding the problem of controlling inputs based on input-output coefficient.

Foreign Exchange Retention Scheme

Foreign Exchange Retention Scheme was also introduced to allowing exporters to retain part of their foreign exchange proceeds. The scheme went through a series of amendments and currently exporters are allowed to retain 10% of their proceeds for an indefinite period and of course sell the remaining within 28-days. According to the Retention and Utilization of Export Earnings and Inward Remittances Directive No.FXD/11/1998 Retention Account allows exporters to hold indefinitely 10% of their export earnings in foreign currency with banks, use it for their export-related activities and also sell it to commercial banks at an agreed rate of exchange. On the other hand, Retention Account B allows exporters to use the remaining 90% of export earnings for export-related activities, but within a period of 28 days and also sell it to commercial banks at an agreed rate of exchange. If the exporter fails to utilize his/her foreign exchange earnings within 28 days, then the foreign-exchange earnings will be changed into local currency at the exchange rate prevailing on the next day.

2. Export Support System

Export Credit Guarantee Scheme (ECGS)

Ethiopia's Export Support System has a financial support program in the form of an Export Credit Guarantee, and an Export Promotion Program focusing on service to assist exporters. To cushion banks against the risk of export financing by banks, the National Bank of Ethiopia has established an Export Credit Guarantee Scheme. This scheme aims to encourage banks to provide non-coffee exporters with short-term credit for working capital requirements relating to exporting of all products other than coffee. The Export Credit Guarantee Scheme (ECGS) was introduced in 1999 and revised on May 9, 2001. The scheme is the only financial support to exporters.

Due to the fact that the Export Credit Guarantee Scheme is most useful for new and small exporters (particularly exporters who venture into new products or who start with newly found customers), the government needs to strengthen the ECGS system as a priority, in view of the fact that access to the finance of this group of exporters is a serious impediment to their business.

3 Suppliers of Export Support Services

Suppliers of Export Support Services are in short supply in Ethiopia[5]. In principle, a number of line Ministries, Agencies, Authorities and Offices, including Ministry of Trade and Industry (Foreign Trade Department), the Ministry of Foreign Affairs, the Investment Authority, the Coffee and Tea Authority, etc., are actual or potential providers of some trade services. The main public agency established for the specific purpose of promoting export is the Ethiopian Export Promotion Agency (EEPA). All other organizations cited above are not directly involved with export promotion. The Ministry of Foreign Affairs, through its commercial attachés abroad, might be involved in introducing Ethiopian export commodities by issuing leaflets, gathering information about trade fairs abroad, facilitating trade missions, etc. The Ministry of Trade and Industry is only involved in routine regulatory activities but not specifically involved in export promotion although recently it took over the export promotion activity. The Ethiopian Coffee and Tea Authority's primary objective is controlling the quality of coffee. It also has additional objectives such as encouraging the production and processing of coffee as well as promoting coffee and tea trade. To meet these objectives, it claims to carry out activities including quality control and grading of coffee, training farmers and development agents, market research, creating liaisons with international organizations, collecting and disseminating information and promoting Ethiopian coffee abroad.

The Authority receives information daily on international coffee prices and disseminates them on request. Together with the Ethiopian Coffee Exporters Association (see below), the Authority is among the few rare organizations that provide real export support services related to the specific group export of products, namely, coffee.

The Ethiopian Export Promotion Agency

The Ethiopian Export Promotion Agency (EEPA) is a state agency established for the specific purpose of promoting export. The Agency was established at the end of 1998; it has no extension office in the country other than the head office at Addis Ababa.

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[5] For a review of supply of export service , see Berhanu Nega, Kibre Moges and Worku Gebeyehu, *Source and Uses of Export Services in Ethiopia,* mimeograph. op. cit.

The Agency is mandated to provide a wide range of services including product development, market research, trade information, training, export facilitation, advisory services, facilitating trade fairs, exhibition, trade missions, match-making, inquiry services, as well as trade library and internet services. The Agency has also worked with major private organizations such as the Ethiopian Coffee Exporters Association to provide support in trade fairs.

According to EEPA officials, the Agency is now concentrating its activities in a few areas, mainly on foreign market information, contact making, and government service facilitation. The Agency also publishes a newsletter that has the addresses of importers and exporters. Exporters interviewed reported that EEPA, despite its best efforts, has not been able to meet their needs for market and product advice. The Agency also admits that its services are rather limited as a result of budget constraints, lack of skilled personnel, and inadequate facilities.

