

# **Diversification of Funding Models of Higher Education Service Market in Georgia**

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## **Abstract**

Georgia's European choice and the desire to get closer to European standards make the country face the particular challenges. According to the value and scale of changes, higher education service market occupies the specific place. Higher education services market as the core resource of the formation of professional staff, presents a key factor for sustainable and dynamic business development. On the basis of the aforementioned, in Georgia, it is especially important to promotion the diversification of funding for higher education market.

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**Keywords:** HE market of Georgia, funding models of HE

## **Introduction**

Higher education is an innovative providing foundation of economy and the only undisputed alternative for the country's sustainable development. Support for higher education is willingness to cooperate with the European structures and the possibility of confirmation. In May of 2015, the long-term implementation Policy Paper of the Association Agreement was prepared by the National Center for Educational Quality Enhancement (NCEQE), which considers the implementation of the recommendations and decisions of the European Parliament and the European Council and collaboration in the sphere of higher education in 2015-2017 what is considered by the appendix of the Association Agreement. The ultimate aim is to approach the relevant EU policies and practices. This cooperation will be focused on the following areas of development:

- Lifelong learning, which represents a key opportunity for career growth and aspects for provision of jobs, and enabling citizens to fully participate in public life;
- Modernization of Education and training systems
- Improvement of education quality

- Providing relevance and accessibility at every stage of education and arising the higher education market competitiveness.

It is impossible to achieve high-quality education on the higher education service market without a significant financial investment. Despite the fact that higher education research activity is a national priority in Georgia, the funding allocated for these areas is not enough to ensure creation of a competitive product in the region and worldwide.

It should be noted that in Georgia, the state funding mechanism for higher education and research creates the volatile environment for higher education institutions. Higher education funding mechanism puts higher education institutions in unenviable position. Georgia's education expenditure to GDP ratio is around 2.7% in 2015, only a third of which is spent on higher education, i.e. about 0.9% (7).

A similar rate of the Baltic Sea region countries, where gross domestic product per capita is almost 4 times higher than in Georgia, ranging from 2-3% which is undoubtedly a solid figure. Particularly, in Estonia, the rate is 2.9%, in Lithuania - 2.4%, while in Latvia - 2%. Considering the solid budget, financial support is quite high in both the Eastern and Western European countries. Expenses spent on higher education in Poland make 2,8%, in Finland – 3%, in the Netherlands – 3%, in Germany - 3.2%, and in Austria - 3.1%.

Therefore, for our country it is crucial to come close to the European orientation, which is 3% of gross domestic product.

Currently in Georgia, sources and forms of higher education and research funding are not properly diversified in order to ensure the quality and availability. Though in Estonia, Lithuania and Latvia the National Examination practice still exists, about 20-25% of total number of students are given the opportunity to participate in international exchange programs with the support of the state. A special support is provided for students being at the third stage and 10% of PhD students are financed (5).

In accordance with the reality of the issue, it is becoming increasingly urgent to diversify higher education funding on the market.

In this respect, the experience of Western Europe and the Baltic Sea region countries is very interesting. The country's leading scientists and practitioners of higher education in economics and management system offer a variety of funding sources and models with theoretical grounds, their strengths and weaknesses; they also bring evidences of the interrelation of private and public funding.

In European countries attention is focused on the following models of financing: bureaucratic, collegial, market model, institutional, model of financing programme and service recipient and the model block-grant

funding. Let us discuss conceptual and qualitative aspects of each model and analyze their pros and cons (3,10).

According to the bureaucratic model of funding of higher education service market, funding comes from the state budget. In turn, this would directly affect the funding of all legal and financial terms. It is able to determine the structure of funding, number of departments, employees and the number of students accepted, scientific research trends and needs, etc. In fact, the state takes full control over the financial administration resources. State may transfer the functions to the various supervisory bodies (councils, the Commission, committees, etc.) where the representatives of the academic community will be present.

The main advantage of this model is that the state is in fully compliance with the requirements of the labor market, medical specialists, adequate staff and experts. However, this model also has its disadvantages:

- The arisen centralized finances almost entirely restrict the autonomy of higher education institutions and academic freedom in the process of solving the most important issues of the University life;
- Such higher education institutions do not have the right to find independent financial resource;
- Using of the existing financial resources of each new phase depends mainly on the experience of the previous year. It does not take into account the new requirements which can change on the higher education service market during the year;
- Possibility of implementation of limited financial changes which is related to a quick decision as the decision-making process, as a rule, requires a lot of bureaucratic regulations.

The collegial model of financing is also interesting. The mentioned model describes the actions of the institutions of higher education which are only partially subsidized by the state. Higher education institutions have the right to attract private funds (financed by tuition fees, in exchange for a variety of service projects, as a result of scientific researches of economic institutions, a variety of programs, scholarships and funding); they also have the right to freely dispose all resources available to them.

The structure of the mentioned model is based on a traditional idea of financial independence of higher education institutions, also on trust based relations between the state and universities. The right of financial independence given to higher educational institutions enables universities to choose the principle effective expenditure. Public subsidy includes budget and the right it to be spent by HEI's institutional level – the senate and the board (3,20).

One of the shortcomings of the abovementioned model is that, as a rule, all specialties and directions are not equally demanded at higher

education institutions. Accordingly, less popular specialties and directions appear. In such a case, providing them with private funding causes difficulties what is finally reflected on ineffective administration, and hence, on the quality programs and future perspectives of their development. If we take into consideration the situation when fundamental sciences such as exact and natural sciences are often among unpopular education directions, they should necessarily be subsidized by the state.

