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Challenges of Financial Management of the Higher Education Institutions in Georgia

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Abstract

The funding of the higher education institutions and its efficient management affects the functioning of the whole system. The level of development of an education and science has an important role in the economic development of the country. Georgia has enough potential to achieve economic development by intellectual and educated human resources. Despite the reforms implemented in the recent years, there are still many shortcomings and challenges left in the education system that are hindering the creation of well-educated and competitive human resources. Without strengthening the education system, it is impossible to participate in a global competition. The increasing of financing of the education system over the years does not mean raising the quality of education. Developing the correct strategy and tactics of the reform and adequate and efficient distribution of financial resources is crucial. The aim of the paper is to study impact of the existing funding policy on higher education system in Georgia. The structure and dynamics of the funding of the higher education institutions, the nature and importance of the already funded projects are examined in the study. The issue of promotion of development of education through the reforms implemented in the education system is also discussed and analyzed in it. The study is based on the qualitative and quantitative analyses. The recommendations issued within the framework of the study will support stakeholders to overcome the current

challenges and improve financial management policy of higher education institutions.

Keywords: Financing of higher education institution, financial management

Introduction

In the market conditions the Georgian educational market functioning, getting it closer to international standards is impossible without the problem analysis of qualitative, system creating component object - competition and the regularities of competitive environment formation which is the most important determinant for sustainable development of transforming economic, social, political and educational systems. (Antia, Vakhtang, 2018).

The level of education and science is crucial for economic development of the country. Education is a fundamental factor for development and achieving sustainable economic development without investing in human capital is impossible. Human capital is the central factor of economic growth. In particular, the product produced by human capital is the basis for self-sustaining economic growth. Consequently, a close and positive causal relationship exists between education and economics at macro and micro levels (Center for Social Sciences (CSS), 2017). Only in the conditions of a strong and socially fair educational system it is possible to solve social, cultural and economic challenges in the country (Government of Georgia, 2014).

Georgia has enough potential to achieve economic development with intellectual and educated human resources. Despite the reforms carried out in recent years, there are many shortcomings and problems in the education system that ultimately prevent the creation of an educated and quality human resource. Without the strengthening of education, it will be impossible to participate in a global competitive fight.

Growth of the education system financing from year to year does not automatically imply the increase of education quality. It is important to correctly implement and direct the reform strategy and tactics, the optimal distribution of financing the results to be maximally efficient. Financial management strategy of higher education institutions should provide the sustainable growth. Strong Financial management system is a core aspect of the institutional stability and growth. The strategy should be directed towards the transformation of education system. It is a main base of growth generally, tightly connected to overcoming of poverty and unemployment problems (Kasradze, Tea, 2013) (Kasradze, Tea, 2016) (Kasradze, Tea, 2014).

The goal of the research is to increase the efficiency of higher education institutions in Georgia, which is a major prerequisite of a general progress. This sphere of Georgia faces many challenges and requires significant qualitative reforming (Gulua, Ekaterine, 2018), (Gulua, Ekaterine, 2017), (Kharadze, Natalia; Gulua, Ekaterine, 2018), (Kharadze, Natalia; Gulua, Ekaterine, 2018), (Kharadze, Natalia; Gulua, Ekaterine, 2018), because the real qualification level of work force does not meet the

existing requirements. It is very important to change approaches, attitudes towards management system of higher education institutions (Gulua, Ekaterine, 2013), (Gulua, Ekaterine; Kharadze, Natalia;, 2018), (Kharadze, Natalia; Gulua, Ekaterine;, 2018), (Gulua, Ekaterine; Kharadze, Natalia, 2014) for getting qualified motivated labor force in labor market (Gulua, Ekaterine; Mikaberidze, Akaki, 2015), (Gulua, Ekaterine; Kharadze, Natalia;, 2018), (Kharadze, Natalia; Gulua, Ekaterine;, 2018). The low rating of Georgia (93rd place) indicates incompatibility between qualification and job requirements, in the Higher Education and Retraining Section of the Global Competitiveness Index of the World Economic Forum. According to skillset of graduates, Georgia is ranked 123rd, according to digital skills among population – 101st, in terms of ease of finding skilled employees - on the 111th position, according to the critical thinking teaching - on the 92st place, on the 116th- according to the diversity of workforce (Schwab, Klaus; Sala-i-Martín, Xavier; Samans, Richard;, 2017-2018).¹

According to Global Talent Competitiveness index Georgia is ranked 76th out of 119 countries in 2019, 4 places down compared to 2018, it was on the 72nd place, on the 52th place according to the involvement of talents, on the 92nd place according to attracting talents, on the 107th place in terms of growth of talents, on the 61st place in terms of maintaining talents, according to talents with vocational and technical skills (or VT skills) on the 80th place and on the 56th place according to Global Knowledge Skills (or GK skills) According to the detailed data from the same index, Georgia is on the 60th place on the basis of higher education; According to the expenses spent on higher education it is on the 93rd place².

The lowest rating of Georgia indicates the same (87th position among 137 countries, 4.0 points from the maximum 7 points) the part of the higher education and trainings of Global Competitiveness Index of 2017-2018 World Economic Forum. Other well-established measures include the Human Development Index (HDI) that covers health, inequality and educational issues (Kasradze, Tea, 2018). According this index Georgia is ranked 70th place in 2018.³

Among many instruments of improving employment indicators and overcoming poverty we consider education to be the most crucial. (Kasradze, Tea; Zarnadze, Nino, 2018) The level of education is reflected on the employment level. The total number of economically active population in 2017 is 1983.1 thousand people, 276.4 are unemployed, the unemployment rate is 13.9%, the dynamics of this indicator is declining. In 2011 this figure was 17.3% (National Statistics Office of Georgia, 2018)⁴. However, it should also be noted that this indicator does not allow the possibility of seeing the real state due to the shortcomings of his counting methodology.

61% of the unemployed people in Georgia have professional or higher education and belong to the middle or high qualification workforce category. 31% of the

¹ <http://reports.weforum.org/global-competitiveness-report-2018/country-economy-profiles/#economy=GEO>

² <https://gtcistudy.com/the-gtci-index/>

³ <http://hdr.undp.org/en/countries/profiles/GEO>

⁴ Statistical Yearbook of Georgia, National Statistics Office of Georgia, Tbilisi 2018, pg42.

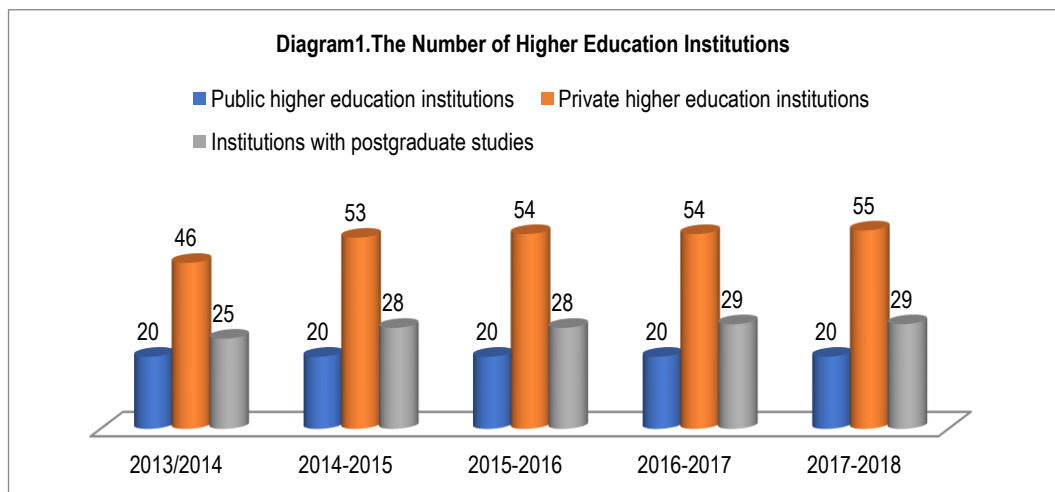
http://geostat.ge/cms/site_images/_files/yearbook/Yearbook_2018.pdf

unemployed people got education at the time of joining the modern Georgian higher education system with Bologna system that indicates the problems related to the implementation of the standards provided by the Bologna system. In this regard it is important to strengthen the requirements of management and financial sustainability in the requirements of authorization and accreditation of higher education institutions (Center for Social Sciences (CSS), 2017).

