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Georgian Higher Education and Funding Model: Effects on Higher Education Efficiency and Stakeholders' Interests

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As we live in an extremely dynamic world, the importance of creating new knowledge and developing education has become vital. Higher education has to rapidly respond to the ever-changing conditions of the economy and the labor market. As resources are scarce, governments make continuous attempts to obtain maximal returns on investments in higher education. Georgia still needs to take important steps to get closer to European education standards. The aim of this research is to evaluate the effects and results of higher education reform in Georgia and particularly, its funding model. Under this research, the influence of the funding model on the stakeholders of higher education was observed. Furthermore, we examined whether funds spent on higher education by the public and private sectors are used efficiently, and does the higher education system serve the objectives of each interested party. Our research methodology includes reviewing scientific and legislative literature, analyzing statistical data and conducting interviews with involved parties.

Introduction

Higher education (HE) in Georgia is becoming more and more important, and society is beginning to realize its role in economic development and integration with Europe. Unemployment in Georgia and around the world puts the HE system under pressure to provide students with necessary knowledge and competences to adapt to growing competition on the labor market.

Higher education institutions (HEI) are under pressure to meet funding and regulatory criteria and to strengthen their market position at the same time. They have to find a creative balance between quality and capacity, financial viability and traditional values. On the other hand governments have to encourage excellence and equity.

Since 2004, the Georgian government introduced a new model of funding higher education. The voucher system was introduced to discourage corrupt practices in higher education institutions. Many types of higher education institutions, including those seeking profit would compete for students and their vouchers in the marketplace. Consequently, competition would lead to a greater range of choice and rising efficiency and innovation in education as HEIs had financial incentives to attract and maintain their enrollment. (Levin, 2000, pp. 3-4)

The objectives of this research are to examine the extent to which the voucher funding model serves the achievement of mission of The Ministry of Education and Science of Georgia. Furthermore, (Ministry of Education and Science of Georgia) government is not the only stakeholder of higher education; students, institutions, taxpayers, employers of graduates, society are interested parties as well. Another objective is to identify their interests. This research evaluates the dynamics of the effects the new models have on these stakeholders.

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Vouchers are believed to be a very powerful means of demand-driven financing for the funding of the higher education. Students obtain vouchers from the government to buy educational services from the HEI

of their own choice. HEIs no longer receive direct government funding. To ensure their funding, HEIs will have to compete for students and consequently are believed to shift their focus from satisfying government bureaucrats towards the needs of their customers. In a voucher scheme, the providers of higher education are forced to be responsive to the needs and preferences of their customers (i.e. students, businesses). Vouchers are a way of funding education that can be described as input-oriented and at the same time demand-oriented. (Koelman & Jongbloed, 2000, pp. 5-8)

For the HEI the vouchers represent a certain value - they can be cashed at the Ministry of Education. Student is given a voucher of limited value, which can be used during a certain period of time and for programs of accredited education providers. In this funding system it is the consumer that drives the system - the system is believed to be demand-driven. (Koelman & Jongbloed, 2000, pp. 5-8)

The student decides what institution to attend and what programs to enroll in. The HEIs have to take care of the quality of their teaching and their supply of courses, because unattractive programs will not receive sufficient funding. (Koelman & Jongbloed, 2000, pp. 5-8)

Institutional Autonomy in Georgian Higher Education and its compatibility to the Lisbon Declaration

Based on The Lisbon Declaration of the Association of Europe's Universities "Governments are urged to endorse the principle of institutional autonomy so as to accommodate diverse institutional missions and to include academic autonomy (curricula, programs and research) financial autonomy (lump sum budgeting), organizational autonomy (the structure of the university) and staffing autonomy (responsibility for recruitment, salaries and promotion). Autonomy should be founded on adequate public funding and should also facilitate the strategic management of public and private income and endowments (from philanthropists, companies, alumni and students) by the universities themselves." (European University Association, 2007) Article VI. - 26

