

The Institutional Impacts of Financial Inadequacy and Financial Inefficiency of Public Universities in Ethiopia: the Case of Bahir Dar University

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Abstract: Over the last ten to fifteen years, there have been significant increases in the number of universities and student enrollments in Ethiopia. The numerical gains have increased access to universities and diversified fields of studies. This rapid expansion has not been, however, accompanied by commensurate funding increases. This article briefly presents the financial context (resource allocation, financial adequacy and efficiency) under which public universities operate in Ethiopia. The study employed a qualitative case study approach and used data from a single public university (Bahir Dar University) as a case university to assess and analyze how financial constraints and inefficient use of available resources have been affecting the core institutional missions and operations. Data were gathered using semi-structured interview and document analysis. Overall, the study found that there have been significant financial constraints for the key institutional activities in the case university. On top of this, the institution was poor in its financial management system and as a result unable to efficiently utilize the available resources and the existing degree of financial autonomy. Consequently, the major institutional activities, the quality of teaching learning and research work were seriously affected. Of all, research work was, however, found to be the single most seriously affected mission of the university.

Keywords: Ethiopia, financial efficiency, funding, higher education, public university

Introduction

Around the world, higher education institutions are expected to fulfill multiple missions including the creation of knowledge, improving equity, and responding to student needs- and to do so more efficiently. The entire activities and missions in any higher education system (from teachers' salaries to library facilities, from computers to physical building, and so on) require costly resources. Accordingly, attaining an effective higher education system requires the right combination of sufficient funding, trained and talented employees, adequate facilities, state-of-the-art equipment and motivated students ready to learn (World Bank, 2000). Such combination enables universities to adequately undertake all its activities, achieve its missions, maintain educational quality and realize its vision. To attain all its missions, therefore, any system of higher education needs to be funded adequately.

The education of a given society and its role in helping meet clearly set objectives (e.g., development, economic growth) is closely tied with the resources available and the financing methods it employs (MoE, 2002). For any university to effectively perform its activities and roles, therefore, there must be adequate funding in the first place; and there must also be an

effective and efficient system of resource allocation and financial management system. In this regard, a university generally requires adequate financial resources for its overall operations. Besides, the mechanisms through which governments transfer funds for core activities to higher education institutions have an important effect on the way in which these funds are used (Albrecht & Ziderman, 1995). This is because, according to Woods (2008), a perfect resource allocation model provides the greatest overall satisfaction in meeting objectives whilst simultaneously constraining the use of resources to exactly those which are available.

In the discussion of higher education finance, it will be important to note that there is often a divergence between the way in which resources are supposed to be allocated and the ways in which they are actually transferred and used (Albrecht & Ziderman, 1995). In this regard, not only the amount of money distributed (*financial adequacy*) but also, and most importantly, how that money is allocated and utilized (*efficient allocation and utilization*) is crucial in any higher education system. Achieving the missions and activities of higher education, therefore, largely depends not only on financial adequacy but also on efficient utilization of the available resources. This being the fact, however, universities throughout the world, even in wealthy industrialized nations, are struggling to satisfy the ever-growing demand of higher education.

In the last twenty years or so, governments in many countries have grappled with the problem of financing rapidly expanding systems of higher education while public expenditure has failed to keep pace, or in some cases declined (Woodhall, 2007). In other words, higher education faces problems globally as many universities are struggling to obtain the necessary funds to develop their activities without raising worries about the quality of their performance. Financial constraints has consequently predominated higher education finance around the globe as governmental funding to higher education has declined and do not keep pace with expansion.

The magnitude of the financial challenges has been, however, more serious in most African universities than anywhere else (Meek, Teichler & Kearney, 2009). Most African universities are unable to provide the adequate amount of resource for its higher education because of its low economic capacity, political instability, huge expansion, recent cuts in public expenditure and related factors (World Bank, 2000). Without exception, therefore, African universities are under considerable financial pressure and face serious financial problems (Tefera & Altbach, 2004). Macuacua (2008) indicated the basic funding challenges in African Universities, which makes it more serious than the other world, as follows: the pressures of expansion, economic problems in most African countries, the pressure of other social and health issues on the state budgets, students' inability to pay tuition rates, and misallocation of the available financial resources.

The consequences of such financial pressures could threaten the future of the institutions in the continent. Moreover, there appears to be misallocation of the scarcely available resources (Macuacua, 2008). As a result, few perform to a consistently high standard. Ethiopian universities are generally no exception from the above financial context and resource

utilization trends characterizing most African universities (Teshome, 2007; Tefera & Altbach, 2004).

Over the past decades, the higher education system in Ethiopia has been undergoing rapid transformation and huge expansion both in public and private domains (Damtew, 2005). The system is, thus, hugely expanding and massively increasing both in terms of student number as well as institutions. As a result, the system has been drastically grown and expanded to embrace 31 public universities (from just 8 universities a decade ago) in the country. This massive expansion has also almost quadrupled students' enrollment.