In the paper Georgia's higher education funding reform, structure and dynamics over the years, the nature and importance of higher education programs are discussed in the light of foreign practice and scientific literature analysis (Al-Hawaj, Abdulla Y. ; Elali, Wajeeh,; 2008) (Hussey, Trevor ; Smith , Patrick ;, 2010) (Davies, Brent; Davies, Barbara J.,; 2011) (Babo, Rosalina; Azevedo, Ana,; 2012) (Meek, Goedegebuure, Santiago, & Carvalho, 2010) (Locke, William; Cummings, William K.; Fisher , Donald,; 2011) (Deem, Rosemary; Hillyard, Sam; Reed, Mike,; 2007) (Scott, Amy; Hershey, Metcalfe, 2006) of the higher education system management and financing strategies. It is analyzed how the country's higher education system current funding policy contributes, on the one hand, to the autonomy of higher education institutions, and, on the other hand, to the real development of education quality.

The Key Indicators of Higher Education System of Georgia

There are 75 higher education institutions in Georgia, compared to 2013 their number is increased by 23 units. However, in 2006-2007 their number was 2.3 times more. Since 2014 the number of the state higher educational institutions have been 20, in 2006 their number was 18. The number of private higher education institutions is 55 according to the latest data, compared to 2006 their number decreased by 2.7 times¹. Only 29 of the highest educational institutions in Georgia have a doctoral stage, in this direction there has been a positive trend since 2013 (**Diagram 1**).²

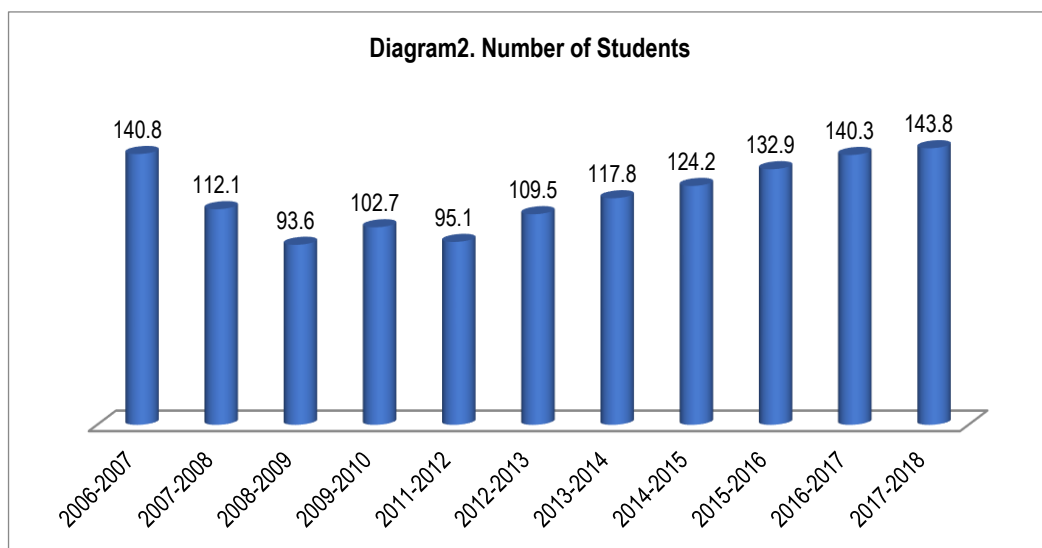


¹ Statistical Yearbook of Georgia, National Statistics Office of Georgia, Tbilisi 2018, pg.73.

² The Same Source; pg.66.

The financial incomes of higher education institutions in Georgia in the early years were directly related to the number of students, as these institutions got proportionally vouchers from the state. Then this rule changed, the revenues given to universities from the state budget until 2019 depended on the number of students having grants at national exams. In 2019 it was announced that this rule will change. However, the number of students determines a significant portion of the revenues of higher education institutions. The minimum fee for students at the university is 2250 GEL and at private universities prices are different. By the number of students we can determine the minimum amount of income in the sector, which is 323 550 thousand GEL.

The number of students in the 2016-2017 academic year amounted to 143.8 thousand. The smallest number in the last 10 years was recorded in 2008 - 93.6 thousand students **(Diagram2)** ¹

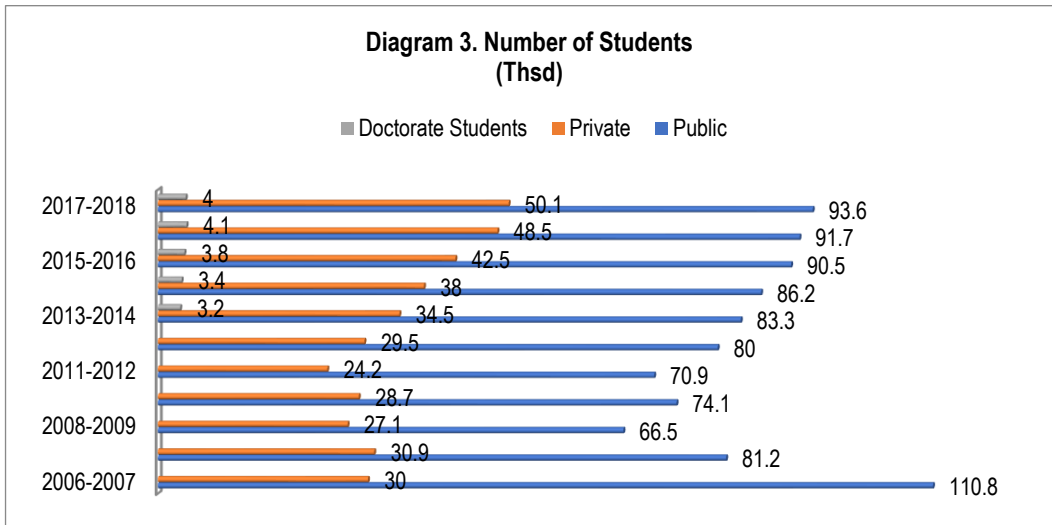


According to the latest data, 93.6 thousand students were studying in state educational institutions in Georgia and 50.1 thousand students - in private educational institutions. Although the number of higher education institutions in the private sector is 2.75 times higher than the number of similar subjects in the public sector, the number of students in the state sector exceeds 1.87 times the number of private sector students. This difference in the early years was more visible, in favor of the state sector.² In 2017-2018 the number of doctoral students was 4,000, in this case also the dynamics has been growing since 2013 **(Diagram 3)**³.

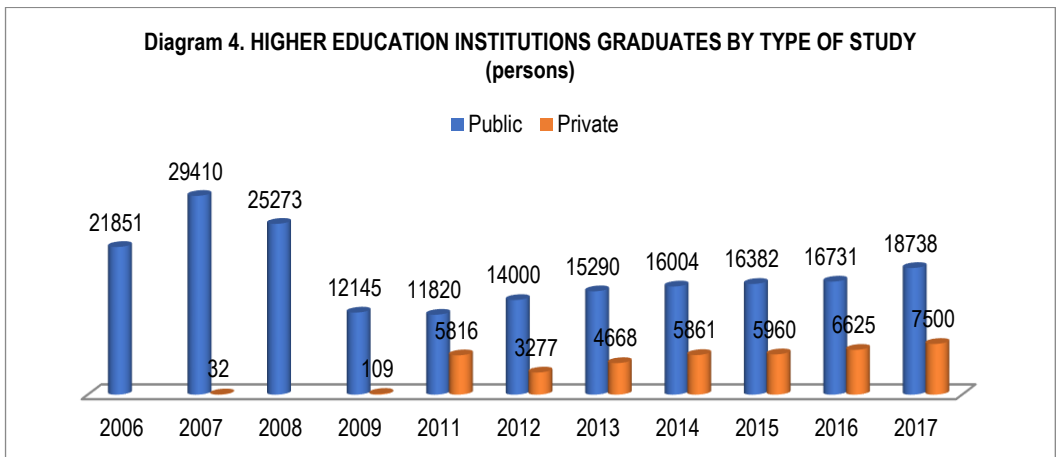
¹ The Same Source; pg.78.

² The Same Source; pg.73.

³ The Same Source; pg.66.



