

## Revenue Diversification Strategies in Ethiopian Higher Education System: A Brief Reflection

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**Abstract:** A university generally requires adequate financial resources for the success of its overall operations. Nevertheless, universities throughout the world, especially in developing ones, are struggling to obtain the necessary funds in order to satisfy the ever-growing demand of higher education. With the current massive higher education expansion in Ethiopia and the limited government capacity to adequately fund this expanding system, therefore, there is an urgent need for the public universities to work towards financial viability by broadening and diversifying their funding base. In an effort to establish financially sustainable ground, public universities need to generate revenues from non-governmental sources. With this in mind, this reflection discusses university financing trends and the subsequent financial austerity in Ethiopia. The paper also attempts to reflect on the strategies currently used by the public universities in diversifying their funding base in the face of increased financial demand for the rapidly expanding system of higher education in the country. The paper finally reflects on the implication of revenue diversification.

**Keywords:** *financial constraint, revenue diversification, Ethiopia, public higher education*

### Introduction

The success of any higher education system in fulfilling its organizational needs and achieving its missions is strongly tied with the financial, material and human resources available. The combination of such costly resources as physical infrastructure, talented staff, state-of-the-art educational, scientific and technological materials and equipment, and related instructional materials in sufficient quality and quantity enables universities to perform at highest level, to achieve their missions and maintain quality of education. Therefore, a university generally requires sufficient financial resources for the success of its overall institutional activities.

Over the last three decades or so, however, governments and universities throughout the world are struggling to obtain the necessary funds in order to satisfy the ever-growing demand of continuously expanding higher education systems (Woodhall, 2007). That is, the demand for higher education in most countries around the world is growing far faster than the ability or willingness of governments to provide public resources adequate to meet this demand (Johnstone, 2004). The biggest constraint facing higher education institutions in many countries in the world is to improve the quality of their education in the face of

growing enrolment and limited resources (World Bank, 1998). As a result, many governments face the problem of maintaining public funding levels for the rapidly increasing demand of higher education through public revenues. Consequently, financial distress has predominated higher education finance around the globe, as government funding available to higher education declined (Lui, 2007).

The magnitude of the financial challenges has been even greater in most African countries than those faced in developed countries (Meek, Teichler & Kearney, 2009; Tefera & Altbach, 2004). State budget is insufficient to cover the huge expansion undertaken in many African countries (Butare, 2004). Consequently, most African universities are unable to provide the adequate amount of resource for their higher education. The consequences of such financial pressures could threaten the future of the institutions in the continent. As a result, only few perform to a consistently high standard (World Bank, 2000). Ethiopian universities are generally no exception to the above financial context characterizing most African universities.

### **The Imperatives for Revenue Diversification**

The financial distress that resulted from the declining public expenditure and the persistent underfunding that failed to keep pace with the continuously expanding higher education system has placed great pressures on universities to seek for alternative funding sources (Woodhall, 2007). One of the common responses to the inability of governmental revenue to keep up with the surging cost trajectories driven in part by widening participation is the diversification of funding base of institutions via generating additional revenues (Geuna, 1998; Herman, 1999).

Revenue diversification is a broad concept related to any form of additional revenue generation; it includes cost-recovery of traditionally supplied services, but also encompasses all forms of income generation from newer, non-traditional activities (Albrecht & Ziderman, 1995). These include the provision of ad hoc vocationally-oriented short courses, contracts with industry, commercialization of research, consultancy services, endowment, research services for business, income from short term training, philanthropy, alumni, utilization of industrial or financial assets, sponsors, and many more. In addition, Woodhall (1993) also illustrated several options for 'widening and diversifying sources of finance', mainly including cost recovery, grants, contracts with external agencies, income-producing enterprises, voluntary contributions and endowments. Drawing on the experiences of higher education systems in different countries, Johnstone (1998) also recommended the use of tuition and fees; grants and loans; encouragement of private sectors; entrepreneurial activities as well as philanthropy as the five primary vehicles of supplementing government with non-governmental revenues.