Although higher education institutions and enrolments in Ethiopia expanded rapidly, resources allocated to institutions did not keep pace (World Bank, 2004). That is, state budget is seen to be insufficient to cover the huge expansion undertaken in many of the nation's public universities. Reisberg & Rumbley (2009) indicated that the cost of educating a growing cohort of (Ethiopian) university students quickly exceeds the available government funds. Moreover, the growth of Ethiopia's higher education is reported to be outstripping the revenue available to sustain it, and that a medium term funding gap will exist over the next ten years until income from the graduate tax begins to produce meaningful flow (Ashcroft, 2008).

Despite this financial context, however, the expansion rate of Ethiopian higher education enrollment is growing rapidly. In addition to the limited financial resources, the current expansion is seen to be another challenge to fund the system. With limited government capacity and increased demand for higher education in the country, the financial scarcity is becoming serious. The fact is that this financial constraint at national level directly affects the missions and activities of the institutions in the country. Furthermore, there is the impression that the underfunding of universities in Ethiopia is accompanied by misallocation (Tefera & Altbach, 2004), inefficient utilization and generally poor financial management of the scarcely available resources (Teshome, 2007, Kibrom, 2010). Together with financial inadequacy, therefore, inefficient utilization of resources is found to be another institutional challenge.

Therefore, this study was conducted to assess and analyze how financial inadequacy and inefficient use of the available funds have been affecting the core institutional missions and activities with particular emphasis on Bahir Dar University. The study specifically examined how the resource allocation mechanism is contributing in efficiently utilizing the available resources. With this in mind, this study was guided by the following key questions:

- How are the financial resources allocated to meet institutional mission?
- Are the available resources being efficiently utilized in Bahir Dar University?
- How do the current financial constraints as well as financial inefficiency affect the core institutional operations in Bahir Dar University?

In this regard, this study was expected to highlight the financial context (resource allocation, adequacy and efficiency) under which public universities operate in Ethiopia. The study could also indicate the impacts of the current financial context on key institutional operations in Ethiopian context. Hence, this study was expected to generate useful implications to key funders, policy makers, institutional managers and researchers. Based on the findings, policy makers could design policy environments conducive to the promotion of greater internal efficiency within universities; funders might use results of the study to allocate meager public resources in the most efficient ways. Institutional managers might also use the findings to enhance their financial management and efficiency by benchmarking best institutional practices.

Methodology

In this study, qualitative research approach was used. Qualitative research helps to understand issues (the problem area) from the point of view of participants and its particular social and institutional context (Flick, 2009). In order to elicit first hand information from the participants (an insider perspective) and gain in depth understanding of a particular case within its context, qualitative case study was used.

Bahir Dar University was selected as a case university because it could be considered as an average university in terms of institutional age and size, student number, budget allocated and mode of expansion in the country. Thus, the institution could highlight the way other public universities in the country are dealing with the financial context and related challenges.

Participants and Sampling

Participants of the interview were seven in number all in top and middle management positions of the case university. The participants or interviewees were vice president for academic affairs; budget, plan and finance director; director for income generation and resource mobilization; director for the institute of technology, college of business and economics dean, college of science dean as well as law school director.

These participants were purposefully selected for they were directly responsible for and involved in the entire operations of the financial planning, resource allocation as well as financial management issues of the university in general and their respective academic units in particular. Although more than twenty senior staff and relevant officials who could provide the necessary data and describe the overall institutional budget utilization and efficiency were identified based on their profile, only seven of them expressed their willingness and commitment to be involved in the interviews. Besides, an ex-vice president was included mainly because during the data collection process of the study, the active vice president was taking office from his predecessor in just a month time and hence unable to provide in detail the required data.

Data Collection Tools

The methods used to gather the required data were document analysis as well as semi-structured, narrative interviews together with archival investigations.

Narrative interview was the major means of data gathering instrument used in this study for all participants involved. Hence, face-to-face, in-depth interviews were conducted with all participants on one-to-one basis. The interview was conducted to understand the entire financial context of the case university. For easy conversation, detailed investigation as well as for the sake of guarding against unnecessary confusion, the interview was made in Amharic (Ethiopia's official language) mainly through tape recording and then later translated into English. Short notes were also taken during the interview where tape-recording could not be possible.

The interview questions of the study focused on the major problem areas of the research; thus, the questions addressed issues related with budgeting, resource utilization, institutional financial context, financial management system, financial autonomy as well as impacts of financial inadequacy and inefficiency. Consequently, the interview was organized thematically under guiding themes in Ethiopian context in order to cover in the discussion during the interview.