EEPA is managed by highly trained and highly motivated people, but their work program is too ambitious. More importantly, the concept of government-funded support service for exporters needs to be reassessed. It is widely known that the government-funded Trade Promotion Organizations (TPOs), popular in South Asian countries in the 1960s, have not been successful for three reasons. First, the kind of services provided by TPOs is normally not relevant to the needs of exporters; they are based on the estimations of government officials regarding exporter needs, since they are supply-driven and not demanded (demand-driven) by exporters. Second, government officials are simply unequipped to supply the kind of commercial-oriented service or advice that business people would need (and their needed advice would quickly become very specific). Third, government officials are more familiar with regulatory control than promotion work. A successful work program for export promotion would have to involve active participation by the private sector, the main stakeholders (see "Demand-Driven Support Service" below). The government can still have a facilitator's role, but not a controlling role.

EEPA's mandate is too broad, given its resources. The institution must identify the most urgent needs of exporters and narrow their objectives. Currently, the numerous objectives, as stated, are similar to those of the TPOs of newly industrialized countries (NICs) that have reached a more advanced stage of trade liberalization and export diversification and sophistication. Given Ethiopia's current, simple export structure and the needs of exporters at this early stage of market identification and product development for export, support service should be more selective and more realistic. Support service can be simple but more relevant to a new exporter's needs such as goal-setting assistance and help in developing a strategy at the industry and product level as well as helping new firms understand the whole process of exporting to targeted markets such as AGOA. Special attention should be given to existing capacity of production in view of minimum export shipment before arriving at a production capacity worth marketing. The scope of support service can be broadened over time, in light of progress made by government officials in terms of better understanding of exporters' needs and by exporters in terms of know-how acquisition and export diversification.

Private sector suppliers of service

Understandably, there are no suppliers of export support services in the private sector except for the coffee sector. Professional business associations, established for mutual benefits of members, do provide some export support services. Such associations include the Ethiopian Chambers of Commerce, the Addis Ababa Chamber of Commerce, and the Ethiopian Coffee Exporters Association (ECEA).

The Chambers of Commerce

Since its establishment in 1947, the Ethiopian Chamber of Commerce (ECC) has existed as an umbrella organization for the 12 city-chambers located throughout the country, including the Addis Ababa Chamber. Regarding export services, the Chamber has several objectives including finding foreign markets for export, preparing commercial journals, directories and trade reports, organizing exhibitions and seminars, and conducting studies on improving export products, etc.

Currently, the focus of both the Ethiopian and Addis chambers is on foreign market information and contact-making services. The Ethiopian Chamber provides a range of market information services including on commodity prices, overseas representation, country information and sector specific services. On the other hand, the Addis Chamber focuses on price and quality information. With respect to making contacts, both Chambers prepare directories, organize trade fairs and trade missions, and are said to provide legal support, training and lobbying activities. In addition, the Addis Chamber provides some buyer contact services and feasibility study support. However, both Chambers stated that their service is limited due to financial constraints.

The Ethiopian Coffee Exporters Association

The 30-year-old Ethiopian Coffee Exporters Association (ECEA) is the only private association established for the specific purpose of promoting export. It represents almost all coffee exporters.

The ECEA provides its members with specific market information. It receives daily closing prices of coffee from Reuters London and New York, and also represents its members in overseas forums. It makes contacts with buyers and organizes trade fairs and trade missions. As an advocacy group, it also lobbies governments for policy reform and for resolution of outstanding issues raised by coffee exporters.

Other major objectives of the ECEA include helping exporters improve the quality of coffee production and export, standardizing and streamlining coffee trading process among and between members and the various categories of coffee trader, and establishing a commercial code of conduct for members to observe. Given this broad mandate, the promotion work of ECEA is somewhat similar to the promotion activities of the Ethiopian Coffee and Tea Authority.

The Ethiopian Coffee Exporters Association has limited financial resources, which effectively limit its service to members. Overall, it has performed its mandate fairly successfully. In the broad perspective of diversifying Ethiopia‘s export, there is a need to develop similar civil society or professional associations. The government and the

Ethiopian Export Promotion Agency can be useful facilitators in this endeavour.

An Export Promotion Council (EPC) consisting of high level government officials, exporters, and service providers led by the Prime Minster was set up in 1992 to design, implement and monitor export development policies. The EPC was reconstituted as the Ethiopian Export Promotion Agency in 1999 to implement a wide-ranging export development agenda encompassing conducting market research; facilitating participation of exporters in trade fairs, exhibitions and trade missions; and disseminating market information.

However, the only export support service EEP has so far managed to provide the exporters with the publication of a bi-monthly newsletter "Trade Point", which lists few addresses of importers and exporters and itemizes certain tradable products. The performance report presented last year to the Parliament by the General Director of EEP indicated that the Agency had so far been preoccupied with its own capacity building: designing regulations, organizational restructuring, establishing information system and training its personnel[6] .The Agency also suffers from financial constraints, lack of skilled and experienced personnel, and inadequate facilities, and demanded the formation of an "Export Development Fund" to provide the intended service at least on a cost sharing basis. [7]The Ministry of Foreign Affairs has taken some initiatives to promote Ethiopian exports through its commercial attaches in foreign diplomatic missions. The tasks assigned to commercial attaches include gathering information about trade fairs, facilitating trade missions, distributing leaflets, and organizing discussion forums. Ministry of Trade and Industry has a foreign trade department, which largely focuses on policy related issues.