In Baltic Sea region countries, a special attention is focused on the so called “market model” of funding the higher education service market. Proceeding from its content, the model has the unified character and what is most important, it obliges universities to be in close cooperation with each entity of the higher education service market.

Just within the frames of the model, higher education institutions are in close business and partnership relations with students and academic staff, as well as with the various representatives of private sector, especially with direct employers. The existing administration mechanism of the model enables universities to create stable guarantees for further development. The model does not share the opinion that future study and sector priorities should be determined by the state itself and completely supports the idea according to which, direct beneficiaries of market products must be involved in the process. (Namely, society, business and producing).

Another priority of the model is to work out distinct and transparent financial plans, reports, forecasting data and offer them to potential investors (the state, private companies, private investment funds, etc.). This process will increase the competitiveness of the higher education service market and promote the development of keen competition on the education market to obtain financial resources (3, 20).

At the same time, the mentioned model makes the higher education institution market more flexible to meet the most significant and modern challenges. In other words, to meet the most urgent requirements of the higher education service market.

The model has its shortcomings. Referring to the model, the attention is more focused on the promotion of the programs and the projects that have high feedback in a short-term period. Besides, on the one hand, strong financial control has positive effect, but on the other hand, it requires hard work and too much energy from academic staff (presenting various financial reports, filling in financial forms and documents, making analysis, proving expediency of various teaching programs) that may be complicated by bureaucratic processes.

Institutional model of funding is also attractive. As the other models mentioned above, it is very popular in modern world by its content as well as by simplicity of model realization. The model takes into consideration and

underlines especially teaching quality and scientific activities at higher education institutions.

A priority of the existing public funding model is to increase and improve the competitiveness of the higher education service market at the state level. The model is entirely compatible with bureaucratic as well as with collegial model. It can also be used in market model for providing public funds (4, 9).

According to the abovementioned model, higher education institutions have to submit a financial application every year to the corresponding educational and financial establishments and prove urgency and efficiency. In case the submitted application is approved, the funds allocated to education are liable to strong financial assignments by the donor as well as by the audit service of HEI. Unspent financial resources must be returned as their expenditure for other purposes is not admissible.

It should also be noted that the donor financial institution, as a rule, reduces funding amount for those higher education institutions that have undrawn financial resources by the end of the year. This supports the refinement and improvement of financial plans of higher education institutions.

The precondition of funding this model is also interesting as far as a special attention is focused on the purposefulness and significance of each demand of the submitted financial document including even the most insignificant details. Such problems as: maximum capacity of students (ability to admit as much students as possible) at higher education institutions, correlation of academic staff and students, data of scientific activities and scientific publications, the index of habilitation of defended theses. The discussed models are used in developed countries, like Finland, Denmark, Netherlands, Sweden, Germany, Austria and so on (4,29).

The model of program funding and funding of service beneficiaries are matter of interest too. The main principle of the model realization is to concentrate on highly demanded higher educational institutions. The uniqueness of the model lies in the fact that higher education institutions are practically independent from the state regulations from financial viewpoint.

Direct supplier of financial resources for higher education institutions is the entrant himself as far as it is the beneficiary him/herself (university entrants, future students) who chooses one or another university and the state is obliged to finance the HEI chosen by the entrant. Due to the high degree of decentralization, this model of funding is considered to be closer to market model funding.

The model has its advantages and disadvantages. The situation, when in some cases the state independently determines the amount of funding, especially if the tuition fee greatly exceeds the state subsidy, may be

considered as disadvantage. As a rule, in most cases, the state covers a student's tuition fee completely or its 70%.

The advantage is that government has active consultations with higher education institutions when determining the funding amount for education. In its turn, funding amount is changeable and depends on the study program preferred by the student. Another positive fact is that exactly the program-funding model and the service beneficiaries funding model are considered as a serious motivator of promoting the competition and increasing the competitiveness of higher education market in European countries. It is also significant that a student has the right to claim for providing additional financial resources within the frames of the abovementioned funding model.

At higher education service market in European countries there is widely recognized the so-called "block grant" model of funding. This model is successful in many European countries like Sweden, Great Britain, Austria, Greece, Turkey, Slovenia, Estonia, Lithuania, and Latvia.

The model underlines the possibility to allot study grants from the state budget to higher education institutions along with the block grants whose amount will be calculated on the basis of formula including the following components.

- Number of academic staff;
- Qualification of academic staff;
- Quality of academic programs and teaching;
- Degree of internationalization of higher education institutions;
- Data of relationships with the private sector (4, 36).

The advantage of the model is that universities can dispose these direct finances according to their consideration.

## **Conclusion**

The existing grant funding system of Georgia does not provide increasing of the competitiveness of private sector and its sustainable development at the higher education market. Accordingly, taking into consideration the experience of the higher education service market of European and Baltic Sea countries, it is expedient to diversify the funding sources of the higher education service market in Georgia. The share of higher education and science funding is low in Georgia - 0,9-1% of GDP that hampers increasing the competitiveness higher education institutions of private sector and hinders its development. For 2020, it is expected to increase the share of funding on higher education and science by 2 % of GDP as a minimum, taking into account European trends which is 3 %.

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