Besides, document analysis, a potential source of data for many qualitative studies, was applied to compliment with the interviews. Accordingly, key national as well as institutional documents were gathered and analysed in order to get meaningful explanation of the problem. In this regard, annual budget plan of Ministry of Finance and Economic Development, the Higher Education Proclamations, BDU's annual budget plans and financial expenditure documents of 2007-2011 as well as institutional revenue generation strategic documents were used to assess and analyse the trends in the case university. Besides, memos, minutes and routine request forms were also used to analyze budget utilization and financial management trends.

These documents illustrate budget related policy issues, financial sources, resource allocation mechanisms, budget adequacy and financial efficiency, which in turn enabled to analyze to what extent the policies outlined were implemented. The institutional financial plans provided insights and guidelines on the utilization of available resources coupled with strict financial and asset controls.

Data Analysis Methods

Given the purpose of the study, it is important to fairly represent the data and communicate what the data reveal. Accordingly, the tape-recorded data was transcribed accurately after listening time and again. The short notes taken during the interviews were also transcribed for analysis. Then, full account of the story was written just after the interview and the

documents analyzed. Finally, the collected data were accurately transcribed, coded and thematically categorized in a meaningful link so that comprehensive description for analysis could be presented. Hence, the data was analyzed qualitatively using *categorization of meaning, structuring of meaning through narratives, description and interpretation of meaning* in a combined manner.

Results and Discussion

Results of the various themes of the study and its overall impacts have been analyzed and interpreted qualitatively. The results were analyzed by aggregating the responses under four major themes in accordance with objectives of the study and focus of the research problem. For convenience, related issues have been treated together. Thus, below is presented the analysis, findings and discussions of the study.

Budget Allocation Mechanisms

Higher education in Ethiopia was and is funded by the Federal government, formerly allocated in a line item basis. In general, the current funding model of Ethiopian higher education can be characterized by what economists call a ‘Centrally Planned’ or ‘Command system’, a funding model, which has been the preferred mode of public funding for higher education across much of the world (Higher Education System Overhaul or HESO, 2004). The government realized that, as the higher education system is rapidly expanding, a line-by-line negotiation of higher education institutions budget would become impractical and inefficient. The Ethiopian Higher Education Proclamation or HEP (FDRE, 2009), therefore, called for the introduction of a block grant approach for the funding of the institutions as part of this modernizing agenda.

Regarding the financial source and allocation method, Article 62 of the Proclamation clearly indicated that: ‘*Public institutions shall be funded by the Federal government or states through block-grant system based on strategic plan agreement*’. Therefore, development of a fair, effective and efficient funding formula for deciding on the individual block grants was an inevitable prerequisite for this to happen.

Despite the fact that the HEP states the use of block grant in the form of formula funding as of 2005, this was not implemented until 2009. Hence, the resource allocation mechanism employed during the study was *line-item* budgeting together with some form of *negotiation* between the government and individual universities. However, this form of financing higher education was found to be inadequate and inefficient. This is mainly because, according to (Albrecht & Zideman, 1995), such funding allocations fail to provide incentives for institutions to operate efficiently, and indeed may create a general climate that is not conducive to efficiency.

The annual budget utilization report sourced from Ministry of Finance and Economic Development (MoFED) indicated that all public universities in Ethiopia were required by

Ministry of Education (MOE) to prepare comprehensive financial plans, indicating net assets, sources of revenue, expenditure and how they intend to service their debts. The budget plan is prepared in such a detailed manner that it indicated each aspect of the budget request with specific budget title and the amount needed for each activity.

In analyzing the institutional level budget planning and reporting, the study found that the preparation of annual budget plan is found to be the responsibility of each department under each faculty and college. Accordingly, each department prepares their budget plan and submits it to their respective faculty/college deans. Deans from each faculty present the plans for discussion and submit to university officials. Finally, individual universities report the total institutional annual budget plan to MoE and MoFED. As a result, institutions negotiate about the amount allocated to them.

It was, however, understood from the participants that the way institutions prepare annual budget plans appears to be not well thought and well organized. This is because academic programs often do not prepare their financial plan beforehand; thus, they usually tend to copy the previous year's financial documents with a very few amendments. Participants of the study also confirmed that when institutions prepare budget request, it is usually prepared in an exaggerated manner simply because the government or the concerned Ministry will not give them what they request. An exception here is only salary. When requesting salaries, it is not associated with activities and institutional operations, rather only with the total number of staff.

Moreover, in the resource allocation mechanism by the central government, one can see a mix of using line item budgeting mechanism with that of negotiated funding. Within this category of funding, decision-making with regard to finance does not depend on specific institutional characteristics, but much more on political relationships between actors (Albrecht & Ziderman, 1995). However, the prime emphasis needs to be placed on ensuring that the transfer mechanisms of government funding to universities provide incentives for institutions to operate efficiently and to make the most effective use of scarce funds in times of financial stringency.