Organizational autonomy in Georgian higher education institutions is relatively high, as universities may elect and dismiss a rector, as well as

determine the academic structures. Higher education institutions can establish entrepreneurial and non-commercial legal entities (except Universities established as the Legal Entity of Public Law (LEPLs), yet, involving external members in governing is limited. (Zaalishvili, 2013, pp. 7-11)

Financial autonomy of higher education institutions is high only in terms of sustainability of public funding surpluses and borrowing money (except LEPLs). Only private universities have the freedom to establish tuition fee amounts. In terms of student enrollment the model of Unified Entry Examinations, where HEI cannot select students independently violates the principal of autonomy. (Zaalishvili, 2013, pp. 11-15)

Universities can independently select, dismiss and promote academic staff, and set up their salaries. In case of administrative positions only state universities are limited as the requirements for administrative positions are legally defined. (Zaalishvili, 2013, pp. 15-19)

Academic autonomy in HEI is independence and significantly limited. The language of instruction and quantity of students are regulated by the Ministry of Education and Science of Georgia. For the Bachelor's level, higher education institutes do not have the authority to evaluate applicants based on internal examinations. These factors violate the principle of autonomy. The authorization/accreditation approach is another means of governmental influence on university activities. For master's and PhDs' levels HEI have a right to conduct internal exams and interviews in student enrollment process, which gives them higher level of autonomy. (Zaalishvili, 2013, pp. 19-23)

The required annual self-evaluation for authorization and accreditation does not provide an accountability system to the public and university society, even though it gives HEI high levels of autonomy. (Zaalishvili, 2013)

The law includes a very general framework for HEI self-governance and the responsibility delegated to universities in order to guarantee academic freedom. Yet this authority is not monitored and regulated successfully. As a result, the academic freedom is not guaranteed (Zaalishvili, 2013, p. 27).

In conclusion, the core drawback is that the level of the autonomy in various organizational-legal types of higher education institutions varies. LEPLs are more limited in terms of autonomy, while private HEIs operate in a less restrictive environment. This factor is an obstacle for free competition between HEIs. (Zaalishvili, 2013, pp. 7-35)

Financial Issues of Funding HE

In 2004, the Government of Georgia started fundamental reforms of the education system. The pre-reform funding model (direct funding) was the source of corruption in the admission process and misuse of state resources by the public universities. Direct funding was changed to student-related funding, which is more similar to European models. Student-related funding made the Georgian higher education system one of the most state-independent systems in Europe, but lack of state financial resources granted for the higher education still creates difficulties. (Chakhaia, 2013, p. 14)

The current funding model has important differences compared to European practices. First, state funding does not depend on the quantity of students at the HEI but on the quantity of students successful in the National Entry Examinations. Rest of the students cover tuition fees on their own. Second, the state covers the tuition fee only; other expenses related to studying are covered by students. The majority of funding is allocated based on the results of the National Entry Examinations. (Chakhaia, 2013, pp. 16-20)

According to the Law on Higher Education “Define under the submission Ministry of Education and Science of Georgia the amount and conditions of funding the education of students who enrolled for accredited higher education programs within the framework of social program under the submission Ministry of Education and Science of Georgia, which funding should not be less than 6% and more than 10% of the annual volume of state study grant funds”. (Parliament of Georgia, 2004, Chapter II, Article 6, 1.-c)

This funding is available to the children of victims of war, students living in occupied territories, the inhabitants of highlands and ecological

migration zones, etc. The number of students who receive funding is defined, and is allocated on the basis of scores on the National Entry Examinations. (Chakhaia, 2013, p. 16)

Compared to other priority budget sectors, since the early 2000s, state funding for higher education in Georgia has increased the least. The dynamics of higher education and research funding shows that the share of total funding slightly increased from 2000 to 2005, but has again declined in recent years. The decrease in research funding was particularly significant. According to data, between 2005 and 2011, the percentage of research funding in terms of GDP decreased twice from its original amount. (Chakhaia, 2013, pp. 12-13)

