

**THE POLITICS OF HIGHER EDUCATION:
GOVERNMENTAL POLICY CHOICES AND PRIVATE
HIGHER EDUCATION IN POST-COMMUNIST
COUNTRIES**

**A Comparative Study of Hungary, Georgia,
Latvia and Lithuania**

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I hereby declare that this work contains no materials accepted for any other degrees in any other institutions. This thesis contains no materials previously written and/or published by another person, unless otherwise noted.

Marie Pachuashvili
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ABSTRACT

Since the collapse of communist regime, higher education systems in countries of Central Eastern Europe and the Former Soviet Union have been witnessing a most profound transformation, related to diminished state involvement in funding, provision and governance of higher education. The creation and growth of private higher education institutions is one such development that greatly contributes to the changing higher education landscape. However, as we observe, the private higher education growth patterns have been largely uneven across the region, varying from non-existent to more than a 30 percent share of the total enrollments. Apart from the size, differences are perceptible in the nature and types of privately provided education. Notwithstanding the common legacy both at the higher education and broad political-economic levels, countries exhibit a wide variation with respect to the scope and nature of the private growth as well as governmental policies accommodating newly emerged institutional forms.

The aim of the research project is two-fold. By using comparative case study method, the study seeks to document salient tendencies in governmental policies towards higher education and examine their impact on the size and nature of privately provided higher education. To understand what leads to such variety in governmental policy outcomes constitutes another central objective of this empirical undertaking. The four countries thought to be most suitable for examining the dual question of what determines the differences in governmental policy approach and how these differences, in turn, shape private higher education growth patterns are Hungary, Georgia, Latvia and Lithuania.

The in-depth analysis of the four carefully selected cases has demonstrated that markedly different governmental approaches have produced equally diverse patterns of private sector growth. That is, a largely laissez-faire policy attitude characteristic of Georgia before the changes of 2003 has led to a sharp increase in small, pragmatically oriented institutions that are weak academically and mostly serve demand-absorbing function. Private sectors that are restricted in size and serve ethno-linguistic, religious or other culturally oriented goals characterize Hungary and Lithuania, where the governments have adopted the regulatory policy stance. The Latvian government's largely market-liberal approach towards private institutions has produced a sector that is one of the largest in the region and that serves public purpose by providing students with enhanced choice.

Examination of the factors at national level that ostensibly determine governmental policy approach towards privately provided education, on the other hand, has shown that the wealth of a country is one of the most potent variables explaining the divide between Georgia and the other three countries. The mode of interest intermediation and ethnic-religious heterogeneity of population also proved to be powerful predictors for governmental disposition towards private education, while the explanatory power of political ideology turned out to be weaker than hypothesized in some country cases.

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List of Abbreviations

CEE	Central Eastern Europe
CQAHE	Centre for Quality Assessment in Higher Education in Lithuania
EBRD	European Bank for Reconstruction and Development
FSU	Former Soviet Union
HAC	Hungarian Accreditation Committee
HE	Higher Education
HEC	Higher Education Council of Latvia
HEI	Higher Education Institution
HEQEC	Higher Education Quality Evaluation Centre of Latvia
HESC	Hungarian Higher Education and Scientific Council
LCC	Lithuanian Christian College
MoE	Ministry of Education
MoEC	Ministry of Education and Culture
MoES	Ministry of Education and Science
OECD	Organization for Economic Co-operation and Development
SzDSz	The Alliance of Free Democrats of Hungary

CHAPTER 1: SETTING THE STAGE

1.1 Introduction

Higher education systems of countries of Central Eastern Europe (CEE) and the Former Soviet Union (FSU) have been witnessing a most profound transformation. Changes in higher education landscape are part of larger changes at the broader political-economic level taking place since the collapse of communism. These include lessening of state ownership, regulation and funding, as well as decreased importance of state as an employer and rise of private sector employment. All these have produced significant changes in the traditional, monopolistic role of the state: if during communism higher education was almost exclusively provided, financed and controlled by the state, its profile with all three respects has lessened significantly.

With its overstated emphasis on academic and institutional autonomy, the overall pattern of reforms of higher education field initiated in the early 1990s bears close parallel to all countries emerging from communist rule. Sharing the legacy of extreme dependency on the state authority, all newly liberated nations faced problems and questions of a comparable nature, most important of which concerned redefinition of the role of the state in higher education. Yet, significant differences in both the nature and pace of the restructuring attempts become traceable soon after the regime changes of the 1989. Countries with recent common history of the state

dominated higher education soon started to exhibit profound differences in higher education policy choices. The decline of the strict central control over higher education has yielded to markedly different forms of governmental steering of the sector. More often than not, government remains a key actor in determining policy choices but the number of stakeholders exerting influence on policy-making process has grown significantly. In fact, it is on the particular balance of internal and external interests, competing authorities and forces that higher education systems of post-communist countries differ mostly (Neave 2003). Put differently, a considerable cross-country variation that exists is largely a reflection of the particular balance of the authority that state has nevertheless retained and the influence of the increasing number of stakeholders.

