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**Working Paper**

## The Role of Program Financing in the System of Higher Education

Institute of Economic Research Working Papers, No. 4/2017

**Provided in Cooperation with:**

Institute of Economic Research (IER), Toruń (Poland)

*Suggested Citation:* Abuselidze, George; Mikeladze, Madona (2017) : The Role of Program Financing in the System of Higher Education, Institute of Economic Research Working Papers, No. 4/2017, Institute of Economic Research (IER), Toruń

This Version is available at:

<https://hdl.handle.net/10419/219827>

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Institute of Economic Research Working Papers

No. 4/2017

**The Role of Program Financing in the System of Higher  
Education**

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**Article prepared and submitted for:**

**9<sup>th</sup> International Conference on Applied Economics Contemporary Issues in Economy, Institute of Economic Research, Polish Economic Society Branch in Toruń, Faculty of Economic Sciences and Management, Nicolaus Copernicus University, Toruń, Poland, 22-23 June 2017**

**Toruń, Poland 2017**

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## **The Role of Program Financing in the System of Higher Education**

**JEL Classification:** *H75; I21; I22; I28*

**Keywords:** *Higher education; education management; budget; program financing*

### **Abstract**

**Research background:** The development of education in any country or society is one of the most urgent issues. When we talk about the development of education, above all we must take into consideration governmental funding system. High education and research funding is priority in most developed countries. Georgia, as the region's geopolitical and geostrategic center a few years ago began formation of the liberal democratic value-based society. Over the last period in Georgia reforms in educations system is ongoing, that led to changes in governments funding policy system. However, the higher education system is still far from Western standards of teaching and learning processes.

**Purpose of the article:** The most significant problem in the educational system is inefficient financial management. The article above discusses the mechanisms for financing higher education in Georgia, financial management of the educational system, basically problems in program funding and their solutions

**Methodology/methods:** methods of studying observation, analysis and synthesis, progression from abstract towards concrete, notional experiment and experience.

**Findings & Value added:** With the help of the article we have attempted to analyze one of the sides of the problem: how the state supports priority higher educational institutions and what the connection between consumed resources and learning outcomes is. The research clearly showed that financing education has become a priority direction for Georgia. The reform of the financing system has eliminated corruption in the educational system, increased competitiveness among the higher educational institutions, provided preparation of human resources in the fundamental fields of science and education, socially indigent population were given opportunity to get education.

However, the same research also showed that the preparation of specialists with competences relevant to the modern requirements cannot be accomplished by financing only certain (though priority) programs.

## **Introduction**

At the present stage the phenomenon of integration and globalization becomes more and more topical. Such aspects of higher education development as internationalization of strategy, international guarantees of education recognition, regional and inter-regional cooperation, virtual universities together with information and communication technologies, etc. are gradually becoming more interconnected.

It is a fact that globalization process is going on and is revealed in integration of learning process of the universities implying sharing international experience in educational programs and teaching methods, approximation of contents, goals and objectives of educational disciplines, etc. There is only one step from this towards transnational education, otherwise called as global university education.

As a geopolitical and geostrategic center of the region, Georgia began formation of the society based on the liberal democratic values as well as integration into European and worldwide international organizations several years ago. One of the main conditions of forming democratic society is development of education. Proper and effective management of education is a priority of all the successful countries. During recent years significant reforms have been accomplished in the education system in Georgia. In 2004 a new law of Georgia was adopted "Concerning the Higher Education" whereas in 2005 on the Bergen Summit Georgia joined the Bologna Process (with 49 countries involved presently). Consequently, the three-cycle ECTS credit system for teaching was implemented. The educational courses were optimized and the length of learning programs were reduced, demands were increased on the educational programs oriented towards employment, students' mobility became available on the national as well as international levels, etc. despite the above stated, the higher education system in Georgia is still far from the western standards of teaching and learning process.

The scholars name several aspects connected to this problem: volume of investments in the educational sector of the country; effective mechanisms of distributing state resources; process of distribution of finances in educational institutions; interrelation between the applied resources and learning outcomes; the role of private sector and internal economy in financing education (Maglakelidze, Giorgobiani, Shukakidze, 2012, pp.5-6).

Ineffective financial management of the entire educational system remains as a significant problem. The following article deals with this very problem and ways of solution.