The number of graduates of higher education institutions in Georgia is increasing from year to year, the growth rate is 12.34%, while in 2016 this indicator was 4.53%¹. It is noteworthy that in 2017, the number of graduates in the private sector increased by 13.2% and in the state sector by 11,99% **(Diagram 4)**².

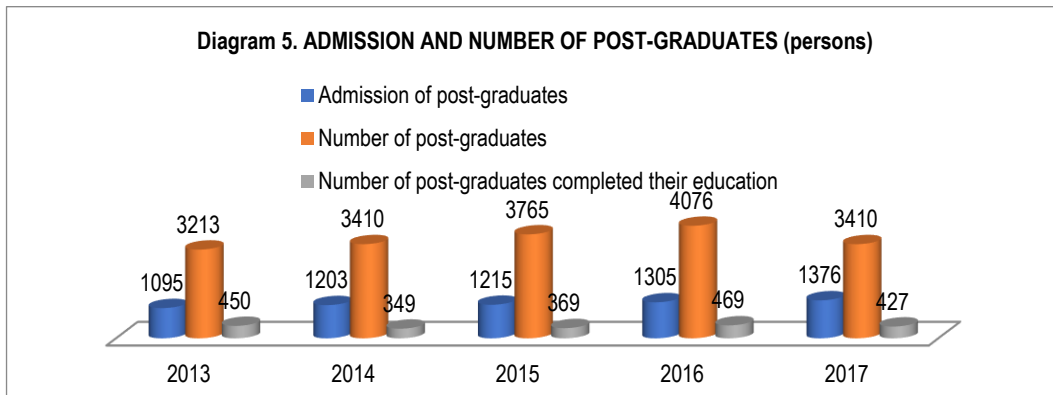


The number of enrollment at doctoral programs has been characterized by an increasing trend since 2013, however, the number of doctoral students decreased in 2017 compared with 2016, also the number of doctoral graduates decreased during the same period³ **(diagram 5)**.

¹ The Same Source; pg. 75

² The Same Source; pg.66.

³ The Same Source; pg. 75.



International practice and trends in the financing of higher education system

There are three main sources of funding for higher education: state budget funds, expenses incurred by households/individuals and financing by other private sources. Countries differ significantly from one another in higher education financing in terms of the share of three sources listed above. The cost of the expenditure by households/individuals is very low in the majority of European countries. The share of this source is traditionally higher in the financing of higher education in those countries where the state spends relatively little on higher education and research. Apart from the state budget and household expenditures, in developed countries large sums are being spent on higher education and research also from other private sources. These sources are mainly different businesses, donors and banks (Chakhaia, 2013).

The private sector has a special role in financing the US higher education, where nearly 2/3 of financing are made by households and private institutions. In Scandinavian countries the picture is radically different. For example, In Norway, only 1% of higher education financing comes on the private sector. Private sector plays an important role in education financing in OECD countries. Its share has increased by 11% from 2010 to 2015.¹

As noted above, the share of the private sector in higher education financing is high in those countries where the state spends relatively little. The former socialist countries, including Georgia belong to the category of such countries.

The financier of European universities is predominantly the state. The percentage of the GDP spent annually on higher education by the state is often used to measure the indicator of the state's efforts to support the higher education system.

In 2014, half of the European Higher Education Area spent more than 1.2% of gross domestic product. Three countries with the highest expenditure are Denmark (2.3%), Norway (2.2%) and Finland (2%). Sweden, Ukraine, Austria, the Netherlands and Turkey spend more than 1.5% of gross domestic product on higher education. Average annual costs of higher education are low in Slovakia, Spain, Portugal, Russia,

¹ <https://www.economist.com/graphic-detail/2018/09/12/higher-education-spending-is-falling>

Czech Republic, Italy, Hungary, Albania, Bulgaria, Romania, Luxembourg, Kazakhstan, Georgia and Armenia and is less than 1% of GDP. It should also be noted that in the latter countries, except for Georgia and Luxembourg, from 2012/13 to 2014/15, almost everywhere enrollments of the students' who want to get higher education are reduced (Bologna Process Implementation Report, 2018). **(Diagram 6)**.

Diagram 6: Annual public expenditure on tertiary education as a % of GDP, total with R&D and total without R&D, 2014

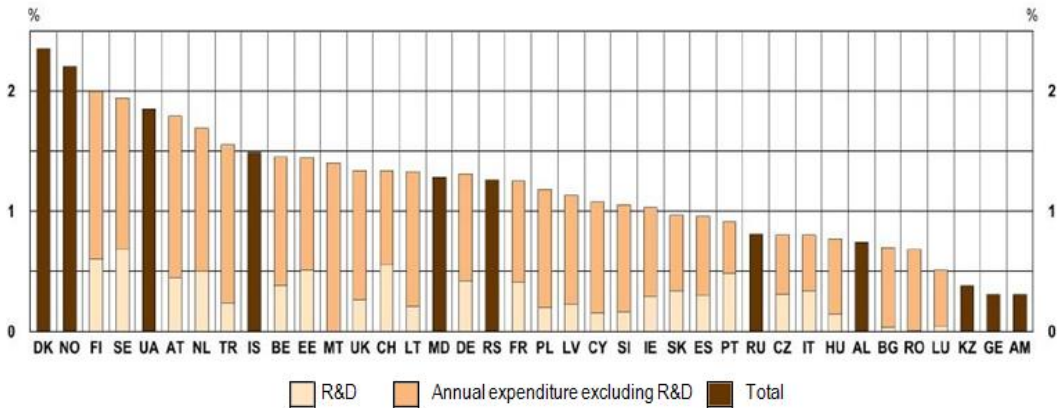
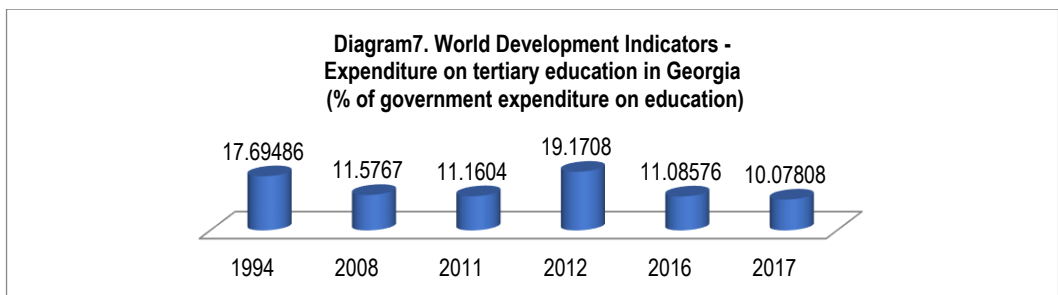


Diagram 6 also shows what part of the higher education annual expenditure is spent on research and development. In EHEA there is a wide variety of R&D costs. Sweden and Finland are spending about 0.6% of GDP in R & D. Bulgaria and Romania are spending the least of EHEA countries, respectively, 0.03% and 0.01% of GDP. It is also important to consider what part of the total expenditure is R & D costs spent by the state on higher education. There is the largest variation between countries in this. Portugal allocates more than half of the higher education expenditure for R & D (53%). Switzerland, Italy, Czech Republic, Sweden, Estonia and Slovakia spend more than 35% of the total expenditure on higher education on R & D (but less than 50%). Bulgaria and Romania, respectively, are spending 4.3% and 1.5% of the total cost of higher education on R & D (Education, Audiovisual and Culture Executive Agency, 2018). Unfortunately, about Georgia there is only the total data in the given report **(Diagram 7)**¹.