Similar to other post-Soviet countries, an unprecedented privatization of higher education funding took place in Georgia as well. The share of private funding is high in both state and private universities. The majority of students cover tuition fees themselves in both state and private universities. 64% of students completely pay for their own tuition fees, 49% of which attend state universities; the other 15% attend private universities. However, taking into account that about another 25% of students partially cover their tuition fees, one can see that among the post-Soviet countries, Georgia has the highest indicator of students paying their own tuition fees. (Chakhaia, 2013, p. 13)

Such a scarcity of state funding may negatively affect the accessibility of higher education, as well its quality. The lack of funding prevents universities from improving education quality, considering that the already scarce resources are mainly used to cover personnel salaries and other ongoing expenses. As for accessibility, the burden of financing higher education in Georgia mostly falls on private individuals - students and their families. Under these circumstances, it is likely that the current system of student funding provides funding for better-off students. (Chakhaia, 2013, pp. 8-11)

Effectiveness of the Georgian Model of Higher Education Funding

To evaluate whether funding model is successful we need to identify key stakeholders of higher education (bachelor level). Firstly, the most obvious stakeholders are students as the funding model has a direct influence on their accessibility to higher education and consequently their employment. The second stakeholders are employers, who have their own demands for specific competencies and knowledge they need from graduates. The other most important stakeholders are government and society, as educational policy influences many aspects of the country's development and economic condition. Furthermore, HEIs are largely affected by the funding model, because it defines their revenues.

After stakeholders are identified, their interests that higher education funding model should help to fulfill need to be defined. Interests are grouped into four blocks: freedom of choice and accessibility, productive efficiency, equal opportunities for providers and social consistency.

As interests are recognized, we need to come up with the criteria that measure if those interests are met. Since interpreting the degree of interest fulfillment is highly subjective issue we would like to examine the dynamics of certain measures. As reform of higher education and its funding took place in 2004 the first students funded under voucher model graduated in 2009, the research mainly overviews effects of funding model from 2009 until 2013.

Freedom of choice and accessibility

Funding model should allow students to choose from varied institutions and programs. Students would have to be able to be mobile, and collect their credits from a wide set of programs and providers, without barriers between institutions. Financial support to students will guarantee equal access opportunities for all. Are all programs financed equally?

We evaluated dynamics of number of HEIs accredited, as number of available places for students and variety of institutions directly influences freedom of choice. We see that during these years there has not been an important change in public HEIs in terms of quantity. Students are able to choose from wide range of public, as well as private HEIs and programs.

Although, number of programs decreased in some universities, though concentrations (directions of particular professions) increased and were unified under one program. This fact was caused by HEIs attempts to decrease costs associated to accreditation procedures. As for private institutions, in 2010 many universities were closed, as they did not satisfy the minimum requirements for authorization. From 2012, we observed a tendency to increase the number of private institutions as well.

Another factor influencing the freedom of choice is mobility. Student can obtain a grant in both, public and private HEIs, therefore they have freedom to choose from all HEIs, and even after the choice is made, they can still change HEIs. Students are able to change their program (internal mobility) or HEI (external mobility). According to the law: “To encourage entrants and the mobility of students the following persons shall be allowed to enroll in a higher education institution without sitting Unified National Examinations commensurate with the procedure and timelines prescribed by the Ministry of Education and Science of Georgia” (Ministry of Education and Science of Georgia, 2004), Article 52.2-b.

Based on this law students have freedom of choice even after the enrollment to the particular program of HEI. Academic mobility – free movement of students and academic personnel to ensure the participation in learning, teaching and research activities both in Georgia and abroad, in accordance with Law of Georgia and the rules established by a higher education institution, what is followed by the recognition of qualifications or the education, credits acquired/accumulated during the study period; (Ministry of Education and Science of Georgia, 2004) Law of Georgia on higher education, article 2.