According to a recent survey conducted by the Ethiopian Economic Association, exporters have so far hardly benefited from these various government-sponsored export

[6] Abebe, 2002.

[7] Berhanu, Kibre and Worku, 2002.

support services[8]. Although private sector business associations have made some attempts to fill this gap, so far, little progress has been made because of various financial and institutional constraints.

4. Tax Incentives System

Ethiopia has a very elaborate, perhaps an unnecessarily complicated, incentives system. Under current laws (regulation No. 7, 1996), the incentives differ according to the industries, their locations and other criteria in four schedules (lists) that are divided in sub-lists. For example, a list in Schedule One called "Pioneer Investment Activities" lists 49 sub-sectors: under "Irrigated Agriculture" category, there are production of cereals, production of oil crops, etc. Under manufacturing, the list includes preparation and spinning of textile fabrics, manufacture of pulp, etc. Schedule Two lists industries under the category labeled "Promoted Investment Activities" with 80 items; these include, for example, livestock farming, dairy farming, agriculture, etc. Schedules Three and Four list industries and conditions for import duty exemptions, all very elaborate and complicated.

All investors, domestic as well as FDI, who have received an investment permit, are entitled to a package of privileges and incentives. This package includes tax holidays, duty-free importation of machinery and equipment plus spare parts (up to 15 percent of value), the right to carry forward losses, etc. The pioneer investment activities are given a longer period of tax holidays than the promoted investment activities. There are no special tax privileges provided for exporters. The incentives themselves are not excessive; the problem is the existence of too many lists.

The use of priority or encouraged industries lists, especially when they are tied to tax privilege, is not a good idea. As bureaucracy breeds itself, what in the beginning was defined to mean a non-binding list of encouraged industries in many countries has

[8] Ibid

become over time a bureaucratic instrument of FDI screening, particularly for lending purposes by financial institutions. The use of "lists," a by-product of inward-looking development strategy of the 1960s and most popular in South Asian countries, has proved to be ineffective and counter-productive in the long run. For this reason, these lists should be abolished. Other transition countries in Asia, such as China and Vietnam, also have priority lists. They have gradually reduced the number of industries on the lists to a few.

5. Access to Credit and Financing

Working Capital

Access to bank credit is the most serious problem for exporters, although the total volume of credit (loans and advances) by all banks to the private sector in general has increased significantly since the reform. Credits to the private sector represent a much larger share of total bank credit (Table 5.3).

Table 5.3: Outstanding loans and credit private sector and State sector, by all banks. Fourth Quarter, June 2002
Birr million

	Private banks (1) Outstanding	State banks* (2) Outstanding	Total credits (1+2) Outstanding
Central government	8210.4	302.9	8513.3
State Enterprises	1808.0	12.9	1820.9
Cooperatives	757.9		757.9
Private Enterprises and Organizations	11763.8	3058.4	14822.2
Total	22540.8	3374.2	25915.1
Inter-Bank Lending	517.7	0.0	517.7

Note: *Including Ethiopia Development Bank (EDB).

Source: Ethiopia National Bank

The Commercial Bank of Ethiopia, a state-owned commercial bank and the largest commercial bank in Ethiopia, has a portfolio with very large outstanding loans to the state sector resulting from a large loan to the central government. Other commercial banks are holding portfolios that mainly comprised loans to the private sector. Disaggregated data are not available to show the extent to which the export sector has benefited from this increase. Interviews with importers and exporters have revealed, however, that access to financing seems to be the most serious impediment to their export activities. They have experienced difficulties in finding, bank financing, although the banking sector is having excess liquidity.

Upon close examination, there do not seem to be major problems of access to finance for exporters of traditional commodities such as coffee and hides and skins since these goods and their customers are both well- known to credit institutions. This may also be one reason why coffee exporters are not beneficiaries of the export credit guarantee scheme.

Hence, the problem is affecting first-time exporters and those who venture in exporting new commodities. This case is particularly true for exporters in small- and medium-scale industries (SMI).

Several problems are involved relating to the issue of access to credit and financing. The problems include the difficulty of collateral affect, both short-term lending for working capital and term lending for investment. As a result, the banking sector is having difficulty in solving its excess liquidity problem.

Despite the financial reform, lending instruments are still limited to rollover overdrafts in almost all cases. Other instruments to facilitate trade finance such as lending on inventories (receipts), rediscount facility, etc., have not been developed.