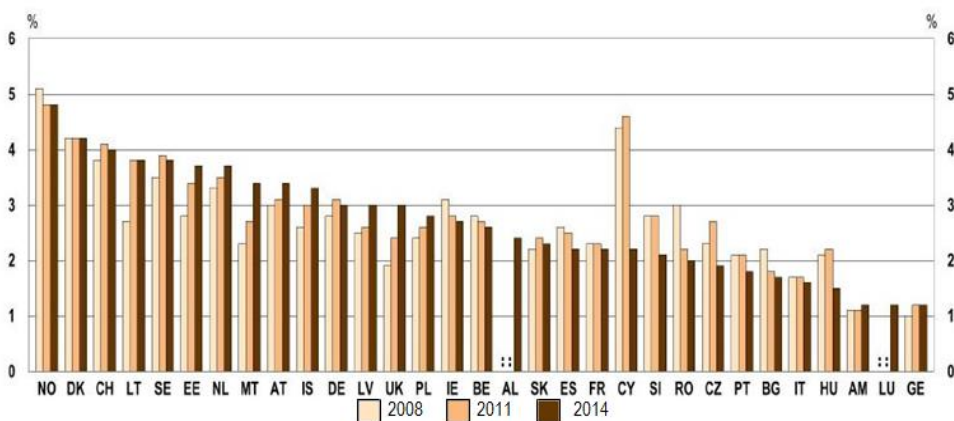


¹ <https://data.worldbank.org/indicator/SE.XPD.TERT.ZS?view=chart>

The share of the amount spent by the state annually on the higher education is used in the overall public expenditure as an indicator of how the state is trying to help the higher education system. The share of public expenditures on higher education in the total annual public expenditure indicate how much the education of higher education has a priority in comparison to other levels of education and other public expenditure (eg health care, pensions, infrastructure, police forces, etc.)

Diagram 8 shows that in 2014, half of EHEA countries are spending more than 2.6% of their total public expenditure on higher education. The largest share of state expenditure on higher education is in Norway (4.8%), Denmark (4.2%) and Switzerland (4%). In 2014, less than 2% of the total expenditure on higher education was spent in eight countries – The Czech Republic, Portugal, Bulgaria, Italy, Hungary, Armenia, Luxembourg and Georgia¹.

Diagram 8. Annual public expenditure on tertiary education as a % of total public expenditure, 2008, 2011, 2014



Two groups of countries were identified when analyzing the evolution of the share of higher education expenditure in total state expenditure between 2008, 2011 and 2014. In the first group of countries (almost half of EHEA countries whose data is available), this figure is higher in 2014 than in 2008. This group includes Switzerland, Lithuania, Sweden, Estonia, Netherlands, Malta, Austria, Iceland, Germany, Latvia, the United Kingdom, Poland and Georgia. Annual public expenditure on higher education in these countries has increased faster than total state expenditure (or decreased slowly than total expenses). The sharpest increase in the share of higher education expenditure in these countries is observed in the United Kingdom - from 2.7% in 2008 to 3.8% in 2011.

In the second group of countries (almost half of the EHEA countries whose data is available), this figure was lower in 2014 than in 2008. This group includes Norway, Ireland, Belgium, Spain, France, Cyprus, Slovenia, Romania, the Czech Republic,

¹ https://eacea.ec.europa.eu/national-policies/eurydice/sites/eurydice/files/bologna_internet_chapter_1_0.pdf

Portugal, Bulgaria, Italy and Hungary. Annual public expenditure in these countries on higher education increased at a lower pace than the total state expenditure (or decreased faster than public expenditure). The sharpest decrease in the share of higher education expenditure in the state expenditure from these countries was recorded in Cyprus - from 4.56% in 2011 to 2.2% in 2014. Only in 5 countries - Denmark, Slovakia, France, Italy and Armenia - the ratio of higher education and total expenditure remains unchanged in 2014 in comparison with 2008, it increased by 0.1% at most. This means that in these countries state expenditure on higher education increased or decreased by more or less the same pace as total public expenditure.

According to the data of the Ministry of Finance of Georgia, in 2017 from the state budget 1173 million GEL was spent on the education sector, from the consolidated budget - 1457 million Gel **(Table 1)**.¹

Table 1. Consolidated and state budget spending of Georgia on education																
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1*	151	164	286	289	414	458	554	580	612	656	758	826	933	1074	1288	1457
2*	37	41	65	78	348	384	421	460	504	565	653	683	740	834	1025	1173
1* 2002-2017 Consolidated (state and local) budget spending of Georgia on education (million GEL)																
2* 2002-2017 State budget spending of Georgia on education (million GEL)																

Expenditure on education from Georgia's consolidated budget is 12,7% of total expenditure. It is only behind the expenditure spent on social protection and economic activity **(Table 2)**.²

Table 2. 2002-2017 Consolidated (state and local) budget spending of Georgia on education (million GEL)																
Name	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General public services	392,2	411,1	440,1	524,1	608,0	541,0	114,1	174,4	90,0	91,0	93,9	92,5	99,0	108,8	117,6	122,8,3
Defense	48,8	61,2	106,4	392,0	722,2	155,2	115,2	87,7	67,8	72,7	71,7	63,6	66,4	66,6	729,2	697,9

¹ <https://www.mof.ge/images/File/2002-2017biujeti/2002-2017wlis%20xarjebi.xls>

² The same source: <https://www.mof.ge/4885>

						9	0										
Public order and safety	85,8	113,6	22,2	28,6	32,7	72,5,3	101,0,6	88,2,6	86,5,7	88,0,5	90,9,4	90,7,3	95,5,1	101,0,2	105,2,3		
Economic affairs	59,5	87,1	17,9	38,8	47,8	94,4,3	84,7,7	104,3,6	110,0,7	111,3,6	115,4,2	112,6,2	113,3,5	154,6,8	207,1,6		
Environmental protection	X	X	X	X	X	75,4	87,9	114,9	124,0	110,8	88,5	134,2	116,9	113,3,2	143,4	144,6	
Housing and community amenities	56,8	60,0	14,0,7	26,2,7	44,8,5	49,7,3	53,4,9	34,9,7	54,4,2	69,7,0	49,4,5	31,9,8	32,3,1	461,6	455,1		
Health	59,8	29,5	95,4	20,4,2	22,5,8	25,6,3	31,3,1	36,3,8	45,4,8	39,8,8	41,6,1	52,4,7	69,4,0	104,6,0	113,6,3		
Recreation, culture and religion	48,1	49,7	85,7	10,7,6	13,9,1	17,7,2	20,2,1	23,9,5	31,2,2	40,9,6	39,5,6	39,9,2	39,2,6	468,7	469,7		
Education	15,0,6	16,4,1	28,6,3	28,8,7	41,3,8	45,8,2	55,3,8	57,9,6	61,1,7	65,6,4	75,7,7	85,5,5	93,3,0	128,7,9	145,7,0		
Social protection	29,9,7	34,2,5	47,7,9	62,7,5	69,0,1	64,0,2	32,3,0	45,9,8	14,2,4	15,5,1,8	17,3,2,3	19,9,2	23,8,8	265,4,3	276,1,8		
Total expenditure*	12,2	13,6	21,7	30,8	41,7	58,5	69,3	64,4	72,2	74,6	79,9	78,6	88,1	105,22,1	114,74,6		

The budget allocation for higher education in Georgia amounted to 1,461,270.0 thousand GEL in 2018 in the field of education, science and culture, 148 505 thousand GEL for higher education, 65 600 thousand GEL for supporting science and scientific researches (3.7% for education in Georgia according to the Data of 2017. 1457 million GEL / 37846,6 million GEL x 100]; According to the state budget expenditure - 3% - [1172,5/37846,6 X 100]. In 2018, on higher education 0.39% of GDP was spent. [149305000 GEL: 37846,6 million GEL x 100] 0.17% of GDP on promoting science and scientific researches¹.

Table 3. State budget allocations of Georgia, Southland GEL

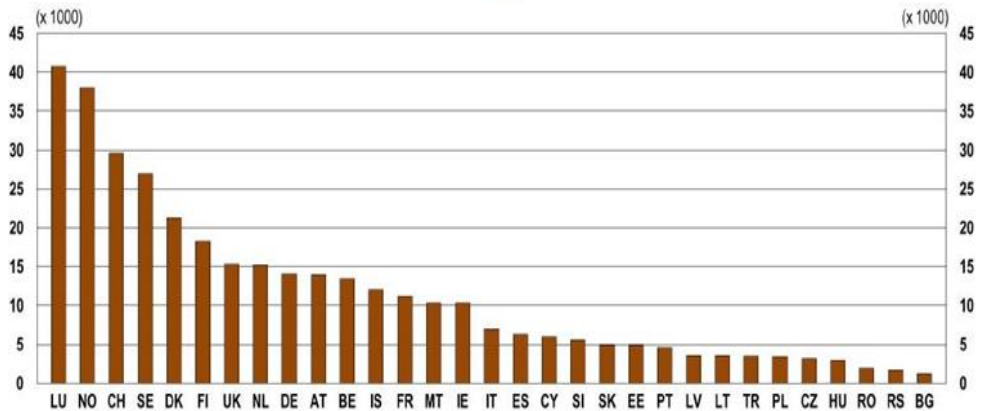
Name	2017 actual	2018 Plan	2019 Plan			
			Total sum	Budget funds	Grants	Credits
Ministry of Education, Science, Culture and Sport of Georgia	1,397,210.7	1,461,270.0	1,508,500.0	1,469,600.0	38,900.0	0.0
Higher Education	135,865.4	148,505.0	168,960.0	168,960.0	0.0	0.0
Supporting scientists and scientific researches	61,421.6	65,600.0	65,470.0	65,470.0	0.0	0.0
Inclusive education	4,785.4	5,135.0	17,710.0	17,710.0	0.0	0.0
Infrastructure development	133,001.5	91,204.0	135,500.0	135,500.0	0.0	0.0
Scientific-research activities in agriculture	5,038.0	5,150.0	6,542.0	6,542.0	0.0	0.0
Postgraduate medical education	126.5	800.0	800.0	800.0	0.0	0.0