One of the main goals of Higher education is to encourage student’s mobility. Academic Council is responsible to promote mobility an integration of students in European Universities.

A higher education institution shall ensure: Equal treatment for all, regardless of one’s ethnic or social origin, gender, political or religious beliefs, etc.; (Parliament of Georgia, 2004) Article 16.-d

Any restriction on any ground such as race, color, language, sex, religion, political or other opinion, national, ethnic or social origin, property, birth

or other status, place or residence, citizenship, academic position shall be prohibited.

(Ministry of Education and Science of Georgia, 2004) Article 22-4

Ministry of education should identify reasonable voucher amount, as public universities will always strive to adjust to voucher (will not set tuition fee below voucher amount). This minimum tuition fee should be affordable for students not granted; therefore it should be compatible to average income of family in Georgia.

Due to statistical data average monthly income is 712 GEL (annually 8550GEL), tuition fee of bachelor degree in public universities is 2250GEL therefore average family can afford it. Consequently, even if student does not obtain voucher they can still meet the expense of higher education. After paying for education 6300 GEL is left to cover other expense (monthly 525GEL) which is higher than a subsistence minimum.

Productive Efficiency

The government and the private sector invest money in higher education to support the economic growth of the country, developed job market and obtain qualified human resources, who will then generate profit. Providers should generate revenue at least enough to cover costs required to provide adequate education. Government's interest is that money spent for higher education should improve economic indicators such as employment and average income.

To evaluate compliance of higher education return and market requirements we can use return on education as a measure. "Return on Higher Education" (return on investment for higher education expenses) is a relation between spending on education (public and private) and public and personal benefits". Private return can be identified as individuals salary compared to expenses on higher education. The public return can be seen as state expenditure on higher education with income from employment. (Bregvadze T. , 2013, pp. 4-5)Based on statistical data we observe increase in employment of students and graduates, which is a very positive signal.

According to our research 28.5% of students admitted to higher education institution on the bachelor level do not graduate. Small part of them may have transferred to HEI abroad, but most part of them stopped their study. We can conclude that financial resources spent on higher education by the government and private sector is not used efficiently. Grants are given to the universities annually; therefore if a student stops studying in the first year of the studies, this amount of vouchers are considered wasted.

Based on the research (Bregvadze T. , 2013, p. 9) a person with a basic education has 50 percent less income than a person with a higher education. One of the most significant reason of hindering growth is that despite of having high education individuals do not have enough skills relevant to the labor market needs. Self-employment indicator is low as well. In Georgia only 25% of the population with higher education works within their professions. 50% of employed individuals think that the alumni competences do not meet their requirements.

The main reason for preventing the creation of new jobs is the low share of self-employed among the people with high education.

Equal opportunities for providers

All types of the HEIs, public and private need to obtained authorization in order to be able to receive vouchers from students. The procedure for authorization is the same for public as well as for private institutions, thus they have equal opportunities.

Authorization – the procedure of obtaining the status of a higher education institution, that aims at ensuring the meeting of standards, necessary for the performance of relevant activities to issue the State-recognized educational documents;

(Ministry of Education and Science of Georgia, 2004)Article 2-b.

Accreditation serves as a regular self-evaluation of higher educational Institutions and promotion to create productive and usefull studying programs for Bachelor studens. These programs should provide high qualifications for graduating course students.

All providers should be in the same condition in terms of funding. According to 2013 data, distribution of students in public and private HEIs is 68% and 32% respectively, while distribution of grants given to public and private HEIs is 87% and 13%. Even though public and private HEIs are not considered to be direct competitors and places for students in public HEIs is more than in private HEIs, percentage difference still does not look proportional.

From 2004/2005 to 2005/2006 the number of students in public, as well as private institutions decreased by 60% (24645 students). Another decline in number of students was in 2008/2009 due the increase in number of school academic years from 11 to 12. In 2008/2009 only Russian school graduates and 2007 unsuccessful school graduates were able to enroll in the HEIs on the bachelor level. General dynamics after 2006 of number of students in all HEIs is positive, and is constantly increasing. Several reasons have contributed to this increase, including economic development of the country, but we think that grown accessibility to HE due to the Voucher model served as a major contributor to this increase.