Working capital is most important for export development, but bank lending has been constrained by legal problems involving the use of land-use rights for collaterals. For cases where there are no problems with collateral, import financing for export production as it is currently practiced only benefits old exporters, not first-time exporters. This occurs because approval of credit is based not just on L/C but also on shipping documentation. In the context of Ethiopia that is in the very early stage of export diversification and development of manufacturing, it is the emerging group of new exporters that provides the dynamics for export diversification.

Term Lending

The private sector has virtually no source of term borrowing, since all six private banks have no policy for term lending except from the government-owned Development Bank of Ethiopia (DBE). In contrast to the period during which Ethiopia was under the socialist system, DBE has lent to private sector in increasing amounts over the years since 1997.

DBE has a lending portfolio that reflects the country's economic profile, leaning heavily on agricultural production, in particular coffee processing and other resource-based exports; it has a standard method of project appraisal common to most development banks. The Bank has a rather conservative lending policy in that it requires high collateral value to protect the loan performance. For example, under the requirement of 125 percent collateral of fixed asset, the collateral would actually amount to nearly 100 percent of the value of loan amount if the borrower puts up a minimum of 30 percent of the total project cost and borrow the rest from DBE. For projects located in rural areas, the project itself can not be used to guarantee the loan since the Bank requires 100 percent collateral outside the project.

The shortage of funding for term lending at DBE and for commercial banks hampers the start of lending over the long term. Currently, DBE is said to have a demand for about Birr 1 billion, or roughly US$125 million, since it expected a renewed funding of Euros 10 million from the European Development Bank (Appraisal completed in June 2002). The World Bank has no funding assistance for EDB, while African Development Bank (ADB) has funded some discrete projects in tannery and marble. However, no credit line parallels that of the European Development Bank.

Although short-term credit is most important for export expansion in a mature market economy, long-term financing for investment is also crucial in order to enable the emerging Ethiopian private sector to expand and develop a more diversified export industry beyond the current simple products mix. There seems to be a case for the World Bank and other international financial institutions to consider providing funding assistance and for the government to establish a revolving fund to refinance term lending by commercial banks. This could be in the form of a credit line formulated with stringent eligibility conditions under some apex arrangements.

Currently, the Government of Ethiopia has introduced various measures and launched an all-out effort towards the attainment of significant export. Ethiopia's industrial development strategy highly encourages investors engaged in the production and export of agricultural products (especially in floriculture, horticulture, pulses and oilseeds). The government has allocated a substantial amount of finance for investors who would be engaged in this sector for export and can apply loans for up to 70% of their investment project.

This special loan is provided through the Development Bank of Ethiopia (DBE) and the bank has the following credit policy:
Interest rate is fixed at 7.5% per annum. However, this could vary from time to time. The Bank shall give its clients maximum grace period that involves the period up to the commencement of operation. Maximum allowable grace period is fixed at three years.
All fixed asset of the project shall be held as collateral or loan security of the project. The debt / equity ratio requirement shall be 70 / 30 for newly starting projects. However, for on-going projects, which include expansion of existing projects, ratio shall be 60 / 40.
Loan repayment period is determined taking into account the profitability and debt servicing capacity of the borrowing concern as well as the economic life of major investment items with the maximum repayment period of 10 years.
This move has been highly applauded and helped exporters in making working capital available.

II. Government Assistance to Private Higher Education Institutions: The Ethiopian Experience in Perspective

The last 2 - 3 decades have witnessed the proliferation of private higher education institutions all over the world. Currently private higher education is considered as the fastest growing segment of higher education in many countries including the developing ones.

Though 'private' in ownership, the sector undoubtedly demands government support. The long term sustainability of PHEIs on student tuition alone is highly unthinkable. It is also unfair to leave PHEIs on their own while in fact they are easing the burden of excess demand on the state at a time when public institutions are further encouraged to carry out entrepreneurial activities to increase their revenue. The various forms of support that governments could provide may, however, vary from a simple allowance for the sector to exist to a full - fledged assistance that would permit the creation and proliferation of a strong private sector.

Government support to the private sector cannot be taken for granted. It has got to be sought and argued for. With its prime responsibility for public institutions, the government might not have the financial capacities to support the private sector. Nor may it have the readiness and interest to indulge in such undertakings. This small paper argues for an extensive support on the part of the government - the type of support that would help PHEIs flourish.

The paper argues why governments should support PHEIs, identifies the various forms of support governments could provide, and the preconditions (if any) that PHEIs need to fulfill in order to secure the assistance they need.

1. Why should the Government Support PHEIs?

The usual reluctance on the part of governments to support PHEIs is principally related to the assumption that since PHEIs have chosen to be private, they need not seek to dwindle public bursaries by demanding extensive assistance. This section of the paper argues that there is enough reason to counter this argument. The following reasons could be the major ones as to why the government should support PHEIs.