Higher education institutions in many countries have, therefore, diversified their funding bases through the use of many traditional and non-traditional ways of generating revenues

(Eicher & Chevaillier, 2002; World Bank, 2002). In fact, the pursuit of new, additional revenues from diverse sources has important financial benefits to higher education institutions. Revenue diversification allows institutions to generate additional incomes and secure more resources. Accordingly, encouraging universities to engage in revenue generating activities provides them with important source of discretionary revenues (Albrecht & Ziderman, 1995).

Hearn (2003) also suggested that leaders continually seek funding growth because increased revenues are always being sought to pursue excellence, prestige and influence. After all, additional money can contribute to the pursuit of improvement and increased public reputation. Further, additional revenues are indicators of institution's capacity to compete for it with the implication of enhancing quality education. This could create a strong research infrastructure; thereby raise institutional excellence and prestige. Here, it must be understood that raising additional revenues should be sought not only as a means of redressing financial inadequacy, but it should also be seen as a strategy to institutional excellence, enhanced quality and prestige.

In general, therefore, revenue diversification helps to sustain the expansion of higher education especially in developing countries where the financial capacity of these nations is incomparable to the demands for higher education and the need for its expansion. Accordingly, the move towards increased search for non-governmental sources of revenues has become an inevitable agenda for higher education systems throughout the world.

## **The Context of Ethiopian Higher Education System**

### **The Current Higher Education Expansion**

Some twenty years ago, the Ethiopian higher education system was generally characterized as being limited in access, inequitable, poor in quality, weak in its research output, regimented in its management, inflexible, and also underfunded (Teshome, 2007; Tesfaye, 2006; Saint, 2004; World bank, 2003). In an effort to ensure access, equity, relevance and quality, the Ethiopian government, therefore, introduced major reforms to the higher education sector. Following the reforms, the system has been undergoing massive expansion to include 33 public universities compared to only 2 universities in less than two decades. It also increased the enrollment of undergraduate students from about 35,000 in 1996 to about 200,000 in 2009, and close to 400,000 in 2012 (MoE, 2010). Hence, enrolment has grown by nine fold jumping from 0.8% in late 1990s close to 7% in 2012 (Tesfaye, 2014). Besides, starting in the late 1990s, private higher education has also expanded with more than 65 accredited institutions, covering about one-fifth of the overall enrollment (Teshome, 2007; MoE, 2013).

In general, therefore, heavy government investment and reform initiative on higher education sector over the last two decades has resulted in massive expansion that increased equitable access, opened up more universities, expanded program diversity, and achieved over 500% increases in overall enrollment. Such huge expansion, however, requires more resources. This

is to mean that adequate and stable funding is required in order to sustain the current massive expansion.

Over the last decades, the budget allocated to the education sector has risen proportional to the overall government budget from 9.5% to 17%. At the same time, the higher education budget has also increased in response to the recent expansion, accounting for about 31% of the total government expenditure for education from about 15% (World Bank, 2008). In real terms, the recurrent budget has increased from around \$10 million in 1996 to over \$60 million in 2004 and even close to \$340 million in 2009 (MoE, 2010; Teshome, 2007). For the period of 2005-2010, a total budget of over \$1.52 billion (\$1.1 billion for recurrent and \$482 million for capital) was earmarked for higher education (MoE, 2005). Currently, the budget allocated for higher education on average is about 25% of total education budget.

Since 2000, therefore, public investment on education has generally risen as a share of GDP. Even though the total government budget devoted to higher education in Ethiopia has significantly increased over the years, public funding has not been sufficient to satisfy the enormous needs of universities. This will be discussed in more detail in the next part.