Budgetary analysis carried out during the recent Public Expenditure Review indicates that Ethiopian universities have spent approximately 40% of their budgets on salaries since 2000/2001 (World Bank, 2003). It is noteworthy that the salary share in institutional budgets has evolved favorably downwards from its 59% share in 1995/96. From the total budget, therefore, around 40% is allocated for salaries. The interviewees stated that from the remaining 60%, there are payments often made for services like electricity, water and telephone, which account for about 10% of the budget. Hence, institutional allocation of recurrent budgets is observed to be largely skewed to administrative costs, salaries getting the highest share (Teshome, 2007).

Financial Constraints

Ethiopian higher education system is dependent on public budget. Since inception, the public universities in Ethiopia have depended heavily on government funding for both recurrent and development expenditures. Public budget for universities has been observed to be mostly inadequate and unstable (Ashkroft, 2008; Kibrom, 2010). Moreover, financial dependence on the state means that funding levels fluctuate with the ups and downs of government resources. Ethiopian higher education is also very dependent on donor-led financing (HESO, 2004). The government currently depends on international aid to fill in the gaps that result from the rapid growth of higher education. But even with aid, funding is still insufficient to address the enormous needs of this massively expanding system.

In the last ten to fifteen years, heavy investment by the Ethiopian Government on higher education has resulted in massive expansion that increased access, opened up more universities and more than quadrupling enrolments. Adequate and stable funding is required in order to sustain this expansion. The current expansion, however, brings with it manifolds of problems and challenges, resource inadequacy and declining educational quality being among the greatest challenges (Teshome, 2007; Ashkroft, 2008). That is, this rapid expansion has not been accompanied by commensurate funding increases.

In Ethiopia, the public budget allocated for higher education sector on average is about 20-25% of the total education budget (Ministry of Education, 2005). In real terms, the current budget has increased from around 10 million USD in 1996 to over 60 million USD in 2004 (Teshome, 2006) and even to around 340 million USD in 2009. For the planned period of 2005-2010, according to Ministry of Education (2005), a total budget of over 1.52 billion USD (1.1 billion USD for recurrent and 482 million USD for capital) is earmarked for the higher education sector. With all this budget growth, however, public funding is still inadequate to satisfy the needs of universities. This financial inadequacy was mainly resulted from the limited capacity of the government to keep pace with the financial demands of the continuously expanding system.

Like other public universities in Ethiopia, the source of income of the case university, consists of an annual block grant budget allocated by the state, subsidies made by government in cash or kind, and income generated from services delivered by the institution such as research, continuing and distance education, consultancy and such other income generating activities. The study, however, found out that the public budget allocated for the university at least for the last three or more years is significantly less than the budget requested by the university.

Analysis of the allocated annual budget shows that the university received a lower amount of state budget than it had requested. For the last three to five years (from 2007-2011), for example, the Bahir Dar University was receiving an annual institutional budget of 15-28% less than it requested. This is indicative of the existence of financial inadequacy or financial constraint. What is worse is that state funding is currently insufficient to adequately cover the

hugely expanding higher education system in Ethiopia in general and in the case studied university in particular. The study also indicated that the financial state of the case university was unstable.

In relation to the annual institutional public budget, all interview participants confirm the presence of serious financial constraint in the case university. In their statements, the university did not often get the total amount of budget it requested; and this consequently impacted many aspects of the teaching learning, research, quality of education and all other activities in the university. Supporting this, Teshome (2007) particularly indicated that universities are facing problems associated with resource constraints and inefficient resource utilization. Insufficiency of state budget and unstable funding are, therefore, becoming challenges to most of the core activities and operations of the institution.

With this lower capacity of the government to afford all the necessary resources to the already existing universities, however, the government had launched ten additional universities as part of the higher education expansion program. Thus, there is a high probability that the current financial constraint may get worse, since ten additional universities had been opened, unless additional sources are made available. In this regard, this divergence between resources and enrolments is, however, almost certain to continue in the near future. This is because with the current mission of the Federal government to increase the number of enrolment, the rapid erosion of financial resources at least in relation to enrolments will continue.

On the other hand, despite the financial constraints faced so far, a large proportion of this budget has been moved to maintain student welfare rather than supporting educational and research activities. The enormous support for the provision of nonacademic activities and facilities such as allowances, free accommodation, and catering is now facing scrutiny in many of the public universities. Such support not only consumes major portions of university budgets, which consequently undermines the *raison d'être* of a higher learning institution, but it may also serve as an incentive for students to take longer to complete their studies (Tefera & Altbach, 2004).

In general, the case university's experience seemed to illustrate well the problem common to many public universities of rapidly growing student numbers, unmatched by expanded university instructional budgets leading, in turn, to increasingly inadequate facilities, overcrowding, low quality education and high repetition rates.