Reason 1: PHEIs assist in expanding enrollments without increasing public expense

The demand for more higher education graduates in developing countries cannot be easily satiated through the sole participation of the public sector.In countries where governments seek to increase enrollments with little or no public expense, PHEIs have been regarded as alternative sources of financing and of increasing access to higher education.

For instance, a recent figure from the Ministry of Education indicates that in only five years time Ethiopian PHEIs will have an annual enrolling rate of 40 - 50,000 degree students (Ethiopian Herald, June 2005). A sector entrusted with such huge responsibility surely deserves the required assistance to meet government goals, and to supplement on what public institutions are expected to do.

Reason 2: With an ever expanding PHE the government could focus more on other levels of education

This is a corollary of Reason 1 above. If the government provides the needed assistance for the private sector and allows it to proliferate, it could make use of its scarce resources into the speedy implementation of universal primary and secondary education. The experience of countries like South Korea, where the private sector concentrates on higher education and the government on lower levels is a notable example of this (Kim and Kim: 2004)

Reason 3: PHEIs are highly dynamic and could serve as models of entrepreneurial culture and public reform

Public institutions have usually been identified as rigid and inelastic when it comes to addressing the needs of students at various levels. Dynamism, efficiency, competitiveness and flexibility are the major features of successful private higher education institutions. Such institutions are usually expected to be able to quickly adapt themselves to the changing demands of the society and the labor market. In this regard, PHEIs can be expected to play a very significant role in such a way that public HEIs will be compelled to initiate significant reforms towards improvement in quality, efficiency and overall relevance.

In a situation where PHEIs are given the power to develop their own curricula, they have been able to introduce market – oriented courses speedily without any bureaucratic shackles. Accordingly, they have catered to the needs of enterprises, which otherwise could have been unable to get the skilled manpower they sought for long. The various computer trainings in Ethiopian PHEIs could be cited to substantiate this assertion.

The existence of a strong private sector (which requires government assistance) could thus promote intersectoral cooperation and competition as a result of which the whole system might be more efficient, and quality - oriented.

Reason 4: The disadvantaged paradoxically benefit a great deal from PHEIs

As the conventional wisdom has it, public institutions normally favor the disadvantaged. However, contrary to this assumption, public institutions in Ethiopia still remain highly competitive and hence accept only those who have better access to educational facilities; they are the ones who earn good grades in school leaving certificate examinations. Negating the commonly held belief, in most PHEIs, females constitute half of the enrollment statistics which is less than 30% in public institutions. Besides, PHEIs have enabled the marginalized to get access to education through conventional and distance mode of learning, the latter being more widely used by PHEIs than that of public institutions. Even more, adult learners, who did not have any other choice, have also become beneficiaries of the services of PHEIs.

Reason 5: The cost citizens incur could be reduced by supporting PHEIs

In many countries including Ethiopia the costs that citizens incur for PHE may be higher than what public institutions charge. The financial burden in private institutions is also fully transferred to students. This has been the case mainly because PHEIs solely rely on student tuition for the variety of expenses they have.

Most of the expenses of PHEIs go towards paying for running costs and renting buildings. Government assistance for PHEIs to secure land and buildings, for instance, could help them reduce the fee they levy on their students. It can be assumed then that the reduction in fees could further encourage more people to join PHEIs with the ensuing effect of reducing the amount of money the government could spend on the same people if they wish to join public institutions.

Reason 6: The Government ought to Level the Playing Field for the Education Sector as it is doing for the other sectors

A robust and distinctive private higher education sector may not be a reality with the absence of substantial assistance from the government. In its Investment Proclamations (1988, 2002) the Ethiopian government has identified education as one of the Pioneer Investment Activities. For other sectors in the same category the government is leveling the playing field and is reviewing its policies constantly. It can thus be argued that if the government's intention of promoting economic development through investment is to be attained, a similar initiative and zealousness should be seen in the education sector. This is specially so because the growth of all the other sectors, among other things, depends on well – trained man power.

Reason 7: There are PHEIs with a reasonable focus on academic pursuits and community involvement and these need to be supported

PHEIs are usually blamed for excessive commercial pursuits and of disregarding community services and research activities. However, this has not been always the case as the history of PHEIs around the world shows.

Though only 8 years old, the Ethiopian scenario shows that the majority of

PHEIs provide free scholarships to students in their thousands. Damtew (2005) dubs this a 'unique scenario' of the Ethiopian private higher education system. A significant number of these PHEIs are also engaged in augmenting the capacity of both public and private agencies, organizations and offices by providing short and long term training free of charge. There are PHEIs which are actively involved in research both within and at the national level. By doing so, PHEIs are assisting the government's effort of capacity building. Thus, as an appreciation of such efforts and by way of encouraging PHEIs to continue with the practice of supporting the community and enhancing national efforts, the government needs to offer its assistance to the sector.

The foregoing discussion, though not exhaustive, must have shown why the government should engage in actively supporting the private sector. The next section dwells on the variety of support that the government could offer to the sector.