### **Expansion in line with the 70:30 program mix policy**

The Ethiopian government believes that science and technology is decisive in order to sustain fast economic and technological development. To realize this, the government adopted a new higher education policy in 2009 called the 70:30 program mix ratio: wherein 70% of the total undergraduate students enrolled in public universities join natural science fields and the remaining 30% the social science streams. Based on the policy, 40% of the students from natural science realm have to go to the engineering field. Consequently, the higher education system has witnessed paradigm shift from the lower cost studies in humanities and social sciences to higher cost studies in science and technology to produce more graduates in these costly fields.

In fact, massive expansion in science and technology is an expensive strategy that requires expansion of higher education opportunities with respect to the two most expensive and hence traditionally restrictive fields- medicine and engineering. The 70:30 policy particularly requires more resources to finance the construction of more classrooms, dormitories, laboratories and workshops; more resources to recruit and retain competent and qualified academic staff in these fields of studies. It also requires far more resources to finance laboratory equipments, chemicals, adequate library resources, ICT infrastructure as well as practical training of students in these areas. Without doubt, the consequences of such expansion have serious financial or cost implications.

### **Financing Universities and Financial Austerity in Ethiopia**

In Ethiopia, the government provides virtually all of the financing used to run the public higher education system. With regard to the source of funding, Article 62 of the Higher

Education Proclamation states that ‘Public institutions shall be funded by the Federal government or state through block-grant system based on strategic plan agreement’ (FDRE, 2009). Accordingly, the government is the sole financier of university education in the country.

The Ethiopian higher education system can thrive like others and sustain the current expansion only if its funding level is adequate, stable and secure in the long-term. From the inception, public universities in Ethiopia have been heavily dependent on government budget for both recurrent and development expenditures. For years, however, public budget for universities has often been observed to be mostly inadequate (Tefera & Altbach, 2004; World Bank, 2003). Studies such as Kibrom (2010), Ashcroft (2008), Teshome (2007), Teshome (2004) confirmed that public universities in Ethiopia are generally facing financial constraints. Besides, financial dependence on the state means that funding levels fluctuate with the ups and downs of government resources.

In addition to the limited financial capacity of the government, the current expansion has also created additional financial challenges. That is, the already insufficient state budget has not been accompanied by commensurate funding increase to cover the huge expansion undertaken in the universities. Reisberg & Rumbley (2009) indicated that the cost of educating a growing cohort of university students in Ethiopia quickly exceeds available government funds. Moreover, the growth of Ethiopia's higher education system is reported to be outstripping the revenue available to sustain it, and that a medium term funding gap might exist until income from graduate tax begins to produce meaningful flow (Ashcroft, 2008). As a result, Ethiopian universities are struggling to satisfy the ever-growing demand of the public for higher education in the face of limited public budget. Despite this financial context, the Ethiopian higher education system is still expanding, with 11 new universities are set to be added soon. Such an expanded higher education system, however, needs the continued and dependable support of public revenue.

In sum, the root of the financial constraints in Ethiopian higher education lies in the mismatch between the dramatic growth in student numbers and the degree of higher education expansion in public expenditure. Inadequate financing could result in inadequate instructional resources, deteriorating conditions for scholarship and research, poor education quality, and hence slow development of higher education (Lui, 2007). Financial constraint may also result in erosion of lab equipment and other instructional materials; loss of best staff; deterioration of physical plant, inability to expand physical capacity to keep up with increasing enrolment (Johnstone, 1998).

The financial constraints facing many public universities in Ethiopia are severe, and it is less likely that they can be resolved simply by increasing public funding (Kibrom, 2014). In times of such financial austerity that are resulted from the inadequate government funding of universities combined with the continuously expanding higher education system, therefore, it makes sense for universities in Ethiopia to move towards increased revenue diversification.

## **The Pressures for Revenue Diversification in Ethiopia**

With the current massive higher education expansion in the country, especially in those fields that demand expensive resources, and the limited government capacity to adequately fund this expanding system, there is an urgent need for the public universities in Ethiopia to work towards financial viability by broadening and diversifying their income base. In an effort to establish financially sustainable institutions, therefore, universities need to increase and diversify their funding base through generating revenues from non-governmental sources.