An interesting and important indicator of the attitude of the state towards the higher education is the amount spent by the state on 1 student. Here is also a big difference between the countries. In some countries this indicator is 5 times higher. In 2014, state expenditure on 1 student of higher education stage in EHEA countries was more than 25,000 euros, in some countries - less than 5,000 euros. This figure is the highest in Luxembourg and Norway and the lowest in Romania and Bulgaria² (Diagram 9).

¹ <https://www.mof.ge/images/File/2019-bijeti-wardgena/kanoni/TAVI%20VI.DOCX>

² Euro-stat, UOE and additional collection for the other EHEA countries.

Diagram 9. Annual public expenditure on public and private tertiary education institutions, per full-time equivalent student in euro 2014



Unfortunately there is no information in the European Higher Education Area account in 2018 about the situation in this regard in Georgia. However, according to the data of the Ministry of Finance and the Statistics Office, the state spends 1038,3 GEL on the higher education of 143.8 thousand students in Georgia, which is 397 dollars.

Reform of higher education system and peculiarities of its state financing in Georgia

The first steps to reform the higher education system in Georgia were made in the 90s, when the higher education previously fully subsidized by the state was changed and the privatization of expenditure began. It was basically carried out by the opening of private higher education institutions and by adding the so called "paid" seats to the existing public universities.

Fundamental reforms in the higher educational system aimed at the final dismantling of the old Soviet system and getting the higher education system of Georgia closer to the European education space by raising the education quality have started since 2004 and there have been many significant changes in the higher education system, including in the rule of financing.

Since 2004, in Georgia the direct funding of universities by the state has been replaced by proportional funding of the quantity of students. Direct funding of the higher education institutions by the state was reduced to a minimum and was almost completely replaced by funding students. Today HEIs receive funding from the state not by the number of students, but according to the number of successful students at the unified national exams. The rest of the students pay their tuition fees by themselves. The students enrolled at private higher education institutions after successfully passing the unified national exams also receive state education grants. The goal of such changing the financing system besides a financial provision of higher

education institutions was to eliminate the existing corruption practice in the process of distributing and managing state funds for higher education institutions and receiving students at universities.

The above-mentioned rule of higher education financing is still in effect (the change of funding rule has been announced since 2020, details are not known yet, presumably the basic funding for universities will be introduced) and it has both positive and negative sides.

The following can be considered to be positive sides:

Transparency of the system;

We can easily say that the acting rule of financing on the higher education institutions has brought the corruption to a minimum in the process of distribution and disposal of state funds on higher education institutions.

Possibility of receiving public funding by private higher education institutions (Strengthening private sector), which increases healthy competitiveness between private and state higher education institutions and, thus, promotes education quality raising.

A positive side of higher education funding system may be an incentive programmed funding for students which has been launched since 2013-2014 by the order of the Minister of Education and Science of Georgia¹, specialty program directions of the accredited educational bachelor's degree programs were defined which are fully financed by the state and the rules and conditions for granting programmed financing for higher education institutions were determined.

The goal of issuing program financing on the higher education institutions by the Ministry in the field of higher education is:

To promote targeted utilization of existing intellectual potential;

To develop humanitarian, natural sciences, social, technical, agricultural sciences and other priority programmed directions as integral parts of the national culture and education and to promote young people's interest in pursuing studies in this field.

To prepare students for such a professional activity that requires using scientific knowledge and scientific methods;

To increase public involvement and positive attitude towards the state policy and its implementation.

7 higher education institutions established by the state are authorized to receive program funding. (Ivane Javakhishvili Tbilisi State University; Georgian Technical University; Ilia State University; Sokhumi State University; Akaki Tsereteli State

¹ The Order N79; 24.06.2013.

University; Batumi Shota Rustaveli State University; Talavi Iakob Gogebashvili State University).

On priority program direction field/specialty¹ (**Table 4**) the amount of programmed funding for the university is calculated in accordance with the following principles:

Agrarian Sciences	1.Agronomy; 2.Veterinary
Education	1.Education Sciences; 2.Education of Teacher
Engineering	1.Engineering Physics; 2. Energy and Electronic Engineering; 3. Construction
Science/ Natural sciences	1.Mathematics; 2.Physics; 3.Chemistry; 4.Biology
Social Sciences	Economics
Humanitarian sciences	1.History; 2. Philology,with specialization of Georgian philology; 4. Philosophy
Interdisciplinary studies	Architecture

- The annual funding of the university in the sphere of each priority program direction field financing is 33750 (thirty-three thousand seven hundred and fifty), which will be given to the university on the priority program direction field/specialty from one to 15 any number of enrolled students.
- In addition to the above-mentioned funding, on each priority program direction field/specialty up to every six students enrolled after 15 students on the university will be issued annually 11250 GEL (eleven thousand two hundred and fifty). In 2016-2017 5655 students benefited from programmed funding ²(**Table 5**).

Year	2013-2014	2014-2015	2015-2016	2016-2017
Amount	3795	5012	5653	5655

Programmed funding is undoubtedly a positive step for supporting and encouraging less popular specialties amongst entrants, though it is somewhat discriminatory because only some public higher institutions can receive funding within the programmed funding.

As for the negative sides:

First of all, the scarcity of funding should be noted that is largely due to the fact that the main component of the university financing formula is not the number of students at the university (as in the European countries) but the HEIs are funded by the state according to the number of successful students at the unified national exams. Students are financed according to the received scores by 100%, 70%, 50% or 30%

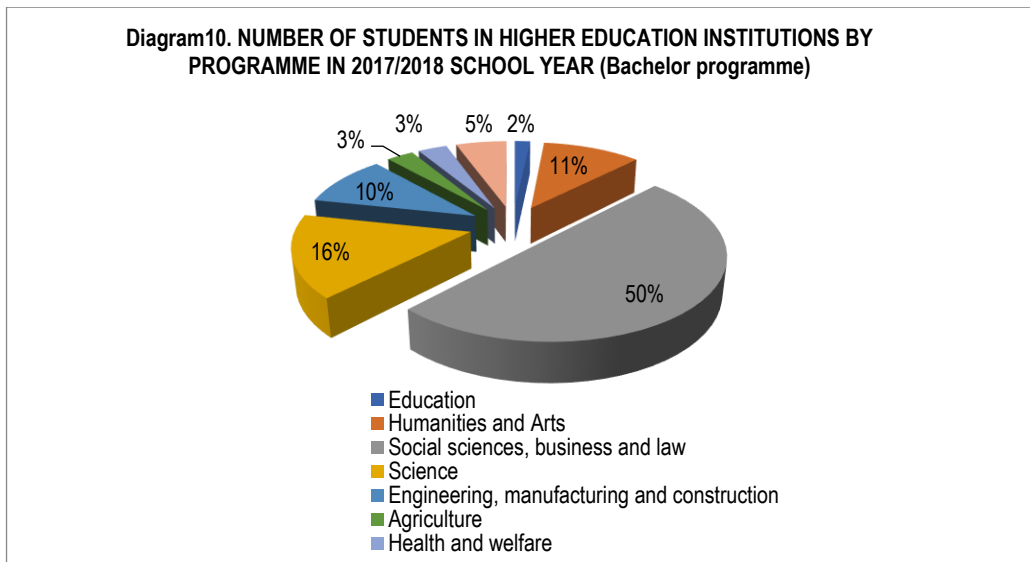
¹ <https://eqe.ge/geo/faq/category/22>

² <https://eqe.ge/geo/faq/category/22>

of the maximum (2250 GEL) of the tuition fees established in public higher education institutions. The rest of the students pay the tuition fee by themselves.