One of the overriding objectives faced by many post-communist nations has been expanding access to previously (quantitatively) elite higher education. It is with respect to the massification process in general and the dynamics of higher education privatization in particular that the differences in policy choices have become most pronounced. The shift from elite to mass higher education indisputably is one of the major developments within fields of higher education internationally. Massification in Europe started in the early 60s, whereas in CEE and the FSU countries the process came about during the years following the regime changes of the 1989 (Neave 2003). It is true that communist period in many countries had been characterized by growing share of highly specialized, short-cycle, non-university sectors which constituted an effective means for both meeting industrial needs and for allowing increased participation of children of working-class parents. Notwithstanding these efforts, higher education in much of the pre-transition countries remained by and large elitist.

As we observe, the movement towards mass higher education has been highly disproportional: while the expansion in some countries has been achieved largely through increased public provision, others have witnessed spectacular growth of private sectors accommodating demand on higher education that was left unmet by government provision. Post-communist countries exhibit significant variations with respect to two main strategies that governments have adopted for facilitating higher education enrollment rise. These are the privatization of public educational services and the creation and growth of distinct private sectors.

1.2 The Main Objectives and Relevance of the Research Project

The main focus of the research project is to understand the emergence and growth of private higher education institutions in post-communist countries. As noted, significant transformation of the higher education field related to the diminished state involvement in funding, provision and governance of higher education has been taking place since the collapse of communist regime. The creation and growth of private higher education institutions is one such development greatly contributing to the changing higher education landscape. The beginning of the 1990s witnessed rapid growth of private higher education institutions in most newly independent countries. The increase in private providers - one aspect of the higher education massification process - is a global phenomenon. But rarely has this process been as concentrated in time and as encompassing of so many countries with comparable legacies, as it has been in this region (Slantcheva and Levy 2007).

On the whole, access to higher education during communism had been limited. In fact, only in a few countries did the enrollment rate exceed the accepted borderline of 15 percent of the youth age cohort between elite and mass higher education (for the rate of higher education enrollments see Appendix 1). Therefore, rapid increase in private enrollments to meet unleashed student demand is hardly surprising. However, the private growth patterns have been largely uneven across the region, varying from non-existent to more than 30 percent share of the total enrollments (Table 1.1). Apart from the size, differences are perceptible in the nature and types of privately provided education. While private sector growth in some countries has mostly been in so-called demand-absorbing institutions accommodating student demand that was left unmet by government provision, in others it has served ethnic, religious, elite and other culturally oriented goals.

Table 1.1: Private Enrollments as the share of the total Student Enrollments in Countries of Central Eastern Europe and former Soviet Republics

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Albania	0.0	0.0	0.0	0.2	0.7	1.0
Armenia	35.6	28.2	27.7	25.2	29.7	26.6
Azerbaijan	23.77	23.98	17.84	15.25	14.4	n/a
Belarus	12.78	13.00	13.84	14.90	17.34	16.19
Bulgaria	10.49	11.31	12.56	13.44	14.36	16.43
Croatia	1.4	1.4	2.3	2.7	3.1	3.1
Czech Republic	4.9	4.7	4.9	6.2	7.7	8.9
Estonia	25.02	23.51	21.58	20.30	20.30	21.21
Georgia	29.69	23.84	21.65	20.50	19.18	20.50
Hungary	12.94	13.24	14.01	14.18	14.16	13.66
Kazakhstan	n/a	28.8	35.73	43.3	45.49	54.51
Kyrgyz Rep.	8.29	7.57	7.47	7.13	7.44	7.24
Latvia	13.28	14.42	20.15	22.89	25.55	27.91
Lithuania	0.1	1.3	2.4	4.5	7.0	7.5
The FYR of Macedonia	2.26	2.02	1.97	2.92	8.08	8.32
Moldova	13.1	22.6	25.0	20.0	22.2	18.3
Poland	28.4	29.7	29.6	29.4	29.5	30.3
Romania	28.83	28.26	25.22	23.32	23.18	22.0
Russian Federation	8.47	9.92	11.61	12.09	13.33	14.88
Slovak Republic	0.63	0.78	0.40	0.88	2.17	4.62
Slovenia	5.1	4.3	1.6	2.9	6.9	8.0
Ukraine	7.78	8.29	9.39	10.48	12.2	14.8

Source: Slantcheva and Levy, 2007. CEPES Statistical Information on Higher Education in Central and Eastern Europe, at http://www.cepes.ro/information_services/statistics.htm#1.