Congruent with this, the Higher Education Proclamation (FDRE, 2009) in Ethiopia articulates that ‘one source of funding for public universities is income generated by the institutions from services they render, donations and other lawful sources of revenue (Article 66)’. Therefore, the Proclamation provides Ethiopian public institutions the freedom to seek revenues from non-government sources in order to supplement the public budget. Accordingly, universities are free to admit fee-paying students, offer paid educational services, accept endowments and philanthropic contributions, establish commercial enterprises, provide training and consultancy services to external agencies, and other lawful activities. As a result, public universities in Ethiopia are encouraged to engage in various income producing activities in order to generate revenues essential to support their institutional operations.

The current Ethiopian higher education system indicates that public universities have immense potential for supplying various services to the productive sectors of the economy. In fact, many of the public universities in the country have the potential to generate revenues from different sectors, such as agriculture (animal breeding, bee hiving, dairy products, fishery, crop production, and other agricultural products), manufacturing, woodwork and metal work, publication, medical or health services, textile and leather products, maintenance, consultancy services (in industry, technology, ICT, finance, education, legal issues), educational services (training, distance education, day care centers), and other streams.

## **Institutional Trends of Generating Revenues**

With the favorable policies and legal provisions that encourage public universities to generate additional revenue from non-government sources, more public universities have currently established mechanisms to solicit revenues from different revenue sources. As a result, many universities are engaged in a variety of income generating entrepreneurial activities, which result in earning substantial revenues in return. The common income sources in many universities include distance, continuing and summer programs (traditional streams); in-service, short-term and tailored training programs as well as agricultural productions.

At present, almost all public universities in the country are generating substantial income from students enrolled in the fee-paying programs. In 2006, for example, more than 46% of students in the public institutions were enrolled in the evening and summer programs (Teshome, 2007; MoE, 2010). Addis Ababa College of Commerce produces one-third of its

recurrent budget from evening courses, contracted short courses and researches, while Addis Ababa University produces about 7% from such fees (World Bank, 2004). Many public universities are also actively involved in distance education, which brings lucrative returns. In 2010/11, Bahir Dar University, for example, enrolled more students (16,833) in distance education than the regular program (15,728). In the same year, of the total enrollment, about 62% of students were enrolled in distance, evening and summer programs. All in all, many public institutions have now become dependent upon tuition revenues as the second major source of their income by developing revenue-generating programs in various fields of studies.

In addition, with significant variations among institutions, there have been substantial amount of funds that come through donations, research grants, bilateral agreements and projects. In this regard, it is estimated that Jimma and Hawassa Agricultur Colleges generate about one-fifth of their recurrent budget from agricultural productions (Kastbjerg, 1999). Some universities (e.g., Haromaya) have also been generating revenues from their huge dairy and other agricultural products. Other universities (e.g., Mekelle, Gondar) earn in millions of grants from partner institutions for agriculture projects. As a result, a number of public institutions are generating large amount of additional revenues from these and other sectors.

Furthermore, increasing number of public universities have been establishing collaboration with industries and business firms, which attracted new financial resources. Some institutions have, for example, established link with industries while others ventured into the commercial and business fields in order to generate additional revenue. Contracted research, training and consultancy services also bring substantial income to some universities. The increasing demand from public and private organizations to upgrade the professional skills of their workforce has also created opportunities for universities to generate revenue through training programs. As a result, many universities have signed contracts with local governments and enterprises that pay for education of students (future employees) who will work in these institutions after graduation. Hence, collaborations with industries, private and business firms have been increasing greatly, which further boosts the cooperative efforts between universities and industries, and subsequently helps to secure more grants and donations.

### **Reflective Discussion**

The higher education system in Ethiopia has generally been undergoing massive expansion over the last two decades and has increased the number of universities and enrolments. However, the current expansion has created serious financial pressures on institutions. In other words, the increasingly constrained government budgets, coupled with the growing demand for higher education underscore the challenges in university financing. Hence, most financial constraints in Ethiopian higher education system have resulted from the rapid undergraduate education expansion without cost-recovery and without comparative expansion of government budgets. The financial pressures become even more serious when we take account of the introduction of the 70:30 policy that demands costly resources in large quantity.