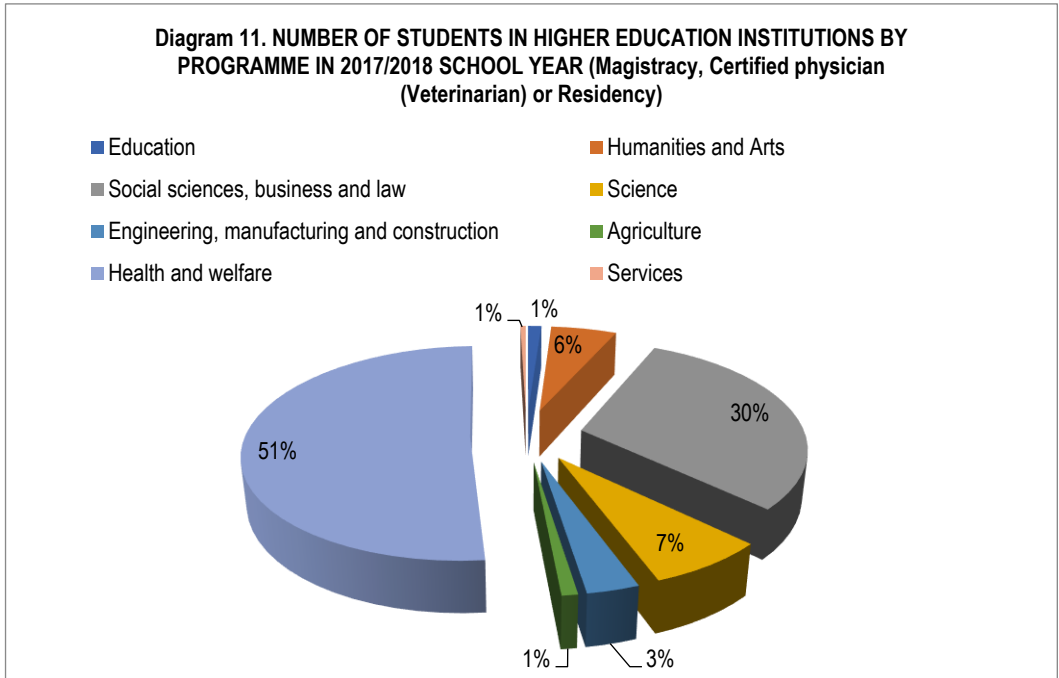
This system of financing HEIs leads to artificial balancing of supply and delivery of studying programs. Educational institutions are increasing the supply of programs that are on demand and, on the contrary, are reducing the supply of less prestigious programs. Under the amendment to the funding rule in the academic year of 2011-2012 (Those entrants who were going to take exams of the following specialties: law, health care, business (except tourism), mass communication/journalism, international relations and public governance, could receive only 100% grant. The number of those willing to submit to the listed programs was very high and the majority of the receivers of studying grants enrolled in these programs and if their scores received at the unified national exams were not enough for a 100% grant, they could not get any financing at all. However, by this change the quality of the problem has declined to some extent but since 2013 70% and 50% grants are still given to all programs (and the amount of money determined for 30% grants have been added to the funding aimed at 50% grants) and today the above-mentioned problem still remains unsolved.

Social sciences, business and law are very popular from higher education programs in undergraduate students, 50% of undergraduates are studying at these directions. The least popular is Education, Agriculture, Health and Welfare are the least popular¹ (Diagram10).



¹ Statistical Yearbook of Georgia; National Statistics Office of Georgia; Tbilisi 2018, pg.74-75.

In 51% of MA Students health and welfare are more popular from higher education programs, in 30% - social sciences, business and law, the least popular are Services, Agriculture and Education ¹(Diagram 11.).

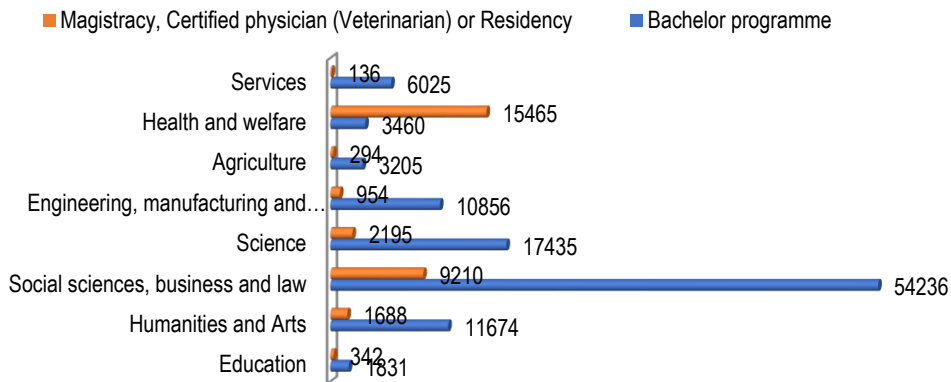


The absolute meanings of this statistics can be found on the diagram. (Diagram 12).² The dominance of two directions is obvious: these are social sciences, business and law, health and welfare. As budgetary financing is directly related to the number of students, it is clear that the popular directions on the market are better positioned in terms of income than other directions, as they hold also the largest segment of the market.

¹ The Same Source; pg. 74-75

² The Same Source; pg. 74-75

Diagram 12. NUMBER OF STUDENTS IN HIGHER EDUCATION INSTITUTIONS BY PROGRAMME IN 2017/2018 SCHOOL YEAR



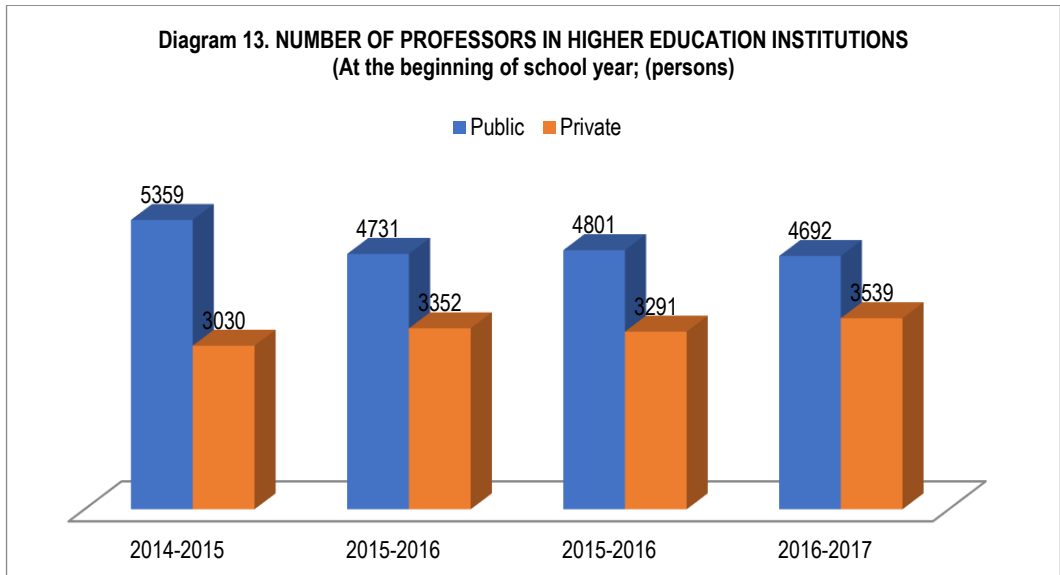
The drawback of such a rule of distributing state grant is also the fact that funding is in no way related to a student's academic achievement, while by the Western experience scholarship is based on studying. The student maintains a grant based on the results of the unified national exams in Georgia for 4 years. The student is not accountable to the grantor (state). In 2017, there was the issue on the agenda that the academic achievement should be the pre-requisite of maintaining the grant, which we think would increase students' motivation to learn and, in total, increase the level of teaching and learning in higher education institutions. However, unfortunately the idea remained an idea.