The reasons responsible for producing such cross-national variation in private sector growth patterns are multiple and range from broad level factors such as demographic, ethnic, religious, economic and political, to those at the higher education system level like public sector capacity and quality, legislative and regulative framework for higher education and other institutional arrangements. One of the most important determinants among them, however, is public policy towards higher education. This has to do with the special nature of higher education and various market failures associated with its provision. In difference from competitive markets that by and large respond to the supply and demand conditions, institutional arrangements set by national governments serve as the principle factors in shaping the dynamics of both public and private sectors in higher education. Hence, playing a central role in their

structuring, regulating and financing, the government is a dominant actor influencing public higher education institutions. Owing to the fact that it provides legislative framework and molds the environment in which institutions operate, the state also is a powerful factor in private institution development (Geiger 1988, Levy 1999, Zumeta 1992, 1996, 1997). Besides general legislative and regulative framework, financial policies, which include taxes and subsidies, student aid (loans and grants) and direct appropriations to institutions, constitute key determinants of private sector growth patterns. What approach does government take towards building public sector capacity and setting public institution tuition level, or what decision does it take for including private sector in policymaking processes, has important implications for private sector dynamics, although indirectly. Despite visible tendencies and perceptible similarities, the countries of CEE and the FSU offer the richest possible picture with regard to these aspects in governmental approaches vis-à-vis private higher education.

The aim of the research project is two-fold. The first is to identify salient tendencies in governmental policies towards higher education and examine their impact on the size and the nature of privately provided higher education. To understand what leads to such variety in governmental policy outputs constitutes another central objective of our investigation. In other words, the focus of the research project lies in recognizing what determines differences in governmental approach towards private higher education and how these differences, in turn, shape private growth patterns. It therefore asks: *What are causal linkages between various governmental policy choices and private higher education development patterns? What are the strategic responses of private institutions to different governmental policy outputs? What are*

the most important policies through which governments influence the size and nature of privately provided education?

Another set of questions concerned with possible determinants of public policy asks: *What explanation could be found for conspicuous differences in higher education policy outcomes? Why do we find some post-communist governments encouraging while others seeking to contain private sectors development through various policy instruments? What drives those manifestly different approaches in governmental stance vis-à-vis private higher education?*

Given that post-communist countries share much of the legacy both at the higher education and general political-economic levels, the region offers a rare possibility to study what causes observed cross-national variation in higher education policy choices on the one hand and their implications for private sector development on the other. That is, controlling numerous background variables on which countries under consideration broadly match enables testing hypothesis suggested by different bodies of literature and generating new ones. The region therefore provides fertile grounds to explore general questions of public policy determinants, which will enhance our understanding of why different governments pursue particular courses of action to deal with similar concerns and what are the factors having most weight in determining public policy outcomes.

The significance and urgency of examining the relationship between governmental policies and private higher education growth patterns cannot be exaggerated. Despite the fact that private sectors in many countries have grown to accommodate almost

one-third of the total student enrollments, the role and function institutions serve remains somewhat vague, while public policy towards them - largely incoherent. The most common way in which available policy reports view the role played by the sector is largely binary, either strongly promoting their growth or dismissing it altogether as subversive force to society and its values. Hence, lessened governmental profile in providing education has been supported by many prominent contemporary economists and advocated by such influential international agencies as the World Bank, whereas antagonism to the private sector development has been characteristic of politically Left and nationalistic standpoints (Levy 2002). Not only at the policy level, but there is an obvious lack of academic research, especially of comparative character, about new forms of educational organizations in post-communist countries.¹ The extant private higher education literature is mostly concerned with the U.S context, which has the longest traditions of privately provided education. However, organizational characteristic of private institutions widespread in the region are qualitatively vastly different from those common in the U.S. By analyzing the roles and functions private institutions have assumed in post-communist countries and common governmental policy approaches towards newly-emerged institutions, this research intends to fill the gap in the extant literature. The role private higher education institutions can play in meeting increasing social demand on higher education with lessened governmental financial involvement, especially in post-communist countries that face sharply reduced public budgets, provide most obvious rationale for urgency and importance for analytically examining the strength and shortcomings of private institutions, and governmental policies that, in some direct or indirect way, affect their development.

¹ Up to date, there is only one volume edited by Slantcheva and Levy that deals with private higher education across post-communist countries (Slantcheva and Levy 2007).

1.3 Plan of the Dissertation

The aim of the following chapter is to set the stage for the ensuing empirical examination by providing an overview of the relevant literature. Chapter 3 discusses methodological issues pertinent to the research, presents the analytical model on which the empirical examination is based and formulates hypothesis that guide our analysis. Chapters 4 through Chapter 7 provide systematic examination of the private higher education growth patterns in the selected countries and governmental policies that are thought to affect private institutions. Moreover, the chapters analyze the impact of powerful forces at the national level in shaping governmental policy approaches in each country. The major findings from the examined country cases are summed in Chapter 8, which also discusses the main points that emerge from the undertaken study.