With the current massive expansion has happened in the context of significant limitations of public funds, therefore, there has been increasing government demand to search for non-governmental sources of funding for universities. Revenue diversification through several strategies is fundamental in bringing more incomes to universities. The active engagement of universities in generating revenues from non-governmental sectors helps to reduce their dependence on government funding alone and also reduces their vulnerability to public budget fluctuations. Generating revenues also provides a crucial means to improve instructional and research facilities, as well as to supplement the salaries of academic staff (Lui, 2007). As far as possible, funding for higher education should come from diverse sources in order to boost the financial capacity of institutions and in turn satisfy the increasing demand for higher education.

In this regard, the policy environment in Ethiopia is generally conducive in facilitating the development of alternative, non-governmental sources of funding. For economically challenged countries like Ethiopia, universities need to utilize the meager resources wisely while at the same time exploring and tapping external resources vigorously. Currently, public universities have increasingly become aware of the importance of non-governmental sources of income in supplementing their revenue. As a result, most public universities have been responding to the mismatch (between available public funds and growing financial demand for the expanding system) through generating additional revenues from various streams.

The experience in many well-developed as well as newly established public universities in the country illustrates an increased focus towards revenue diversification to support the public budget. Besides, a number of public universities have now developed educational, research and industrial collaboration to solicit grants and donations. As a result, the revenues generated from various commercial activities, fee-based educational services, grants and other activities in a number of public universities have been moderately increasing.

Despite the promising landscape, the strategies used to generate revenues by many public universities appear to be largely focused on few, traditional revenue streams. However, many universities have not been aggressively pursuing to generate as many revenues as they could, especially from the various non-traditional revenue-generating vehicles such as contracts with industry, commercialization of research, research services for business, revenue from physical assets, consultancy, endowments, philanthropy and alumni. As a result, revenue-generating strategies in many of the public institutions have not been adequately diversified. On the contrary, private institutions are relatively better positioned in terms of revenue generation (HESO, 2004).

Besides relieving financial pressures, generating additional revenue also helps to create strong link between universities and industries and hence integrates universities into their local social and economic environment (Albrecht & Zideman, 1995). However, the current tendency generally indicates that most public universities in Ethiopia have not been

adequately engaged in revenue generating activities aimed at strengthening university-industry link.

The Ethiopian Higher Education Proclamation in its article 66(2) further provides that an income generating enterprise "...shall have its own legal personality and operate like any other business organization" (FDRE, 2009). As a result, many public universities have now established business-oriented income-generating enterprises in order to benefit from additional revenues. The experience of Addis Ababa University, for example, shows that income-generating activity is organized in line with typical business-oriented units to facilitate the various activities. Haromaya University has established an income-generating enterprise wherein the academic staff shall have their own share from the profit. This strategy is mainly aimed to reduce brain drain and retain experienced staff in the university. Bahir Dar University also has established the Poly-Peda Enterprise, a business-oriented income generating entity currently generating substantial incomes from manufacturing wood works as well as printing and publication services. The Menkorer Agro-Industry Enterprise at Debre Markos University and the Income Generation Enterprise at Debre Birhan University are also other such examples established to operate like any other business companies.

Despite these and other few instances, however, revenue generation activities in most institutions have not been institutionally systematized and strategically supported with business like orientation of management planning and resource allocation (Teshome, 2007; HESO, 2004). It is also observed that resources mobilized from donors and partners are usually neither well planned nor well managed. Consequently, such revenues are not effectively executed in pursuit of institutional missions; and hence their benefits have not been capitalized to significantly contribute to institutional excellence.

