

Reforming Higher Education Financing in Armenia

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To understand Armenian higher education today, it is necessary initially to recall the breakup of the Soviet system in the late 1980s and early 1990s, when the new Armenian government undertook many reforms in all aspects of its education system—including higher education. Reforms in higher education in the mid-1990s included allocating public funds as lump sums to universities (instead of the line-item budgeting used before). In addition, legislation in 2004 provided Armenian universities with a high level of autonomy in their operations.

Several trends in the past two decades serve as a primary stimulus for further reforms. Student enrollments in Armenia's public universities have grown substantially since 2003, but fee-paying students accounted for this entire increase as the number of full scholarship recipients hardly changed at all. As a result, tuition-fee revenues now

account for more than 80 percent of education funds in Armenian public higher education. This growth is unsustainable, which represents an underlying motivation for the sector's new financing strategy.

CURRENT FINANCING STRUCTURE

Armenia's funding model, similar to the kind widely used in the former Soviet-bloc countries, has two key characteristics: dual-track tuition fees and public allocations to universities, based on quotas where the government decides each year the number of specialists that the country needs and awards scholarships via universities for this task. The amount that the government allocates for scholarship recipients is based on normative cost figures that typically are well below the average spending per student. This is why fees from students not receiving scholarships are used to subsidize the scholarship recipients and represent most of the revenues that universities receive.

While enrollments have grown, the amount of state funding for higher education has declined over time, both in real terms and on a per student basis. Most observers believe that, as a result, the quality of both instruction and research has deteriorated significantly because of underfunding from public sources and the absence of the effective quality-assurance process.

MAIN PROBLEMS AND CHALLENGES

Armenian higher education faces key challenges that are similar to those facing many other countries. These include: inadequate access and equity, uneven quality and relevance, and low levels of productivity.

Inadequate access and equity. Although enrollments in Armenian higher education have increased rapidly in recent years, participation rates remain substantially below international averages. In addition, access is uneven. Low-income students and those from rural areas are several times less likely to enroll in Armenian higher education than students from more well-off families and those from the cities.

Low quality and relevance. There are many reasons to be concerned about the uneven quality of Armenian higher education. One is that current quality-assurance procedures are not in line with recognized European practice. Another is that there is much corruption in the classroom. Lack of relevance is also a major concern in Armenia. While the current employment situation and the job prospects of graduates have improved somewhat, the structural mismatch between the profile of graduates and labor-market demand is apparent. Less than one-third of university graduates are currently employed, and their salaries are only slightly above the earnings of nongraduates.

Low productivity. A striking statistic regarding Armenian higher education is the low level of student/faculty ratios. The average student/teacher ratio is less than 10 to 1 in Armenian higher education, less than two-thirds of the Organization for Economic Cooperation and Development–based average. Analyses of the student/teaching staff, student/nonteaching staff ratios, and tuition fees also show an inverse correlation between student/teaching (nonteaching) staff ratios and tuition fees.

DESIGNING A FINANCING STRATEGY

To meet these challenges, a higher education financing strategy is being developed in Armenia. These reforms will be designed to increase participation, reduce inequality, improve quality and relevance, and raise overall productivity of the sector, as well as achieving greater conformance with the Bologna process.

Performance-based payments to institutions. A key reform is to move toward a more modern funding system based on either outputs or outcomes. A system is proposed in which the government annually would pay public and private institutions for each graduate who receives a degree. To be most effective, the amount of payment would be based on a revised cost norm that more accurately reflects current and projected labor market conditions and to qualify for payments. In addition, the degrees awarded would need to conform to strengthened quality-assurance provisions and Bologna process specifications.

Scholarships based on merit and need. To increase the efficiency of a new performance-based structure, it is proposed that the current system of scholarships and stipends be replaced with a new scholarship program—based on both merit and need. The specifications of such a new program might include merit-based criteria similar to those currently used to identify scholarship recipients, need-based criteria based on official-government measures, and easily verifiable criteria such as family electric bills to determine who is poor.

Student loans. One instrument often used to increase the accessibility of higher education consists of student loans. In Armenia, a pilot program for master's degree

students in relevant fields of study may be initiated as part of the new financing structure.

Competitive innovation fund. To encourage universities to raise the quality of their instruction and to implement much-needed innovations, the government plans to create a competitive fund.

Financing capital expenditures. A fundamental weakness of the current financing structure in Armenia is that the tuition fees charged to current students constitute the primary means for financing capital expenditures. Thus, current students are paying the full costs of capital for the benefit of future students. Therefore, government should create a capital budget or allow universities to borrow in order to finance capital.

Strengthening quality assurance. Recognizing the priority of strengthening higher education quality assurance, a center for quality assurance has been established to develop and approve standards and guidelines for implementing much-improved, quality-assurance activities. It is proposed that both public and private institutions would have to be accredited by the National Center for Professional Education Quality Assurance to receive public funds. In addition, there will be efforts to reduce corruption in the classroom and to require institutions to provide more data, as part of the accreditation process.

Integrating research and instruction. Another major shortcoming of the current higher education structure in Armenia involves that most research is conducted in separate research institutes, which prevents most universities from offering a high-quality education experience. One method to improve quality through greater

integration of research and instruction is to require research institutes to collaborate with universities, in order to receive public funding.

Encouraging greater private investment. To attract greater financial support from the private sector, it is proposed that private institutions be eligible to receive performance-based payments and government funds for scholarships, as well as to qualify for other profit-tax reductions. In addition, tax incentives would help corporations to contribute to scholarships, libraries, and university-based research.

The intent of these reforms is to allow Armenian higher education to move away from outdated and ineffective policies to ones that place it ahead of the trend internationally.