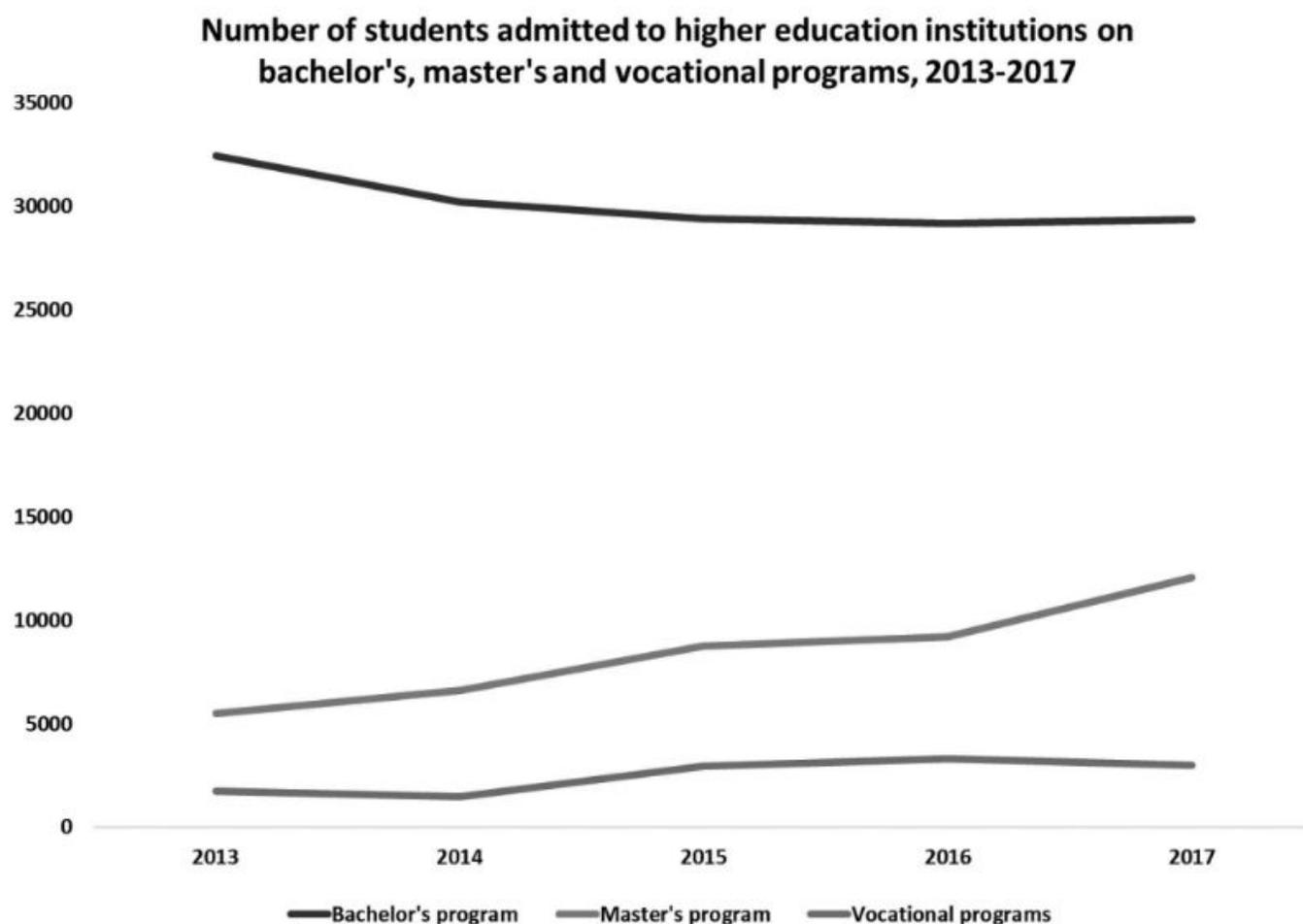


Giorgi Khishtovani Mariam Saghareishvili, PMC RESEARCH [GEORGIA \(/WORLD/GEORGIA\)](#) 4 months ago

# Financing Model of Georgian Higher Education System and its Unintended Implications



The FINANCIAL -- The higher education system in Georgia faces many challenges. One of them is the current composition of its financing sources. The financing of higher education institutions is highly concentrated and heavily depends on students' fees. For instance, 72% of the revenue of Ivane Javakhishvili Tbilisi State University is generated from tuition fees, while for Ilia State University this is 75%.