CHAPTER 2: THEORETICAL FRAMEWORK

2.1 Introduction

Before concentrating on the relevant higher education literature, the following section briefly reviews the general questions of public policy and their determinants. The section after puts forward theories that help to understand what makes higher education a special sector and which are the factors having most weight in determining governmental approaches towards higher education. After this, powerful changes both in the thinking about higher education and empirical reality are explored. Difficulties associated with defining private higher educational organizations and their classification are addressed in the subsequent section. The final part of the literature review explores the theories that deal with governmental policies affecting privately provided higher education.

2.2 Determinants of Public Policy Choices

It has been recognized that the major problems that face different (Western) governments are often of the same nature but the actions taken in response to them varies significantly (Rose 1973, Hancock 1983). The need to explain wide divergences in policy choices that different countries pursue constitutes the main justification of the Comparative Public Policy studies, which emerged as a subdiscipline within political science in the early 1970s (Hancock 1983). The major

difficulty in studying what influences the politics of social choice is the multiplicity of variables and a lack of agreement in the literature about which one does the best job in explaining the differences in policy outcomes.

The debate has mainly evolved around the relative importance of “economics” vs. “politics” in determining policy choices regarding the provision of governmental services. Among the policy analysts who have argued that levels of economic development rather than political factors are the main determinants of public policy are Thomas Dye (1966), Charles F. Cnudde and Donald J. McCrone (1969), and Harold L. Wilensky (1975). Works of policy analysts who advocate ascendancy of the economic variables has been severely criticized on both empirical and logical grounds. Even though many scholars of public policy agree that the wealth of a nation does influence the level of governmental spending on social services, there is the general consensus that this criterion alone cannot account for empirical reality in which governmental spending on social provisions in countries with comparable levels of economic development varies so greatly. By employing a range of methodological approaches in their analysis, different scholars have emphasized the relative importance of various factors like political institutions, elites and their ideology, political parties and organized interest organizations in influencing the content and timing of particular policy pronouncements. For example, some critics assert ideology to be the most crucial factor in determining public policy choices. Analyzing different fields of social services in five advanced industrial democracies, Anthony King in his *Ideas, Institutions and the Policies of Governments: A Comparative Analysis* asserts that ruling group ideology is the crucial factor while other conditions such as political elites, demand, interest groups and institutions play

less important role in determining the level and scope of governmental provision of public services (1973).

Bert A. Rockman also considers political parties to be main agents for democratic control over policy choices and their ideologies - for determining these choices, but his essay *Parties, Politics and Democratic Choice*, puts an emphasis on those many factors that hinder the policy-making process, notwithstanding the enthusiasm and effort party ideologists (1992). While arguing for the significance of political parties in the process of democratic policy choice, Rockman identifies and examines numerous exogenous and endogenous factors that make party-policy connection extremely complex. Employing public choice and political sociology perspectives, he distinguishes parties according to their motives, i.e. whether they are “vote maximizers” or “program emphasizees”, and argues that even when parties are “opinion mobilizers” and thus are willing to take the risk and depart from the status quo, interplay between a wide range of factors determine how effectively can they put forward their programs. Those include organizational characteristic of a party, its power status or its position in relation to other parties, its durability in government and more general political circumstances. Other factors have to do with the nature and types of policies themselves. Clearly, there are greater political costs as well as resistance to changing well-established and popular policies than initiating changes in areas with less existing policies. Which policy is more subject to party-directed change also depends on its complexity, instrumentation and institutionalization (thus he conjectures that social policies should be more difficult to change than, for example, foreign policies). Finally, underlining the distinction between policies and their outcomes, Rockman notes that the factors influencing successful implementation of policies are as multiple as those affecting their choice.

Like Rockman, Douglass Hibbs' work deals with the issue of party-policy nexus, but his focus is more specific, that is macroeconomic policies (Hibbs 1977). Employing aggregate data on levels of inflation and unemployment in relation with the left-right placement of a ruling party, Hibbs examines macroeconomic policies in twelve Western European and North American nations and also finds a positive correlation between political parties and their ideology and macroeconomic policies put in place. More particularly, Hibbs' findings establish the positive relationship between low unemployment-high inflation and political systems with left parties and high unemployment-low inflation and government by center-right parties. As he concludes, *governments pursue macroeconomic policies in accordance with the objective economic interests and subjective preferences of their class-defined core political constituencies* (p. 1467).

According to yet another line of interpretation, interest groups exercise the most powerful influence on social policy dynamics. The contemporary debate on varieties of corporatism started in the early 1970s and has been growing rapidly since then. In fact, theoretical and empirical findings of the policy analysts, who view organized interest associations as the main instigations of policy pronouncements, gave rise to a paradigmatic shift within the subdiscipline of Comparative Public Policy (Hancock 1983) The corporatist literature (Schmitter 1974, Lehbruch 1994, Schmitter and Lehbruch 1979, Schmitter and Grote 1997, Wilensky and Turner 1987) thus sees public policy of advanced industrial democracies as an outcome of policy-making linkages, bargaining and trade-offs among high-level political, economic and societal

actors.² Making a clear distinction between “societal” and “state” corporatism, Schmitter, in his earlier work, claimed that the former was common in countries such as Netherlands, Sweden and Switzerland, while the latter was characteristic of countries like Spain, Portugal and Mexico (1974). Other scholars of Comparative Public Policy have further distinguished between societal or liberal, political and economic corporatism. The degree of control that organized groups representing class, sectoral or professional interests exert on democratic policy making varies greatly across countries (Lindblom, Woodhouse 1968).