### **Research Methodology**

The following methods will be employed in the research Methods of studying observation, analysis and synthesis, progression from abstract towards concrete, notional experiment and experience.

### **Paragraph**

Elimination of the above mentioned problems, in our opinion, is possible with implementation of program financing in program budget principle.

The reform started in 2005 radically changed the system of financing higher education institutions. There was a transfer from basic financing to student-bound financing. It means that free-of-charge education was formally abolished and the meritocratic and social grants program entered the scene. Both of them imply partial or full coverage of education fees in higher educational institutions (including private higher institutions too).

Financing of higher education is mainly accomplished from two sources: (1) state budget financing (state grant); (2) private financing (co-financing). Every higher educational institution independently determines tuition fee at each stage of education.

For the last decade the growing tendency of increase in financing education sphere by the state can be traced. However, the share of expenses in education sphere within the entire product as well as in the state budget is significantly low. On the other hand, if we compare financial policy of higher education sphere of the state of Georgia to the advanced countries worldwide, significant differences can be found here as well.

As we can see, despite economic and financial crises, the tendency of financing growth can be observed. We think that in mid-term period financing of education will be considered as a priority direction in Georgia and minimum 1.5% of GDP and 3% of state budget will be allotted for higher education financing and research.

It is also noteworthy that developed countries considerably differ in distribution of finances allotted for higher education and research by states. Namely, state funds from the budget are distributed in completely different ways: they may be delivered directly to higher institutions (in average 78%), other non-state organs or/and individuals and internal economies that in their turn, can be divided into grants and student loans, namely.

The majority of the EU member countries use the progress indicator to determine the amount of financing in the university. In this way the states want to provide the condition that financing depends not only on the resources but the product as well. The main constituent part of this parameter is student progress indicator or, in some countries, the indicator of academic faculty qualification (Chakhaia, 2013, pp.10-12).

Despite the presence of different mechanisms of financing, one thing is clear: for the last period, in the developed countries the tendency of simplification of fund allotting rule from the government part as well as the growth of autonomy in distribution of funds by the HEIs is definitely observed. And what is most important, the financing policy is oriented on outcomes.

As has been stated above, Georgia differs from the developed countries with the mechanism of financing higher education. In Georgia, the direct financing was replaced by student (succeeded student at the Unified National Exams) bound financing that eliminated corruption so entrenched in the higher education sphere and increased competitiveness among the higher educational institutions.

From 2014 a certain amendment was introduced into the financing system, namely, rules and conditions were determined for program financing for higher educational institutions (Order № 50/n by the Minister of Education and Sciences of Georgia, 15 April 2014). The state announced certain accredited Bachelor's educational programs as priorities and undertook financing of these programs. The change was caused by the need to increase the number of students on less prestigious though priority specialties for the state. The aim of the program financing of the higher educational institutions by the state is "to promote target usage of the intellectual potential in the higher education sphere; development of the priority directions of the humanities, social sciences, social, technical and agrarian sciences as the integral parts of the national culture and education; stimulate the interest of the young generation to continue study in the above mentioned directions" (Order 81/n 27.07.2016 by the Minister of Education and Sciences of Georgia).

One essential condition of the program financing has been determined – a higher educational institution should have a PhD program of the corresponding direction. It is in the conditions when the state has not increased financing in the spheres of science and research (!).

The state has also determined the higher educational institutions eligible for receiving program financing. The number of admission contingent on the above stated programs is determined the higher education institutions themselves.

Financing offered within the frames of the program financing provides accumulation of average 60 credits (but not exceeding 75 credits) by the student during one academic year at the field/major of the priority program direction during no more than 4 years.

The amount of program financing to be granted to a university for a priority program direction field/major is calculated with the following principles: the annual amount of financing to be granted to a university for each priority program direction field/major is 33 750 Gel that is given to a university on any number of students admitted to the field/specialty of the priority program direction from one to 15 inclusive; up to each 6 students above 15 admitted students the annual grant is 11 250 Gel. In case of place additions in addition to the program financing within the frames of program financing, the university gets 2 250 Gel for each extra place. Program financing is given on the basis of the results of the Unified National Exams.

Universities are imposed responsibilities upon achieving the following outcomes: to prepare personalities with competence relevant to the modern requirements; to provide competitiveness of personalities with higher education on the internal and external labor market; to foster preparation of new generation for the development of university sciences.