Inefficient Resource Utilization: Financial Inefficiency

One important finding of this study is that there was paradox between insufficient inputs or budget and budget flow back to the central treasury. This flow back does not, however, indicate the surplus of or at least the adequacy of the institutional budget; rather it clearly indicates that the already allocated inadequate state budgets are not appropriately and

efficiently used. As it has been examined in the HESO (2004) report, therefore, the paradox between insufficient inputs and budget flow back shows that the overall institutional systems of financial management, expenditures and control have hindered efficient use of allocated institutional budgets.

Most financial challenges in Ethiopian universities are generally the result of the rapid expansion of the system without equal expansion of government budget. However, results of the study specifically indicated that the institutional financial constraint is compounded with and worsened by other problems of the financial aspects in the university. On top of the institutional financial constraints observed, institutions are also suffering from poor financial management systems and most importantly from inefficient use of the available funds at hand.

The study has shown that Bahir Dar University has serious problems of financial efficiency and management. Based on data obtained from the interviewees as well as analyzed documents, there appear to be a weak financial management system, misallocation, delay and underutilizing of the allocated resources in the university. This is manifested by the inappropriate budget plan and request, inappropriate use of funds, poor financial management, problems of quick decision-making, poor and delayed procurement or purchasing system of the university, in the process of creating efficiency in utilizing the available resources and in the budget flow backs in general. Supporting this, HESO (2004) report has confirmed that currently many private higher education institutions have developed better financial and resource management systems than public higher education institutions.

According to all interview participants, the problems of financial management and poor procurement or purchasing system of the available resources were consequently affecting all schools, faculties and colleges in the university. However, the problem is regarded to be more serious in Science College and Institute of Technology for they strongly require larger quantities of more expensive materials and instruments than others do. In line with this, departments have been indicated to suffer much because of the university purchasing system. As one of the deans put it:

The purchasing system is our biggest headache. The committee at faculty or college level is usually unable to buy the required materials on time because of the lengthy and delayed purchasing process. Chemical purchase is made at an international level, as there are no chemical providers at domestic level. If we do not have chemicals, the whole experiment will be stopped. This problem is highly exaggerated in graduate school that requires extensive lab work. Even though we request for immediate purchase of any material, we do not often get the materials we request to be purchased on time.

Obviously, if a university is not purchasing the required teaching learning materials on time, then it is not appropriately using its budget; this directly affects the teaching learning and other related activities of the university and even its service quality. This was supported by another top administrative staff who explained that:

We have budget shortage every time. However, the problem in our university is not this one. Rather, we are not even appropriately utilizing the already allocated budgets mainly because of rigid bureaucracy, poor management system and the purchasing mechanism. This has a very serious impact on the quality of education, performance of the institution and other related issues.

As it has been indicated above, the financial scarcity is not the only obstacle. The financial constraint was coupled with other problems related with financial inefficiency. The problems with regard to financial use and adequacy, therefore, appear to mainly revolve around: lack of efficient utilization of the funds, poor financial planning and management system, lengthy and delayed procurement as well as decision making problems of administrative staff.

According to the interviewees' perception, it appears that the financial management problems of the university can be observed from two different levels: First, from a management point of view, the university has serious problems of financial management, efficient use of funds, timely purchasing and appropriately planning and requesting budgets. Second, from the university units' perspective, once the budget is allocated to the institutions, there is also problem of quick decision making, using the money for the right purpose at the right time. This was supported by Teshome (2007) who found out that universities in Ethiopia to be poor in mobilizing their financial, material and human resources to improve access, quality, efficiency and equity issues.

Overall, this study has indicated that underutilization of resources, wasteful procurements, high administrative and non-instructional costs (such as cafeteria and dormitory services, large administrative staff) and poor management of services such as transport and procurement as the major sources of inefficiency. In support of this, Teshome (2007) and Tefera & Altbach (2004) indicated that lack of planned and transparent procurement and poor monitoring and evaluation systems as sources of resource wastage in many Ethiopian universities.

Financial Autonomy

The Ethiopian higher education proclamation clearly states that in pursuit of its mission, every public institution is granted all the necessary autonomy in the utilization of allocated budget with equivalent accountability. The Proclamation has now expanded institutional autonomy since universities are given freedom to manage their budget and decide on resource allocation without government approval.

Public institutions are autonomous to manage their funds and property. Hence, without prejudice to other applicable laws and procedures, a public institution is free to use its income as it sees fit, in accordance with its approved business plan (Article 64.2). Accordingly, the study found out that all the university administrators are aware that they are granted financial autonomy and hence they have the autonomy to decide on their allocated finance. Data obtained from the case study, however, indicated that most of the concerned management

personnel have not been exercising their financial autonomy in ways that could ensure effectiveness, efficiency and fairness. Participants of the study confirmed that unable to exercise the granted financial autonomy is mainly related with lack of managerial experience, fear of decision-making as well as fear of taking necessary financial risks.