We observe very strong positive correlation between the number of students in public and private institutions; therefore we can conclude that they are not direct competitors. The main reason for this is different tuition fees. Public universities tuition fee is 2250, while some private universities have tuition fees of 14000 and more, therefore they are focused on totally different segments. Private institutions state that they offer higher quality of education and therefore they set higher fees.

The correlation of number of students in public and private university based on programs is positive as well (0.956). Only exception is agriculture. This deviation was due to a single event; privatization of Agricultural University of Georgia. It caused dramatic decline in number of students on this program in public universities and proportionally even higher increase in private universities. As for Engineering, manufacturing and construction, these professions are not very demanded on the labor market, so very few private institutions offer these programs, because students are not willing to pay addition on voucher amounts. In public institutions students still apply for these directions, as government

considers these professions as priority and if student passes exams even with low scores, they still are funded fully.

Social Consistency

The government has special social programs for HE funding, a separate budget for vulnerable groups. Defined under the submission Ministry of Education and Science of Georgia the amount and conditions of funding the education of students who enrolled for accredited higher education programs within the framework of social program under the submission Ministry of Education and Science of Georgia, which funding should not be less than 6% and more than 10% of the annual volume of state study grant funds; (Ministry of Education and Science of Georgia, 2004) Article6, c .

Citizens of Georgia, who until August 7, 2008 lived in the Russian Federation and were enrolled in recognized higher education institutions of this country, have a right to continue studies to a Georgian higher education institution without passing the United National Examinations, according to the rule set by the Ministry of Education and Science of Georgia. (Ministry of Education and Science of Georgia, 2004)

The number of students in each category (children of victims of war, students living in occupied territories, the inhabitants of highlands and ecological migration zones, etc.) is defined, and according to the regulations, in the case of heavy competition in any of these categories, the funding is still allocated on a meritocratic basis. In the academic year of 2012-2013, a total of 488 students were funded completely or partially.

While the funding of social programs has been increasing over the years, still the income of individuals with higher education does not differ with his/her family's well-being before admission to university. "The indicator of the poorest population's involvement in higher education is 9%, while that of the richest population is 38%. The share of young people with higher education is particularly high in the group where the older members of a family also have higher education (73%), as compared to those families where older family members only have general education (18%)". Despite the potentially large effects of upward social mobility, the role of higher education in equalization does not work properly, as there

still remains limited access to higher education for vulnerable groups. (Bregvadze T. , 2013, pp. 5-7)

As the government of Georgia sees regional development as priority, development of different fields in regions is important. One of the key drivers of the regional development is HE. As urban citizens do not usually strive to move to rural areas and have economic activity there, it is important that local population gain necessary knowledge and competencies to develop regional economic conditions. HEI in regions also represent a source of employment for local academic staff and other workers of these institutions.

After the reform of HE system and the introduction of a voucher funding model, HEI have to compete for students.

In the regions the number of potential and existing students is very low, HEI could not manage to cover fixed costs and invest in development, therefore most of them were forced to close down. Some regions are left without HEI at all, for example KvemoKartli. Statistical data shows that the number of HEIs dramatically decreased from 2006 to 2013, 38 private HEIs were closed and their employees were left without jobs. In 2011, the number of private HEIs decreased by 75 units, and the same year number of students in Georgia decreased by 16%.

Conclusion and Recommendations

Interviews with the representatives of public and private HEIs, National Examination Center and ministry of Education, school graduates, students were held.