The concept of corporatism has mostly been employed to analyze observable practices in advanced industrial democracies, notably in small and affluent countries. However, the concept lost its analytical significance in 1980s, as more liberal solutions to the problems of economic policy were increasingly chosen in advanced capitalist societies.³ However, the concept has been acquiring new theoretical relevance since the 1990s, with the conspicuous revival of corporatist concertation in different countries.⁴ It is important to note that these practices have become central to political processes not only in prosperous Western European societies, but also in those that seemingly lacked suitably configured set of interest organizations. Notably, in Hungary, Czech Republic, Bulgaria and Romania from Central Eastern

² According to its central claim, economic, social and political behavior cannot be understood exclusively in terms of either choices or preferences of private individuals or public agencies. Somewhere between markets and states exists a large number of self-organized and semi-public collectivities that individuals and firms relies upon more-or-less regularly to structure their expectations about each others behaviors to provide ready-made solutions for their recurrent conflicts (Schmitter and Grote 1997, p.1).

³ Austria, where corporatist arrangements under the label of “Social Partnership” were integrated into public ideology, is the only exception to this generalization (Schmitter 1997).

⁴ Schmitter in his “Corporatism is Dead! Long Live Corporatism!” speaks about cyclical nature of the phenomenon having recurring historical tendency (1989).

Europe and Russia, Ukraine, Belarus and Kazakhstan form the Former Soviet Union (Schmitter and Grote 1997). Although lacking “appropriate” organizational structures, these countries have experimented with different forms of corporatist arrangements, in addition to their sporadic attempts to fill many of the old and persistent economic and bureaucratic structures with new purposes. Thus, the concept of “state” corporatism has gained new analytical appeal, especially with respect to Russia and other former Soviet countries. Though, it should be added here that, mostly modeled after outdated Western experiences, newly emerged interest associations perform tasks and functions that are somewhat different from those in European democracies. Besides, these groups are more dependent on respective governments for their performance, as well as for survival, than their Western counterparts. This is not to say that the groups are not powerful enough, but only that they assume different political importance. Namely, their immediate functions have been facilitating foundational agreement among members of emerging national political elite and reducing uncertainty among competing elites, rather than playing active role in managing the economic transition (Schmitter and Grote 1997).

Finally, without questioning the indispensable role played interest groups in policy-making process, Arnold J. Heidenheimer (1973), in contrast, stresses the importance of political institutions in shaping public politics. Heidenheimer examines contrasting patterns of public education, health and welfare policies in advanced democracies of North America and Western Europe and finds different political variables as well as interest group structures to be most powerful influences brought to bear on the long term policy patterns.

2.3. Theories of Public Goods Provision

The previous section has outlined a number of variables that are regarded in the literature as powerful policy influences. The presiding discussion has also made it evident that there is little agreement among policy analysts about relative importance of a host of policy determinants. Disagreements about the importance of different variables that influence governmental stance towards higher education are equally deep. The main purpose of the subsequent exploration of the literature is to put forward theories that explicate what makes education a special sector and which are the factors that have most influence in determining governmental policies towards higher education. The section after examines the ideological change in thinking about higher education that has been noticeable from the end of the twentieth century. The final part of the literature review explores the theories that focus on different governmental policies having influence on the dynamics of private and public sectors in higher education.

2.3.1. Market Failure

Historically, there was no clear separation between public and private in higher education as with other spheres of social life and activities. Reflecting church-state harmony, elements of public and private blended naturally in higher education establishments. Only from the nineteenth century had fused systems started to gradually separate. The United States is the only country where the separation gave

way to both forms in higher education at the same time, while in Europe, as well as much of the world, higher education fell under the public dominance (Levy 1992; Jones 1992)⁵. It is from the 1950s that the role of the state as a monopolistic provider of higher education has been challenged. Before attempting to account for the causes of this recent empirical shift and the debate it has generated, this section briefly explores the grounds on which governmental provision of higher education has been defended.