2. Forms of Government Support to PHEIs

The variety of assistance that governments could provide to PHEIs can take the form of direct and indirect support. The major features of support and incentive schemes in many countries are enumerated and discussed below.

2.1. FINANCIAL ASSISTANCE AND SUBSIDIES

Although state funding of private higher education has often been a controversial issue, governments have given financial assistance to PHEIs either by directly paying for some of their expenses or by subsidizing them. In India, for example, a majority of states provide assistance towards payment of salaries to teachers and non – teaching staff. This substantial assistance to PHEIs generally varies between 90 and 100 per cent of the institutions' total recurring expenditure (Tilak 1995). The financial support to such institutions is given via the Universities to which the private colleges are affiliated (Altbach 1998).

Japan has enacted a Private School Promotion Subsidy Law which, among other things, provides subsidies for the current and other expenditures of PHEIs. In a bid to maintain and improve research and reduce the financial burden on students, the subsidies offered cover essential operating expenses for education and research including salaries of teaching staff and other employees (Arimatsu 1995). Furthermore, subsidies are provided for expenditures on large scale educational and research equipment, and on research facilities needed for basic research in private institutions. This has mainly been done to maintain and improve educational and research conditions in private institutions and to reduce the financial burden on students. Providing subsidies to PHEIs is also practiced in Indonesia (Hadihardaja 1995).

Like that of Japan, the government of Thailand also provides specific financial assistance and general subsidies to PHEIs. Each year the government allocates a certain amount of money for expenses in the academic and administrative development of PHEIs. Types of the allocated fund are: Research Development Fund, Academic Development Fund (for such projects as composing, translating, or compiling texts), Administration and Faculty Development Fund, Community Service and Volunteer Work Camp Fund (Kulachol 1995).

2.2. ASSISTANCE THROUGH PROJECT FUNDS OBTAINED FROM INTERNATIONAL AGENCIES

There are multilateral agencies which stress privatization as a means of absorbing demands for access to post secondary education. Governments prepare projects to such agencies and secure various assistance that cater to institutional development and alternative funding mechanisms for PHEIs. The IFC, the strong financial arm of the World Bank, for instance, has been tapped for such benefits. To cite few examples, in Argentina the government signed a USD 165 million World Bank loan for a Higher Education Reform Project which encompassed four studies to diagnose, design and reorganize the private sector monitoring, filing, accountancy systems and legal services. A sum of USD 2.2 million was exclusively allocated under this institutional strengthening component for private sector institutions (Sosale: 2000).

In 1997 the Indonesian government with assistance from the World Bank prepared a Higher Education support project worth USD 71.2m loan. The support was extended to promote competitive principles to encourage both public and private institutions (Ibid).

2.3. LOANS

The other common form of assistance provided to PHEIs is loan. In Japan, the Japan

Private School Promotion Foundation is set up for this major purpose and provides long term and low interest loans to supply private institutions with funds for facility and equipment improvement and other requirements (Arimatsu 1995). The purpose of this program has been the improvement of educational and research conditions, and management stability in PHEIs (Ibid).

In Thailand, the cabinet has approved the establishment of a revolving fund which is loaned at 4 per cent interest rate for PHEIs. This fund is spent on purchasing instructional materials, equipment and facility construction (Kulachol 1995).

The Australian Capital Development Pool which was established in 1994 allows PHEIs to access public funds for new campus infrastructure. This governmental investment grant includes the development of a new campus, the renovation of facilities destroyed by natural disasters, and the infrastructure development of information technology (Yaman 2005).

Direct institutional subsidies are also common in some states in the US. Months back, the New York state has allocated 150 million dollars as a budget for PHEIs aimed at fund – raising and construction (New York Times, 2005.

2.4. FAVORABLE TAXATION MEASURES

Favorable taxation measures have usually been regarded as one major way of supporting PHEIs. The Japanese experience shows that school corporations that establish private institutions are exempt from national taxes, including the corporation tax, income tax and land price tax, and regional taxes such as the enterprise tax, residence tax, and fixed asset tax unless they engage in profit – raising program (Arimatsu 1995). Even when they are engaged in profit making tax rates for such school corporations are lower than for other corporations (Ibid).

In the Philippines private institutions are exempted from import duties for instructional/science equipment, books and other instructional materials to support their program offerings (Valisno 1995).

In Thailand the government offers income tax exemption of the operational profit including that from books and instructional material sales, dormitory and cafeteria services (Kulachol 1995). Tax exemption is also given for the dividends earned from shares in educational institutions. The Thailand government also extends tax deductions to those who make donation to PHEIs. For instance, where an individual or a legal business entity makes donations to a PHEI, one can claim tax deduction of not more than 10 per cent of net income, and not more than 2 per cent of net profit respectively (Ibid).