Impacts of the Institutional Financial Context

Universities highly depend on the adequate and timely availability of all the necessary resources and materials. For this, they need, among others, a well-planned and organized procurement system. This is because universities are service providers not producers. So, they need materials and all the necessary facilities to provide the service. However, if no material on time, the service will be hampered.

Many of the problems revolving in higher education in developing countries, such as Ethiopia, have been reported to be rooted in the inadequacy of funds, accompanied by inefficient use of the available resources. Such financial inadequacy and/or inefficient utilization of it have dire institutional consequences. Institutional financial constraints as well as inefficiency could generally impact the proper functioning of the system. In this regard, Johnstone (2002) illustrates some of the consequences of financial austerity a higher education institution could face. These basically include loss of institutional capacity to respond to change; loss of best academic and research staffs, lower staff morale (due to declining salaries); erosion of equipment, including computers, laboratory equipment and library materials; and deterioration of physical plant, and inability to expand physical capacity to keep up with increasing enrolment.

Data gathered from the case study university indicated that the institutional financial constraint has different manifestations in the university; this can be seen in the lack of computers and Internet access, lack of free access to journals, insufficiency of research budget, shortage of buildings (for classrooms, laboratories, for staff offices), limited practical oriented learning (few or no practical attachment) and so on. Similarly, Tefera and Altbach (2004) summarized some of the common problems faced by African universities, such as Ethiopia, as a result of financial inadequacy. These basically include shortages of published materials of books and journals, lack of basic resources for teaching, absence of simple laboratory equipment and supplies to do research and teaching, and, in some countries, delays of salaries for months.

It seems that, because of the inappropriate utilization of the scarce budget and poor procurement, faculties and colleges in the university have been highly affected. This misallocation of public funds could imply the fact that the institution has not been equipped with the necessary teaching learning facilities. It may not also receive adequate maintenance and infrastructure, which are vital to achieve the missions of the institution. But, as it was stated earlier, it has been found out that College of Science and Institute of Technology were the two most highly affected faculties with the finance-related problems in the university. The reason is that these faculties demand expensive materials and facilities for their teaching

learning and research work more than the other colleges and faculties under study. That is, these academic programs need laboratories, laboratory equipment, workshop materials, chemicals and other facilities- all or most of which are not well provided.

Consequently, the current institutional financial context has largely impeded the different activities of universities having myriads of consequences on the institutions. It also appears that, because of the financial constraint and inefficiency, a lot of things have been sacrificed. First, the quality of education is deteriorating; classrooms are not adequate, chairs and offices for staffs are serious shortages, class time goes beyond the normal schedule till the evening, class size or number of students is too large to manage in a single classroom. It is common a perception of all participants that the impact of this financial constraint, coupled with inefficiency, inappropriate use of available resources and poor purchasing system, is increasing in the university.

Management inefficiencies drain scarce resources away from the proper functioning of the system and the fundamental objectives of increasing access, quality and relevance. The current financial constraints are, therefore, seen to affect almost all institutional activities (teaching-learning and research) and their related infrastructures seriously. Such inadequate and insecure funding stifles the ability and the incentive to carry out research, to provide quality education and also to maintain the current expansion. Insufficient financing of universities generally results in loss of best brains, poor educational quality, deteriorating conditions for scholarship and research, and hence, slow development of higher education (Liu, 2007). Therefore, with this financial constraint as well as financial mismanagement, the current level of funding of higher education in Ethiopia might be inadequate to deliver quality education.

Research Fund

Universities are the main locus of research activities. Thus, it is important to maintain advanced training and research programs at the postgraduate level for several reasons. According to Teferra & Altbach (2004), the general state of research in Africa is extremely poor, and its research infrastructure is inadequate. Scarcity of laboratory equipment and other scientific paraphernalia, dilapidated libraries, alarmingly low and declining staff salaries, a massive brain drain, and insufficient and unreliable sources of research funds all remain major hurdles to the development of research capacity across the continent (World Bank, 2000). The institutional research context of Ethiopian universities is not different from the above distinguishing picture of African universities. Most Ethiopian universities, both public and private, are not adequately engaged in research and studies as much as required of them (Habtamu, 2003). Similarly, results of this study indicated the poor institutional culture as a result of lack of adequate research budget. Based on the interviewees' responses, the institutional research performance at BDU was weak. Participants supported their claim by indicating weak income generating capacity, poor external link for research grant, poor institutional research culture, de-motivating environment for research work, highly

overloaded teachers with teaching who do not have ample time to conduct research, and most importantly the meager institutional research fund.