A higher educational institution is obliged to submit a report to the State, which should contain information on the number of students as well as “a brief analysis of their education quality, forecast indicators and description”. The state is authorized to create an assessment commission for the outcomes achieved by the universities financed within the program financing project, which will evaluate the quality of the results obtained through financing.

The research showed that regardless of program financing, business administration, law and international relations still remain as the most desirable professions for the youngsters. However, the fact that the number of students has increased on the free-of-charge specialties demonstrates that nowadays the choice of profession is determined not by wish or market but by financial interest. Hard social background in Georgia does not allow students choose desirable professions. They try to enroll at any faculty and get a higher education diploma in order to get employed (in most cases, in irrelevant sphere). We can give education direction as an example. There is no lack of students at the Bachelor’s educational program of primary education but because of low salary of teachers as well as limitations for public school principals in terms of human resources policy, the majority of graduates follow different occupations. Schools therefore, experience deficiency of teachers.

Unpopular faculties include the directions (agrarian sciences, agro engineering, natural sciences), after graduating of which youngsters encounter problems in employment.

Program financing with the principle of program budgeting enables the budget of a higher educational institution to be oriented towards outcomes straight from the planning processes. In program format the cause-and-effect relationship between the financial resources of a certain event and obtained results is quite clear. It is an essential precondition of effective utilization of finances. Also, the program budgeting will enable to see to programs to be financed through consideration of their outcomes and not only in organizational aspects.

While evaluation of program financing implementation, obtained results should be seen clearly and not only assimilated finances, i. e. the focus is placed on the differences between the planned and obtained results and not only on the differences between allotments considered through approved and specified plan and cash execution.

In near future there will be serious deficiency of the professions with less interest today. Therefore specific steps should be taken in this regard and problem solution ways should be defined. In specialists' opinion, after mastering technical or natural science faculties, apart from program financing the solution of graduates' employment problem is necessary.

Thus, the point of departure for the program solution is the final and midterm outcomes and not the resources distributed for the accomplishment of programs. At the same time, we should combine them according to each program and determine the appropriate ratio. These correlations can be used to define which program reaches desirable level of efficiency with the least expenses or gives maximum efficiency with existing expenses. For the calculation of expenses-efficiency correlation the expenses of the given program should be divided by its efficiency.

However, certain part of the researchers gives preference to different combinations of correlation using one and the same data of cost and efficiency. In such cases cost-efficiency correlation/ratio equals the efficiency of each program divided by the costs and expenses.

As Boardman, Greenberg, Veining and Weimer denote, it is often mistaken with expenses-efficiency ratio. This datum is defined as a unit of efficiency obtained as a result of one unit of expenses. Priority should be given to the program which is most effective for one unit of expenses.

In order to avoid standardization of the process and misunderstanding, the best variant, in our opinion, is the use of expenses-efficiency ratio/correlation.

Although there is no exactly determined rule for financing the education sphere, it is clear to everyone that in this sector the level of investment de-



termines the level and quality of the education that the new generation obtains. A good system of education financing provides generating necessary amount of financing while efficiency and justice is directed towards distribution of education quality and its welfare among the members of the community. Thus, it is necessary to think and properly determine the amount of money that is necessary for effective functioning of an educational institution.

### **Conclusion and recommendations.**

Thus, there is a clear problem that is the volume of investments and their effective distribution in the education sector of the country. With the help of the article we have attempted to analyze one of the sides of the problem: how the state supports priority higher educational institutions and what the connection between consumed resources and learning outcomes is. The research clearly showed that financing education has become a priority direction for Georgia. The reform of the financing system has eliminated corruption in the educational system, increased competitiveness among the higher educational institutions, provided preparation of human resources in the fundamental fields of science and education, socially indigent population were given opportunity to get education.

However, the same research also showed that the preparation of specialists with competences relevant to the modern requirements cannot be accomplished by financing only certain (though priority) programs; in our opinion, solution of the mentioned problem can be possible by:

- Implementation of program financing with program budgeting principle;
- Thorough study of internal and external markets in order to enable graduates get employed and not waste the money spent on them by the state;
- Financing university PhD educational programs and support of new generation trainings for science development; it will improve education quality and provide competitiveness of educated personalities.

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