Another disadvantage of the existing funding mechanism is a relatively privileged position of the private higher education institutions, which means that approximately equal number of students are studying with state grants in private and public universities. Accordingly, they receive almost the same funding from the state. In the conditions of absence of basic funding from the state budget the state studying grant is the only means of receiving financing from the state for the public higher education institutions, and since the private higher education institutions, unlike public ones, can establish tuition fees in any amount, their common incomes are significantly higher than the income of public institutions (Gulua, Ekaterine, 2012) (up to 8000 GEL).

Another weakness of the existing rule of financing is the low pay for academic personnel due to poor funding that will not be reflected positively on the quality of the studying and teaching processes.

The statistics of academic staff influence the costs of the higher education institutions on the one hand and on the other hand on its quality. Absolute number of academic personnel is reducing from year to year in the public sector and increasing in the private sector. At the beginning of 2016-2017 academic year 8231 units of professors

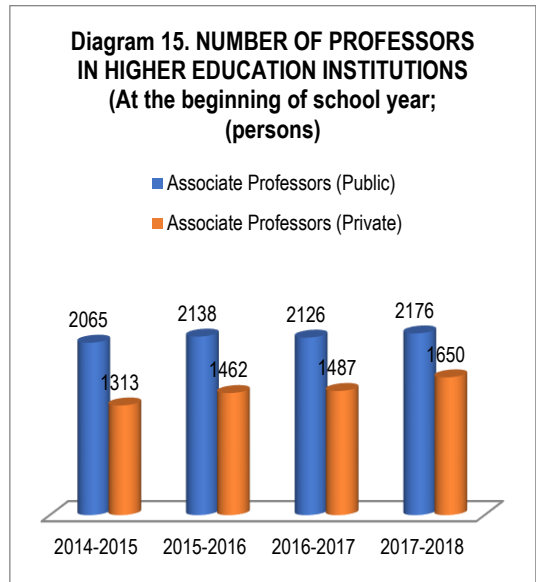
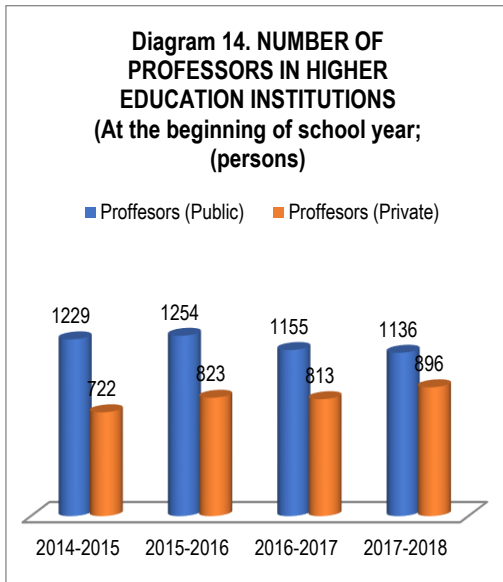
were recorded. 36% in private, while 64% in the state sector¹ (**Diagram 13**). While the share of the total number of graduates in the private sector is 29% and in the state sector - 71%. This means that in the private sector the number of lecturers for a single student is more than in the public sector.



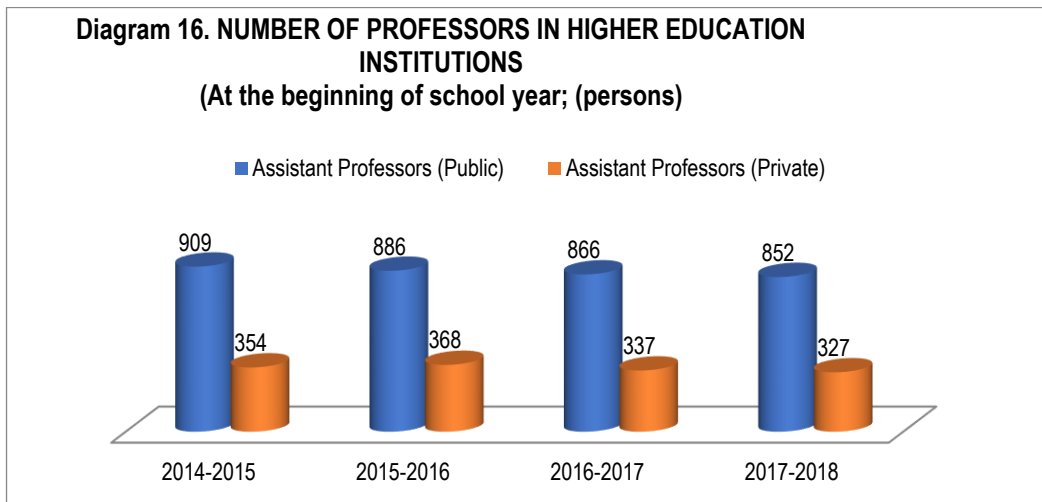
Interestingly, 24% of academic personnel in the state sector are professors and 46% - associate professors. There is almost a similar ratio in the private sector - 25% professors and 47% associate professors. The number of professors in the state sector is decreasing and the number of associated professors is increasing. In the private sector the number of employees of both categories is increasing² (**Diagrams 14,15**).

¹ The Same Source; pg 76

² The Same Source; pg 76



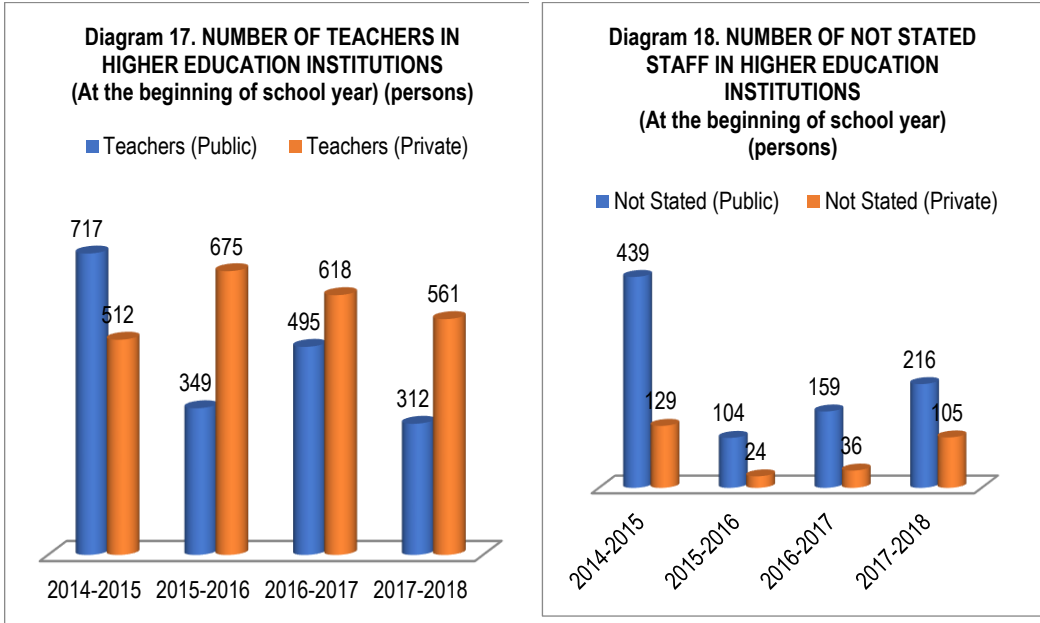
The number of assistant professors in the total number of the personnel in the public sector of higher education institutions is 18%, in the private sector - 9%. Their absolute number is decreasing from year to year in both private and public sectors, which means that less attention is paid to staff reserves¹ (**Diagram16.**).



The share of teachers in academic staff of state higher education institutions is 7%, in the private sector the similar indicator is 16%. Their dynamics in both private and public sectors varies. The share of non-identified academic personnel in the state

¹ The Same Source; pg 76

sector constitutes 5% and in private sector - 3%. Since 2015 their dynamics has been growing in both sectors¹ **(Diagrams 17,18).**



The weakness of the existing rule of financing is also considered to be the fact that it is not socially oriented. From the fact that entrants get grants only by the results received at the national exams and it will be logical if we assume that the children of economically powerful families better manage to prepare for this exam, rather than the socially vulnerable people, and also the grant are mainly taken by those entrants who are less likely to need it. Unfortunately, there is no survey in social sphere of higher education financing in Georgia and this is only an assumption. However, it should be noted that the Law on Higher Education envisages funding of certain categories of students within the social program. In particular, the Government of Georgia with the consent of the Ministry of Education and Science will define the amount and condition of financing with state education grants within the social program of the enrolled students at the accredited higher education program at least with 6% and not more than 20% of the annual amount of financing with state education grants.