This study has shown that, together with the already poor research performance as well as poor research culture at Bahir Dar University, staff engagement in research work was indicated to be much lower than expected of them because of the extremely insignificant research budget. Of all the different core institutional activities, research in the case university appears to be the single most seriously affected mission as a result of the financial constraints. Thus, Bahir Dar University's vision of '*becoming one among the top ten premier research universities*' does not seem achievable in the current financial context for research as well as institutional research culture.

Discussion

The study found that the resource allocation mechanism has been one key factor for inefficient utilization of the available resources in the university and consequently for budget flow backs to central treasury. As the Ethiopian higher education system rapidly expanded, it is evident that line-item negotiated funding of higher education institutes has become impractical and inefficient (Merisotis, 2003). In this regard, financing of public universities in Ethiopia clearly required multiple adjustments to make it adequate, more effective and efficient. In so far as a rational, fair, efficient and effective system of allocation is needed, therefore, the proposed block grant funding mechanism could be seen as the best alternative solution. The switch from itemized to block grant budgets represents a fundamental change in governance from specification by a Ministry about how money is spent to allowing institutions to decide, within the regulations for public sector finance (OECD, 2003).

The higher education system in Ethiopia has been hugely expanding over the last one to two decades. Ethiopian higher education institutions can thrive like others only if their funding levels are adequate, stable and secure in the long-term. Previous studies in the area (Tefera & Altbach, 2004; Teshome, 2007; Ashkroft, 2008; Kibrom, 2010), however, identified that public universities in Ethiopia are generally facing financial constraints to undertake their core activities. Similarly, the study found out that the case university in particular is facing financial constraints for the core institutional missions, which in turn is seriously affecting the quality of teaching learning and research work. Hence, this finding is in congruence with previous studies with regard to the financial challenges of public universities in Ethiopia in general.

One key challenge facing the case university in particular, like the other public universities in Ethiopia in general (Tefera & Altbach, 2004), is insufficient state budgets required to cover the hugely expanding system. Although higher education enrolments in Ethiopia expanded rapidly, resources allocated to institutions did not keep pace. Thus, the root of the financial crisis in Ethiopian higher education lies in the combination of a dramatic and continuing

growth in student numbers unmatched by public expenditures on higher education (Woodhall, 2007).

Not only are the financial problems confronting institutions a lack of adequate resources, but they also stem from underlying restrictions imposed from government. Too often, government concern is with the political acceptability of allocation or with the horizontal equity amongst higher education institutions and the populations they serve (Albrecht & Ziderman, 1995). But, such funding allocations fail to provide incentives for institutions to operate efficiently (Ibid). However, the prime emphasis needs to be placed on ensuring that the transfer mechanisms of government funding to universities provide incentives for institutions to operate efficiently and to make the most effective use of scarce funds in times of financial stringency.

With ever-increasing enrolments of students into the public universities and limited funding, it is no longer an option for public institutes to operate at a higher degree of efficiency; it has become a necessity. Despite the fact that the case university is relatively one of the most developed and well-equipped institutions in the country, the study on contrary found that it was not efficiently utilizing the available resources. Efficiently utilizing scarce resources, however, indicates that efficiency analysis will become more common among universities (Avkiran, 2001).

One of the biggest challenges for inefficient utilization of the available funds in Bahir Dar University was found to be the centralized and poorly organized procurement. Consequently, the university has been poor in efficiently utilizing the available resources, poor in its financial management system and in decision making with regard to finance. The institutional financial constraint is, therefore, worsened by management inefficiency or inappropriate and delayed utilization of the available scarce resources.

It is well understood that the institutional financial constraints as well as financial inefficiency are impacting the different activities and missions of the university to a varying degree. The study found that the financial constraints in the university affect almost all the core institutional activities (teaching learning and research) and their related infrastructures. That is, the study has shown that almost all faculties and colleges in the university are suffering from lack of adequate classrooms, chairs, offices for academic staffs; shortage of lab equipment; problem of internet access, shortage of up-to-date and adequate library facilities, and related facilities. As a result of financial constraints as well as inefficiency, therefore, quality of education, teaching learning and research works were being compromised. Of all activities, however, research work has been found to be seriously affected by the current financial constraints.

In Ethiopian higher education system in general, the Federal Government imposes restrictions on the freedom of institutions to formulate their own admission policies for both political and economic reasons. But, imposed admission policies often imply a rapid erosion of funding,

since institutions are not allowed to charge tuition fees, and government resources usually do not keep pace with expansion (Albrecht and Ziderman, 1995). Besides, relatively automatic admission policies imply a falling standard of entering students, which may create new financial burdens for institutions, such as requiring them to provide remedial courses. Perhaps more significant than an erosion of real resources, however, have been government imposed restrictions on institutions that have limited their capacity to respond. In general, therefore, improvements in the incentives for institutions to be more efficient can have little effect if fundamental problems created by access policies are not addressed.