One of the main rationales for the governmental provision of (higher) education has to do with a public good character of educational services. In the strict sense, education is not a public good seeing that marginal cost of its provision to an additional individual is not zero and it is not difficult to exclude a person from consuming it. However, education has usually been referred to as a public or quasi-public good mainly because of the externalities it yields to society. Education provision from general tax-payer money has therefore been defended on the grounds of perceived benefits that educated citizenry has on society at large (Matthews 1991). While externalities are present in business as well, information asymmetries which exist between consumer and producer serves as an additional and important reason why the case for the state responsibility for education provision has usually been made. Kenneth Arrow's assertion, made in his seminal article, *Uncertainty and the Welfare Economics of Medical Care*, that the special features of medical care industry stemmed exclusively from uncertainty, can be extended to education as well (1963).⁶ Governmental provision of education thus can be seen as substitution for the failure of market to insure against uncertainties.

⁵ In some late-developing societies, in contrast, public education predated private (Levy 1982).

⁶ Although medical care is a more extreme case, the two sectors share many properties. The degree of informational asymmetries is less in education than in healthcare, but switching costs are nonetheless great.

The Economic theories of nonprofit organization, that have its roots in the works of Arrow and Nelson and Krashinsky (Arrow 1963; Nelson and Krashinsky 1973), also regard uncertainty to be the main reason why private non-profit rather than for-profits organizations prevail in health care and education industries. The main distinguishing characteristic of non-profit organizations from for-profit commercial enterprises that holds in case of different countries with different tax laws, is that the former are subject to a ‘non-distribution constraint’ that prohibits the distribution of residual revenue to the owners of institutions (Hansmann 1987, 28).⁷ To account for why education is one of the major services provided by non-profit organizations throughout the world, Henry Hansmann (1987) emphasizes “contract failure”- where conditions for private for-profit organizations are lacking due to the asymmetry of information between producer and consumer. For a purchaser of education (or healthcare) services, it is difficult to evaluate and monitor the quality of the service provided. For-profit organizations thus have an incentive as well as the opportunity to downgrade the quality. Serving as a valuable substitution for trust, the non-distribution constraint gives comparative survival advantage to non-profit organizations over for-profit firms.⁸

⁷ Empirical reality, however, is rich in borderline cases where the distinction between private non-profit and for-profit educational organizations is exceedingly blurred. It is recognized in the literature and empirical observations are consistent with this view that too often, private non-profit institutions are disguised profit-maximizing entities. In some countries, like Japan, non-profit status for educational institutions is simply a legal requirement. (James 1987).

⁸ Access to cheap labor, private donations and tax exemptions provide additional advantages to non-profit organizations over for-profit firms in situations when demand on service is so low that the latter cannot produce high enough profits to stay in business.

2.3.2. Government Failure

If economic theories of public good provision that emphasize private market failure help to identify industries in which non-profit and for-profit organizations will prevail and conditions most suitable for different types of activities, another set of economic theories focusing on government market failure, in contrast, deals with empirical change in which private providers of public good arise where governmental providers once held monopolies. For instance, by setting demand side variables, Burton A. Weisbrod's theory (1975) enables us to single out countries in which these industries are most likely to be located. Weisbrod argued that the quantity and quality of governmental supply of public goods is determined by political process of voting and corresponds to the level satisfying a median voter.⁹ Consequently, with the given tax structure, when the government satisfies median voter, there will be some consumers dissatisfied with the politically determined level and quality of public goods. Non-profit organizations, as extra-governmental providers of collective-consumption goods, hence arise to meet demand heterogeneity of population. It is expected that the relative size of private sector will correspond to the heterogeneity of population demands with respect to such characteristics as income, education level, religion or ethnic background.

Further distinguishing between the demand side variables, Weisbrod argued that private sector is a response to *an excess demand* for collective consumption goods in the face of limited governmental supply. *Differentiated demand* theory, by contrast, approaches the issue of private sector expansion from the point of people's differentiated tastes about the kind of public goods to be consumed, in the circumstances when that differentiation cannot be met by government production.

⁹ The assumption implies a simple majority vote model without vote trading.

Public failure to meet residual demand as well as differentiated demand about quality of goods consumed and consumers' idiosyncratic preferences owing to cultural, religious, ethnic or linguistic differences, assume central role in the development of private alternatives.

Estelle James, who further developed Weisbrod's theory, also views the creation and growth of private alternatives as stemming from people's unsatisfied preferences with respect to product quantity, diversity and quality (1987, 1989). In her attempt to explain what she believes to be unanswered question by the existing economic theories of public good provision is why some countries provide education or other collective goods through government provision, while others delegate this responsibility to private sector. The major contribution of James' work lies in setting supply side variables along with the demand side, and testing them statistically, in her empirical studies of private educational sector throughout different countries. As she observes, the vast majority of private providers of education in the United States and elsewhere are ideological associations, most important of which is organized religion. Others include ethnic, political, or interest groups. Their rationale for setting an education establishment rests with promoting particular belief rather than maximizing profits. But once they are established, the range of factors gives them comparative advantage to successfully compete with other forms of organization. These are semi-captive audience, valuable trust against informational asymmetries, access to voluntary and low-cost labor, and importantly, political power to secure governmental subsidies and other benefits and even to demand that those were provided exclusively to non-profit organizations. Thus, acting as an interest groups, organized religion plays an important role in determining relative size of private non-profit sector (1987, 1989).