### **Institutional and Departmental Disparities**

The strategies used to generate non-governmental revenues by the public universities seem to differ among each other. In fact, each institution differs in terms of its age of establishment, geographic location, program diversity, staff profile and other elements. As a result of such disparities, considerable inequalities often exist in the capacity and proportion of institutions to generate revenues from non-governmental sources. Subsequently, some well-developed public universities in Ethiopia are able to raise funds from industries and business firms; some win grants from donors for establishing new training programs or centers. But, the new universities rarely receive such donation and grants. Besides, universities with large alumni have the potential to create more collaboration with industries and donors as compared to the new ones that have little basis for attracting donors. In addition, opportunities to generate funds may be fewer for universities established in less-developed regions and small cities. However, universities founded in highly developed regions and urban areas of the country have better external sources. Disparities in generating revenues might also occur among departments within the same institution. Departments that have close link to industry and business as well as market-oriented programs that are in high demand may attract more fee-paying students and receive more grants than the traditional ones.

### **Education Quality**

Many higher education institutions in the country are committed to earn substantial income by enrolling large number of fee-paying students in distance and continuing education programs. In fact, institutions that provide training programs in fields that are in high demand are better able to enroll more fee-paying students. Realizing this, many universities began to offer courses to compete for students, even when they do not have the essential educational resources to support such training programs. There might also be a tendency for some universities to compromise some or all admission criteria in order to get as many fee-paying students as possible. In a context where universities attempt to enroll large numbers of students as a means of increasing tuition revenue, questions about the integrity of admission standards and the quality of education might emerge (Mohrman, 2003). This might imply a falling standard of entering students, which in turn leads to a compromise in the quality of education.

### **Concluding Remarks and Suggestions**

Financial austerity is endemic to higher education as the natural trajectory of higher education costs over time outpaces the likely trajectory of available revenue (Johnstone, 2006). The financial viability of higher education system in general and the ability of individual universities in particular to accommodate enrollment pressures and to maintain access, depend in large part on the ability of higher education to diversify its revenue base. Given the growing demand for higher education and increasing constraints on public funding, therefore, the need for increased non-governmental revenue sources has inevitably become a necessary step.

The increasing share of non-governmental revenue helps to supplement public budget; but it does not provide enough resources for the development or the normal functioning of higher education institutions. Hence, it would be unwise to regard this as a means to relieve the financial pressures created by rapid expansion of enrollments without similar expansion of public budget (Albrecht & Ziderman, 1995). In other words, revenue diversification must not be thought of as a replacement for governmental support; but rather it should be seen as an essential and appropriate source of supplementary income and complementary activity.

Success in revenue diversification depends upon several institutional as well as system wide factors. As one essential factor, therefore, public universities in Ethiopia need to develop and implement strategies that can facilitate the institutional practice of generating additional revenues from non-governmental sources. Besides, universities need to institutionalize revenue diversification strategies and hence cultivate entrepreneurial spirit. Institutions also need to operate with short- and long-term strategic plans based on potential areas for generating revenues. To do so, institutions need to be equipped with the appropriate tools and opportunities to diversify their income.

The revenue generation activities in the public universities should operate like any other business enterprises; it should be guided by business like orientation of planning, management and utilization of generated resources. Hence, universities need to adopt more business-like perspectives in pursuing alternative income streams while securing their core values and integrating financing in their overall strategy. To this end, universities should develop appropriate administrative structure and integrate financial planning with institutional policies.

The revenues generated from traditional and non-traditional streams should be primarily used for supporting the missions and objectives of the institutions. In this regard, universities should be given sufficient autonomy to be able to keep any additional revenue generated from various streams. In addition, universities should design ways to motivate and incentivize individual and group initiatives in order to stimulate staff engagement in different entrepreneurial and income producing activities. Faculties, research centers, departments and individual staff should be rewarded for initiating and engaging in revenue generating activities.

In sum, it is absolutely necessary to seek ways to expand non-governmental revenue sources to higher education. While essential, it is also equally important to be mindful of the limitations, complexities, and unintended consequences of revenue diversification, and to maintain higher education as a priority, requiring a continued commitment of public revenues.

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