The case university's experience generally seems to illustrate well the problem common to many public universities of rapidly growing student numbers, unmatched by expanded university instructional budgets leading, in turn, to increasingly inadequate facilities, overcrowding, low quality education and high repetition rates.

Conclusion

This study has attempted to provide a brief overview regarding the public higher education funding aspects by taking Bahir Dar University as case study. Thus, based on the raised research questions of the study, it was concluded that the current resource allocation mechanism is highly inefficient and affecting almost all aspects of the institutional activities. Accordingly, the basis by which funds are allocated to higher education has changed in Ethiopia, like in many countries. The net result is that higher education institutions now face a more varied and perhaps less predictable funding environment (OECD, 2003). In addition, there has been significant financial constraint in Bahir Dar University, which was found to be congruent with the financial pressures of the nation's public higher education institutions. With their deteriorating financial position and the government's capacity on university financing, there is an urgent need for the public universities to work towards financial viability.

With the limited capacity of the government, it was important that available resources be efficiently used and well managed. The case university was, however, not able to efficiently make use of the existing financial resources. This financial constraint is affecting all the institutional activities and their related infrastructures seriously. For economically challenged countries like Ethiopia, there is a great need to utilize the meager resources very wisely and strategically while at the same time exploring and tapping external resources vigorously. Therefore, resource utilization in the case university in particular needed a complete overhaul, to increase efficiency of operation and achieve the mission of the university at low cost.

The phenomena of financial constraint can generally be explained at government and at university levels. At central level, it was observed that the budget allocated by the government is not equal with the budget requested by the institutions, which could be related with the low capacity of the country or other factors. At university level, the institution in

focus had been found to be allegedly weak in effectively and efficiently utilizing the allocated budgets for the right purpose at the right time. Finally, despite the autonomy granted to the concerned administrators, these personnel have not been appropriately utilizing the awarded financial autonomy because of diverse factors.

Implications

Policy Implications

The use of block grant funding that was proposed to be used in the form of formula funding should be an urgent issue at a national level. This is because the findings of the study have indicated that the current resource allocation mechanism (line item negotiation) is creating space for budget flow back and poor efficiency.

The divergence between resources and enrolments is almost certain to continue in the near future. This is because with the current mission of the Federal Government to increase the number of enrolment, the rapid erosion of financial resources at least in relation to enrollments will continue, with little incentive or capacity in place for universities to seek efficiency gains. This deterioration can be stemmed only if universities are granted greater autonomy over decision-making in relation to admissions and resources, while ensuring accountability to the providers of funding.

The financial constraints facing many public universities in Ethiopia are severe, and it is unlikely that they can be resolved by simply increasing public funding. Besides, policy environments have not been conducive to the promotion of greater internal efficiency within universities nor have they facilitated the development of alternative, non-governmental sources of funding. Given the funding pressures, it makes sense for institutions to look for solution in terms of non-government funding; i.e., to diversify their funding base by facilitating generation of income at the basic unit level.

The financial constraint of the university is worsened by some other factors like problem of efficiency, financial management and procurement. Thus, it is advisable to grant full autonomy to faculties with regard to research work, community service, financial management, budget utilization and purchasing system. Establishing procurement or purchasing committee at faculty level could save delayed and lengthy auction and then provides facilities on time. Establishing financial management office at faculty level will increase efficiency and effectiveness and even accountability.

As much as the magnitude of funds that flows into a system is critical, the effectiveness and efficiency in which these resources are utilized also matters significantly. The government, responsible for financing universities, can use efficiency indicators as guideline for the distribution of funds among the universities and thus create an atmosphere of competition within the public university system.

The institution should also develop appropriate administrative structures and integrate financial planning with institutional policies. Besides, strategies should be designed to reduce costs and increase efficiency through better utilization of resources.

Practical Implication

To understand deeply the comprehensive feature of higher education funding in the country and to consider what actions must be taken at policy level, additional works in the area are highly recommended with focus both at institutional as well as national level. Research focusing on cross-site comparative cases is needed.

Nation-wide, systematic research is needed to examine the extent of wastage, in term of finances, physical and human resources, in public universities, with the goal of suggesting policy options and mechanisms for financing university education.

Limitations of the Study

This study is a case study done in a single public university in Ethiopia. Thus, results of this study cannot be taken for granted to understand the feature of public higher education in the country in general; that is the study is not generalizable as it is difficult to generalize from single case study. Rather, it can provide a portrait of the way public universities in Ethiopia are dealing with those financial challenges.

The study is also restricted in terms of administrative times. That is, all the data obtained through the interview describe the current situation under the current administrative personnel. It does not go beyond.

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