James' findings from empirical studies of Holland, India, Japan, Sweden and the United States have verified the utmost significance of the *religious* variable (1989). This and her other studies (notably statistical analysis of thirty eight developing countries and twelve advanced industrial democracies) established that another important indicator in explaining the policy choices made by different countries with respect the level of governmental supply of educational services was *per-capita income* (standing for excess demand or the ability to pay for desired quality and type of educational services) (1986, 1989). According to James' findings, excess demand theory clearly suites developing societies where political coalitions of people with low benefits and high taxes frequently limit the government supply at higher education level, while differentiated-demand model accounts for the development of private educational sectors in advanced industrial societies.¹⁰

James findings thus account for developing/developed world divide and assist in identifying variables that play greater role in determining the level of governmental supply of educational services. However, her theory, and by extension economic theories of public good provision, stop short of explaining why some governments facilitate private sector development through various policy mechanisms, while others intentionally contain it, in spite of an apparent unmet demand for social services. In general, political question regarding appropriate governmental action proves much harder to deal with. James Douglas (1987) has related the complexity of the issue to more general difficulties associated with defining the concept of a political good in difference from an economic. While it seems quite plain that governmental policies should promote welfare and efficiency, the economic good is not the only measure on

¹⁰ Though, differentiated demand about quality of goods supplied can serve as the reason for developing "elite" alternatives in developing countries. But their number is usually too small to have statistical significance (James 1989).

which they ought to be based, for it is equally important that governmental actions promote justice and equity and importantly, they are in accord with societal values and beliefs (Douglas 1987).

However, there exists a multiplicity and often conflicting views and values in any society, from which the state should adopt one. Often, this choice reflects a compromise between differing views, but the point remains that a wide diversity of understandings and values cannot be accommodated by the state alone. This brings us to the classic pluralistic argument for desired diversity of social provisions that voluntary non-profit sector allows. Namely, voluntary non-profit sector can achieve *a sort of diversity that would require impossible combination of a secular, Catholic, Protestant, Jewish, Moslem, rightist, leftist and centrist government operating simultaneously in the same jurisdiction* (Douglas 1987, p. 47). A good illustration of the diversity argument is provided by religious education, usually facilitated by private sector. According to the argument, it is inequitable to finance a service that reflects the beliefs of only small groups of people from compulsory taxation. More generally, the state is constrained to provide benefits and distribute them equitably among its citizens, while the same question of justice has no relevance to voluntary organizations (provided that the services they render are not harmful to society at large). Contrasting views of what constitutes the equitable distribution of educational services and who should bear the costs for its provision are discussed in the following section.

2.4 Ideological Shift and Encouraging Market Mechanisms in Higher Education

As the previous section has demonstrated, much of the theorizing about private provision of education is concerned with non-profit forms of organization in the U.S context. This is explained by the fact that the private growth is a relatively recent phenomenon outside North America (and Japan), which has longer traditions of non-profit educational organizations. Since the 1960s, the massive socioeconomic demand for higher education in much of the world has led to significant expansion of extra-governmental suppliers of higher education, as well as spectacular privatization of educational services. The way the term *privatization* is used in the higher education literature does not necessarily imply the transfer of higher education institutions from government to a private ownership. The term is rather used in a broad sense to describe activities that involve adaptation of market-type practices and lessening financial dependence of institutions on government. Thus, higher education privatization may entail selling of government agencies, assets, and services on the one hand and permitting and encouraging of private enterprise on the other.¹¹ In the former case institutions remain public sector organizations but with diversified sources of funding, which may involve introducing tuition fees, selling goods and services and encouraging individual and corporate philanthropy; while the latter implies creation of truly private institutions, which often turn out to be vocationally

¹¹ Lately, the terms *marketization* and *liberalization* have been employed for describing broader processes that involve injecting market-like mechanisms in higher education, such as encouraging competition and introducing management practices associated with a private enterprise (Jongbloed 2003).

oriented entities, consequently specializing in the fields where the cost of offering instruction is low and the demand - high, such as management studies, languages or computer technology. Privatization of higher education, thus defined, may take several forms. A widespread form of privatization is the introduction of “fees” or “tuition” that is payment by students and their families or employers for educational services rendered. “Business behavior” - the other form of privatization – may involve sale of deliberately designed and packaged educational services to private or public purchasers or even creation of new institutions of higher education in order to train employees specially for some major industrial and commercial corporations. Alternatively, it may involve selling higher education’s expertise and intellectual property. In addition to selling goods and services, higher education institutions often become compelled to behave themselves more “business-like” in order to make most efficient use of scarce public funds and resources available to them. This is mostly achieved through emulating practices associated with private higher education institutions. Furthermore, privatization often involves individual and corporate philanthropy – the process that can be perceived as an indirect purchase of teaching, research and services. The driving force behind educational philanthropy could be various, most notable of which is social responsibility to the community at large or to specific groups of people, perceivably coupled with the personal interest and prestige. Finally, the most complete and evident form of privatization is creation and growth of private higher education institutions (Jones 1992).