Public university employees claim that present funding model does not motivate HEIs to improve the quality of education, as grants are tied to students they are forced to concentrate on quantity. Even students that passed national examinations with lowest scores are admitted to public institutions. When students do not have the basic knowledge that they should have had obtained in school, institutions are not able to start teaching appropriate material, therefore quality suffers. Moreover, HEIs are not provided with additional funds for development and scientific activities. Public institutions prefer a block grant model, where funds are

given directly to universities and they decide how many students to accept. Representatives of Institutions claim that it would increase motivation to focus on quality rather than quantity.

The assumptions mentioned above are not fully objective, as we already have an evidence of block grant models' outcomes in soviet and post-soviet times, when corruption was a common practice in admission and study process in HEIs. Furthermore, the main advantage of voucher model is considered to be free competition among institution for students, and this should guarantee improvement of quality.

The voucher funding model is appropriate for the Georgian reality; despite some disadvantages it eliminates corruption and waste of financial resources. According to our interviews some experts and competent individuals in this field believe that the voucher funding model is not appropriate as HEIs will not have funds for activities as: research and development. It is possible to have mix of models; voucher funding model for study process and block grant model based on performance for science and research. Moreover, first year voucher for students might be identified by their results on national examination, while next year vouchers may be reviewed according to students' performance (e.g. grades, failed subjects, etc.), thus government will avoid funding unsuccessful students.

As representatives of NAEC claim, they also are not satisfied by the existing funding model and support the idea of public HEI employees' opinion. They named the same arguments considering present and alternative funding models. Although, they did not have any arguments about possible corruption under block grant model.

All the respondents mentioned that many school graduates and bachelor graduates continue their study to avoid army. They have little motivation to obtain knowledge and fail some subjects on purpose not to finish study, and government money is still spent on such students. As we see from statistical data, the number of students admitted to HEIs on bachelor level, compared to number of graduates increased dramatically. The reason to this could be greater accessibility to HE, but some part of it is surly due to above-mentioned issue.

Representatives of private institutions fear that if government returns to block grant model, they will lose government funding completely. They wish that government also funded scientific and research activities in public and private universities, as they should both have equal opportunities. They complain that they are in a worse position compared to public universities, as they have to find money for material resources such as buildings, while for public institutions these assets are provided by the government. This factor also jeopardizes the concept of equal opportunities for HE providers.

Although, the Ministry of Education requires accreditation and quality assurance, this procedure does not actually control quality, rather it is a bureaucratic process of checking the papers where institutions write self-evaluation report and rarely anyone checks the validity of these reports. Institutions spend financial and human resources in these useless activities.

HEIs are not obliged to have career centers and have communication with employers to ensure that education they provide is needed on the labor market (except of program accreditation process). HEIs are against any additional regulations by Ministry of education e.g. national graduation examinations, obligation of having career centers, etc.

The challenge is that human capital created in higher education system is not used in an effective way. Together with the growth of the government investment in higher education, additional measures for increasing return from higher education are important, for example: promoting compatibility of higher education with the market requirements, increasing access to higher education for vulnerable groups. It is vital to take into account real rates of return according to the education directions when subsidizing higher education. It will be useful to establish a new body at the Ministry of Education and Science of Georgia, which will be responsible for analysis of education return and employment indicators. HEI should have career development centers where they will gather information about employers' needs and help their graduates in employment. The Ministry of Education can also introduce rating system of HEIs based on performance indicators. HEIs should give graduates necessary competencies for self-employment. Encouragement of self-employment would decrease the unemployment rate.

Higher education can help reduce inequality between different social groups in terms of employment and income; yet, research shows that the involvement of socially vulnerable groups in higher education is low (Bregvadze T., 2013, pp. 4-11).

Georgia still needs to take important steps to get closer to European education standards. While the present model reduces some defects concerning corruption and quality standardization in HEIs, still many problems remain.

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List of Abbreviations

Abbreviation	Meaning
HE	Higher education
HEI	Higher education institution
LEPL	The Legal Entity of Public Law
OECD	Organization for Economic Cooperation and Development
THES	Times Higher Education Supplement
EU	European Union
NCEQE	The National Centre for Educational Quality Enhancement
NAEC	National Examination Center