For the academic year of 2016-2017 in the higher educational institutions 2 520 000 GEL was allocated within the social program for the students who are studying on accredited higher educational programs based on the results of the unified national exams.

From this amount, 1 920 000 GEL was allocated for the students who are studying on accredited higher educational programs based on the results of the unified national

¹ The Same Source; pg 76

exams of 2016, 600 000 GEL - for those students studying on accredited higher education programs based on the results of the unified national exams of 2014 and 2015.

It is important to optimize the expenditure structure by higher education institutions. Since the latter – the right balance between the long-term and short-term interests significantly determines the efficiency of institutions. It should be noted that the advantages of private sector subjects are higher in this regard, since their private interests, flexibility, independence provide results too. State institutions are less flexible, have other social commitments, are not free to dispose of property, which reduce the likelihood of their effectiveness.

In 2019, the total income of TSU was 71446360 GEL, incomes from economic activity (from tuition fee, studying grant, program and targeted financing and other activities permitted by legislation) amounted to 70% of the total income; the income received from the state budget (scientific research institutes and national scientific libraries) - 20%, from the National Science Foundation grants - 6%; from international grants - 2%; from the state budget - state scholarship - 1%; from the state budget – it received 1% for the development of educational and scientific infrastructure¹;

In 2018 the total expenditure of TSU was 68208353 GEL, the incomes received from economic activity (tuition fee, studying grant, program and targeted financing and other activities permitted by legislation) amounted to 72% of the total income; the income received from the state budget (scientific research institutes and national scientific libraries) - 17%, from the National Science Foundation grants - 5%; from international grants - 3%; from the state budget - state scholarship - 1%; from the state budget – it received 2% for the development of educational and scientific infrastructure;

In 2018 TSU spent 74410395 GEL in total; 44% from them was remuneration; 31% - goods and services; 11% - increase of non-financial assets; 4% - subsidies; 10% - other expenses. Grants and social security do not exceed one percent².

The current incomes of Georgian Technical University which is the second according to the size, amount to 55 630 918 GEL in which 85% is for tuition fee – other incomes (lease, deposit, etc.) allowed by law are 10%; program funding received from the state budget - 4%; scientific research grants - 1%. The incomes received for facilitating the teaching of students with special educational needs (SSN) are insignificant. The costs amounted to 50 373 061 GEL. The expenses and representation costs of the staff and freestyle labor costs (40321058 GEL) are 80% of all expenses. For non-financial assets, it was 9.5%. The expenses and representation costs (40321058 GEL) of the

¹https://www.tsu.ge/data/file_db/sajaro/2019biujetitsu.pdf

² https://www.tsu.ge/data/file_db/sajaro/2018_clis_biujeti.pdf

staff and freestyle labor costs, business trips are 80% of all expenses. For increasing non-financial assets, 9.5% was spent.¹

Iliani's income is 53 941199 GEL, income from economic activities is 76%; State subsidy - 8%; International grants - 8%; Local grants - 5% and programmed funding - 3%. The expenses amounted to 46 695000 GEL; The largest part of expenditure - 38,1% was spent on the remuneration of the freestyle employees, 33.8% - on workers' salary and the business trips and representative expenses in the total amount to 4%. Increase in non-financial assets amounted to 4 620 000 GEL.²

Recommendations:

In modern conditions, special emphasis should be made on the problems of having access to higher education, inclusiveness, and the formation of the environment with equal opportunities. In the conditions of limited resources when distributing benefits, it is necessary to ensure the organic compatibility of the principles of effectiveness and fairness. These two principle cannot be effective apart from each other, in isolation. On the Georgian educational market in the conditions of intensive competition, practical solution to the challenges faced by the state higher education institutions directly depends on the qualified, competent, transparent and honest management of identification and generation process of the university priorities (Kharadze, Natalia; Gulua, Ekaterine, 2016).

Improvement of management, formation of democratic, transparent, fair systems would facilitate the optimal spending process of funds.

In the process of operating the budget process (at the stages of the consolidated budget project of the University as well as its realization) we should take the two key points - effectiveness and inclusion into account. The proper management of the university budgeting process is possible through the synergy of these two most important constituents. For the successful implementation of the functions determined by the management architectonics, direct involvement of the main actors - students, academic personnel, researchers, and the administration in these processes is essential. The strategic planning process of university budgets and determining priorities should be based on the principles that provide the specificity, measurement, reality, and timeframe of the goals (priorities) set.

It is necessary to establish in the university management the transparent approved principle of redistribution of responsibilities based on informed participation of stake holders in stable organizational structures, technology to ensure the purpose and transparency of university budget expenditures. Controlling these processes by the university community will help the staff to determine how efficiently the budgetary priorities of the university are defined, how well the budget serves the realization of tasks due to the direct mission and objectives of the educational institution. It will

¹ http://gtu.ge/pdf/bijeti/damtkicebuli_bijeti_2018.pdf

² <https://iliiani.edu.ge/uploads/other/50/50181.pdf>

make clear how the sustainability of its organizational structures their proper, efficient functioning and cost-effective utilization of resources is provided. Without fully aware interested parties it is impossible to make decisions that provide sustainability of an organizational structure. Considering this circumstance is essential in the management process of any system. Ignoring this management principle of creating a system leads to destructive processes. The university budget should not be tailored to personal needs of individual privileged, narrow interest groups, and should not become a tool for realizing their hedonistic aspirations. The university resources should be used to make the qualitative improvement and renewal of the quality of the studying process and scientific researches, the full involvement of students in this process. The mechanism of management of university finances should be based on equal accessibility, competition and adversarial principles. Student projects should be financed based on competitions, by a specialized council in which students will also be present.

The current approach of funding is unsustainable and a significant increase in investment in higher education is needed to ensure that the sector remains viable and to satisfy the increased needs of the student and the market.

Receiving grants and other incomes except the state budget should be stimulated at the institutions. Commercialization of the university science (researches) and strengthening their applied aspects should become one of the priorities. For this purpose, contacts need to be activated with a business sector, government structures and the civil society. It is necessary to develop competitive educational programs with the involvement of leading scientists of the field, relevant field employers and students.

There is a sharp increase in demand from the state and private sectors on the sociological surveys to determine the perceptions and attitudes towards economic, social and political processes in the country. The abilities of university academic and scientific-research staff are not used in this direction, namely, the great traditions of Georgian sociological school. Special organizational structures should be created that will work on these types of orders. The positions of certain government agencies are surprising, they spend large sums on this kind of researches and for some reason do not use the resources of state universities (which are functioning under their patronage). They order the researches to the organizations whose reputation is sometimes suspicious. By the proper collaboration with the government one of the alternative sources of state funding may appear for state universities, which will additionally benefit both parties. During the transition from the centrally governed, administrative-commanding system to the economy based on the principle of market, free choice and responsibility, the state should implement and ensure the policy that supports an honest competition.

Today students' financing by the state does not depend on his/her academic performance. It is important to introduce transparent and fair mechanisms for partial or full funding of the socially unprotected contingent with high academic results who

are especially talented, this should become one of the priorities of university budgeting. An organic, balanced settlement of market and socially responsible, socially oriented criteria of determining tuition fees is essential.

Switching to the tenure system and external reference mechanism is impossible without the care of highly qualified academic personnel and reproduction of scientist-researchers. The university budget should fully finance the students with exceptionally high academic motivation and research activities at the doctorate level. Provided that the staff, financed by the University, will remain in place for 5 years after the successful completion of the process and obtaining a doctoral degree and will serve the interests of the higher education institution¹. It is also desirable the budget expenditure of higher education institutions to consider training costs for staff.

The main hindering factor of the efficiency of financial management of state higher education institutions is the extremely low level of transparency in budget process management, at the stages of forming budget priorities, as well as during its approval and further implementation stages.

The lack of the data about functioning of higher education institutions, the lack of information systemic processing and analysis indicates the general state of the system, democratization of the management system, publicity, and in general the actualization of the topic will contribute to the expansion of the system and increase efficiency.

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¹ Vakhtang Antia; Economy - oriented Education and the Management Priorities of the State Higher Education Institutions; Journal ECONOMICS; Tbilisi; December 2018. pg13.

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