The situation is further complicated by current regulations regarding tuition fees in state universities which are generally set at 2250 Lari (equal to the amount of the state grant for bachelor's and master's programs). Essentially, state universities have no control over their pricing policy while private universities, in order to maintain competitiveness, are frequently compelled to reduce the tuition fee and/or fix it close to 2250 Lari.

This model of financing is neither efficient nor sustainable, because universities are unintentionally prioritizing the quantity of students ahead of the quality of learning. In particular, this model of financing incentivizes universities to:

*Increase the number of students admitted to bachelor's programs.*

*Increase the number of students admitted to master's programs.*

*Accelerate the introduction of study programs in the English language to increase the number of foreign students (in accordance with state regulation, state universities can charge higher tuition fees for foreign students compared to Georgian students).*

*Increase the number of students in higher vocational education programs.*

*Each of these have unintended and interconnected implications on the entire education system.*

Universities' desire to increase the number of students is reflected in statistics, where supply of the number of study places massively exceeds demand. Despite this the data analysis (graph 1) shows that the number of students admitted to bachelor's

degrees has been declining since 2013. This can be explained by demographic changes, difficult national entrance exams, decreased quality of learning at school level, all of which contribute to an increased number of students failing to attain a passing score in the school graduate and unified national exams. Therefore, pressure is mounting on general education and unified national exam institutes to simplify pupils' access to bachelor's degrees. Notably, in 2018, the unified national exams will be, in the view of many experts, simplified to allow more pupils to pass the exams.

Due to the challenges in admitting more students at bachelor's level, the number of students admitted to master's degrees has been increasing since 2013 (annual 22% increase on average in the last five years). In this case, students are also ready to study on relatively low-quality master's programs due to formal labor market requirements and inadequate regulation of the military service institute in Georgia.

In general, the increasing number of foreign students is a positive development. For several years, the number of foreign students has been increasing every year. For instance, in 2017, compared to 2016, the number of foreign students increased by 25%. This is mainly attributable to the increased number of students in health and welfare programs. However, for all other study programs there was a 1% decline in 2017, compared to 2016. The lack of competitiveness of the programs other than health and welfare can be explained by the fact that some universities are not ready to prepare study programs of a high quality in a foreign language (due to insufficient infrastructure and preparation of academic staff), launch them hastily, which puts the long-term reputation of the Georgian education system at risk. Moreover, by using the limited resources of academic staff on mainly English-language programs might lead the quality of Georgian programs to deteriorate.

In the last several years, the number of students admitted to vocational programs of higher education institutions has been fluctuating. This figure declined in 2014 (1495), compared to 2013; then increased in 2015-2016 (respectively, 2945 and 3326) but declined again in 2017 (2992), compared to 2016. Here, higher education institutions compete with vocational education institutions and prevent keep them from developing. Notably, the number of students in vocational education institutions has declined annually by 10% on average since 2013.

**To sum up, if this model of financing of higher education institutions continues:**

This could lead to simplified admission process at bachelor's level, resulting in the less prepared freshmen and thus deteriorated quality of education at this educational level;

The tendency of declining tuition fees could also force universities to deteriorate the quality of the education they provide. Therefore, some universities might gain an advantage over competitors by offering easily attainable degrees in programs where the quality of education is low.

This could lead to a double skills mismatch on the labor market. On one hand, the problem of formal over-qualification could prevail (if there is a saturation of graduates with master's degrees) and on the other hand, universities could not be capable of providing master's programs of an international standard.

This could lead to uncompetitive study programs in a foreign language resulting in a reduced number of foreign students in the medium term. In addition, the quality of Georgian programs could decline as more resources are allocated to English-language programs.

This could lead to increased competition between vocational programs of higher education institutions and vocational education institutions, which might hinder the development of the latter.

**We propose the following solutions to the current situation:**

Liberalize the tuition fee system. If state universities can charge market prices for their study programs, pricing policy can become an instrument of generating more revenue for higher education institutions.

Increase the financial amount of state grants. In this case, universities will be even more encouraged to attract best students and therefore put more emphasize on quality of education (if state is not ready to increase total assignments on this program, this can happen by decreasing the number of beneficiaries).

Strengthen the state program “Study in Georgia”, giving active support to universities by improving study programs in a foreign language in order to increase the competitiveness of the Georgian education system, elaborating a financing scheme for foreign students (including scholarships, dormitories, benefits, etc.), simplifying the visa policy for foreign students, and using other active policy instruments.

Support higher education institutions in strengthening Bachelor's Short Cycle Education Programs and introducing Associate Degree Institute in order to provide such institutions with an alternative source of income.

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