2.5. SCHOLARSHIP AND STUDY GRANTS

Needless to say, the provision of scholarships and study grants improves the quality of tertiary program offerings in PHEIs. An assistance in this direction has been practiced by different governments. Philipinnes has a rich experience in this regard.

The government in the Philipinnes initiated what it calls College Faculty Development Fund (CFDF) in 1991. This scheme provides deserving faculty members from private higher education institutions some assistance to pursue graduate education through scholarship grants (Valisno 1995).

In some countries loans are not only given to institutions, but also to students studying at PHEIs. The government of the Philippines has established what it calls Private Education Students Financial Assistance Program (PESFA) which offers study grants to students in private colleges and universities. The Chilean government has now created a loan program for students in PHEIs creating an 8 – billion – peso (USD 13.7 million) fund (claser, 2005). The UK government has recently announced that students in private universities will be eligible for the same level of financial support from the government from 2006 on wards (Curtis, 2004).

2.6. LAND GRANTS

Different states support PHEIs by providing them with land free of charge. This practice is considered extremely helpful as it reduces the huge amount of money such institutions have to pay for renting buildings.

2.7. OTHER FORMS OF SUPPORT

The Ministry of University Affairs in Thailand also supports international linkages resulting in: faculty, staff and student exchange, information exchange, research cooperation, cultural exchange, cooperation in remote area development projects, joint degree programs specially in graduate studies, cooperation in other projects contributing to institutional relations for mutual benefits and understanding (Kulachol 1995). Similarly, the Indonesian government encourages PHEIs to collaborate with other institutions or organizations besides providing direct assistance in the form of seconding regular staff (Hadihardaja 1995).

3. Current Forms of Government Assistance to Ethiopian PHEIs

Needless to say, private higher education is a new phenomenon in the Ethiopian higher education system. Among other things, the existence of this sector could be attributed to the government's recognition and readiness to involve private investors in the area.

In one of the government's major documents on Higher Education Capacity Building Program (ESDP 2: 2002/03 – 2004/05) the government commits that, "in the long term the involvement of the private sector has to increase." In order to expedite this intent, the government has enacted a higher education proclamation in 2003. This proclamation having, a specific section on private higher education, has for the first time provided the legal framework for the sector to exist.

In addition to allowing and providing the sector with the legal framework needed, the government's assistance and support has also, albeit limited, been reflected in various forms of which the following are outstanding.

3.1. INVESTMENT INCENTIVES

Among the investment objectives of the FDRE are included "accelerating the country's economic development" and "enhancing the role of the private sector in the acceleration of the development of the country's economy" (Investment Proclamation 2002: Articles 4.1 and 4.6). If such objectives are to be met, one would certainly expect that the sector will be given the necessary assistance and support.

The Ethiopian Investment Incentive Regulation (1996) classifies investment activities into four: Pioneer Investment Activities, Promoted Investment Activities, Investment Activities Eligible for Duty – free privilege only, and Investment Activities Eligible for Duty – free privileges with a capital of less than Birr 250,000. In this regulation Education was considered to fall under Promoted Investment Activities assuming second place to what are identified as "Pioneer Activities". This Incentive Proclamation was amended two years later in 1998 in the Investment Incentives Council of Ministers

(Amendmet) Regulations No 36/1998 placing investment in higher education to priority one under Pioneer Investment Activities. The various incentives provided were accordingly adjusted.

3.1.1. Exemption from Income Tax

The Ethiopian Investment Proclamation 2002 states that an investor (in education or other areas) who has started operating with an investment capital of not less than 250,000 Birr and whose investment is identified as Pioneer Investment Activity shall be provided exemption from income tax on the following basis:

a. Where the investment is in Addis Ababa, Nazareth or in a locality within a radius of 15 Kms of the main highway connecting the two cities, the period of exemption shall be for 3 years;

b. Where the investment is in relatively underdeveloped Regions such as Gambela, Benishangul and Gumz, South Omo, certain zones in Afar, Somali and other regions to be determined by the (investment) Board, the period of exemption shall be for 5 years;

c. Where the investment is in localities other than those specified in Sub – Article 2 (a) and (b) above, the period of exemption shall be for 4 years.

Considering the gestation period for an investment to take off, the above incentives will only have a limited effect on institutions in the capital which may not assume the status of a profitable business within the first three years.

3.1.2. Exemption from Customs Duty

To start with, the General Provisions Regulation No. 7, 1996, part III, Article 16 allows an investor in the category of Pioneer Investment Activities to be exempted from machinery and equipment necessary for the establishment of a new enterprise or the expansion or upgrading of an already existing one.

Furthermore, the Regulation states that equipment necessary for educational services including laboratory equipment, as specified in directives issued by the Ministry of Education in respect of educational institutions at various levels, shall be exempted from payment of customs duty. However, to the knowledge of the researcher, the Ministry has not yet produced a list of items to be exempted from customs duty. As it stands, exemptions from customs – duty do not, in the Ethiopian case, include such items as stationery and computers which PHEIs frequently make use of.

3.2. LAND GRANT

Both the Ethiopian Investment Proclamation and the Higher Education Act specify that for those who opt to invest in higher education, land is granted free of charge. Investment Proclamation No. 280/2002 states that "where a regional government receives an application, it shall, on the basis of the Federal and its own laws, deliver within 60 days, the required land to the investor" (part X, 35.1). Article 35.4 also states that the appropriate investment organ shall, in cooperation with the concerned regional executive organs, facilitate and follow up the allocation of land for approved investments. The Higher Education Proclamation also states that land shall be allocated for the establishment and service of the higher education institutions in accordance with applicable laws and policies (Section 3, 33.3). However, this has not been the case at least for the past seven years specially in the capital. Although the investment code states that such demands shall be met within 60 days, to the exception of very few, many PHEIs have not been granted land. As a result, a significant amount of their capital goes towards paying for building rent.

In terms of land grant the administrative regions are far better than the capital. There are new PHEIS in the regions which have acquired their own plot far quicker than their earlier counterparts in the capital.

3.3. MANAGEMENT TRAINING

The Ministry of Education has chosen to involve the private sector in its LMDP (Leadership and Management Development Program) by offering 4 places for institutional leaders who will receive management training both in Ethiopia and abroad. To this end, kick off conferences and trainings are already underway.

3.4. REPRESENTATIONS IN NATIONAL AGENCIES

Both in the higher education proclamation and in actual practice, the government has allowed the private sector to be represented on national agencies governing the future direction of higher education in the country. To this end, the private sector is represented both in the national Boards of the Higher Education Strategy Center (HESC) and in Education Relevance and Quality Agency (ERQA). Participation in such executive agencies shall help representatives raise issues related to the sector in a bid to work towards its proliferation.

3.5. PARTICIPATION IN EDUCATIONAL CONSULTATIONS

At various times the Ministry has allowed the participation of PHEIs in such undertakings as curriculum design, curricular revisions, and consultative meetings on issues related to higher education and institutions. Involvements in this regard include the participation of representatives from PHEIs on the Higher Education System Overhaul (HESO) team and the annual consultation session that representatives from the Association of Ethiopian Private Higher Education Institutions have with the Minister and Vice Ministers of Education. Although many PHEIs appreciate such considerations on the part of the government, they also express, quite often, their dismay at not seeing their demands and opinions seriously considered.

The above forms of assistance are currently the most common types of support offered to PHEIs. From the discussion thus far, it must be possible to discern that financial assistance, subsidies and loans are not common features of government assistance in the Ethiopian context. The taxation measures and investment incentives already offered appear to be limited. Scholarships and study grants are also a rare phenomena. Notwithstanding this, assistance in the form of land grants which has been claimed to be offered to the sector, has not fully and meaningfully materialized.

No doubt, strengthening higher education in many countries is 'a rational and feasible way to mitigate or avert further deterioration in their relative incomes, while positioning themselves on a higher and more sharply rising development trajectory' (World Bank 2000). This requires using both public and private resources in order to assist the cost saving public purpose of PHEIs and to augment government efforts to meet the growing social demand for higher education.

IV. Conclusion

In this paper an attempt has been made to offer a variety of assistance forms that the Ethiopian government could draw on. Current government attempts have to be further strengthened and diversified for the private higher education sector to grow. Needless to say, with active state support, the contributions of private institutions can increase drastically. We believe that within Ethiopia, the export sector is a good example that shows possible salutary effects of government intervention in economic activity. To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the government maintains a range of incentives, which are granted to investors (both domestic and foreign) engaged in new enterprises or expansion in areas qualified for investment incentives. These include various forms of tax exemptions that include 100% exemption from the payment of import customs duties and other taxes levied on import of all investment capital goods, and exemption of export taxes. Of particular relevance to the education sector is the government's incentive structure on export sector on issues of land and credit access. The government has undertaken major efforts to easing access to land to the exporter at minimal lease rate. The major beneficiaries of this measures are the horticulture and the manufacturing sector so much so that export of these products has grown dramatically over the last two or three years. Similarly, to address concerns of the exporters with regard to credit and to attain significant export growth, the government has allocated a substantial amount of finance for investors who would be engaged in the export sector and can apply loans for up to 70% of their investment project. This special loan is provided through the DBE at preferential interest rate that is fixed at 7.5% per annum.

If concerns of the private education is addressed in a similar manner, we believe the sector will grow dramatically.

For this to happen, however, a lot is also expected from Ethiopian PHEIs, which are much criticized for their alleged lack of quality and societal concern. Among other things, such institutions will have to prove to the government that the sector is effective, well managed, and geared toward serving national goals.

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