This major empirical change in higher education fields has been accompanied by the major ideological shift. If the economic theories of public good provision regard education as public good, or at least, quasi-public good (that is a good that yields both

public and private benefits) that perception has been eroding lately. The recent tendency is to apply free market principles to higher education policies. Market model views academic degree as a kind of investment in fulfilling the goal of economic growth. Even though it is a form of investment in human capital, not in physical, the same logic of investment behavior is applied to education, as the differences are considered to be merely of a degree (Engel 1984).

Consequently, the recent research employs cost-benefit analysis to calculate future private and social benefits with relation to present costs. However, the attempts to measure value of investment in education in terms of economic growth have produced largely conflicting and uncertain results. According to several such studies, investments in education play central role in long-term economic growth and yield to comparable rates of return to both an individual and society (Schultz 1971, Denison 1971). These findings have been challenged by other studies that have pointed to the diminishing significance of social returns on higher education, especially when compared to social returns on lower levels of education, while emphasizing relative magnitude of private versus social benefits on higher education (Hansen 1971, Psacharopoulos 1973, 1992). In spite of the obvious difficulties with measuring social returns, Milton Friedman has similarly argued “neighborhood effects” of higher education to be less significant to compare to those shown by elementary and secondary education (Freedman 1962). On the other hand, Jimmy Sanders (1992) study of the relationship between higher education expenditures and economic production in the American context has emphasized both short and long-term macroeconomic payoffs of expenditures on organized research. But his study found higher education

expenditures on non-research activities to yield only quick economic payoffs, while being negatively correlated with economic growth over the long term.

Influenced by these findings, higher education policy makers and politicians increasingly view free public education as unjustified luxury. Noticeable tendency of shifting higher education costs from governments to students and their parents is thus defended on ideological grounds: if it is the students who most directly and fully benefit from education, they should bear their fair share of the costs for the service rendered. In addition, financing higher education from general tax-payer born money is seen inequitable, as it is conceived to result in transfer of the recourses from more socially disadvantaged to less needy members of society. Besides *Equity*, other rationales for promoting market mechanisms in higher education include increased *Competition*, its resultant *Economic Efficiency* in recourse allocation and *Innovation* (Jones 1992, Hart, Shleifer and Vishny 1997, Dill 1997). *Student Choice* and *Diversity* that private sectors permit constitute yet additional perceived benefits of the injection of market principles into higher education. In several countries, the ideological, and recent empirical and theoretical findings have led to higher education policies that favor higher or full-cost tuition, loans rather than grants for student aid as well as these that encourage private institutions and introduce institutional funding mechanism according to which funds follow students (vouchers) in order to compensate for over-subsidization of public institutions and foster competition (Engel 1984).

2.5 Definition and Typology of Private Higher Education Institutions

Levy (1986a, 1986b, 1986c, 1987, 1992) has emphasized multiple problems that arise when trying to accurately define private higher education institutions. For one thing the legal term “private” encompasses institutions of rather different structure, which are linked with the state in various ways. This blurring poses difficulties not only for defining what makes an institution “private” as opposed to “public”, but also for identifying empirical differences between the two forms of educational organization. A common approach taken when comparing private and public institutions is to analyze intersectoral differences along the dimensions of *funding*, *ownership*, *governance* and *mission*. It must be noted, however, that none of these criterion separately or set of criteria will prove to be explicit enough for appreciating the differences between two types of organization.

Ownership: the most convenient and relatively unambiguous dimension commonly employed as a basis of classification is a legal form of ownership. However, too often the ownership status says little about the nature and behavior of organizations legally labeled as “private” and “public”. A good illustration of this point is offered by the post-communist evidence in which institutions that continue to be publicly owned increasingly engage in practices that have been a hallmark of privately owned educational organizations. Furthermore, it often is difficult to distinguish between private non-profit and for-profit institutions, and identify the differences in ownership related behavior predicted by the theory. This proves true when examining the relationship between ownership status and organizational behavior of private institutions in post-communist countries. Empirical evidence from the region

indicates that quite often private institutions are established as non-profit organizations. However, being small, vocationally oriented specialist institutions, they are closer to for-profit educational organizations widespread in developing countries than to the U.S. type non-profit institutions. As will be explained below, heavy dependency on tuition fees accounts for why organizational features of private institutions, even when legally non-profit, fit into those characteristic of for-profit educational organizations. Post-communist private institutions are rarely eligible for governmental subsidies, tax exemptions or other financial benefits associated with non-profit legal status.¹² That individuals pay their own way directly to institutions that serve them explains the distinctive mission that the latter pursue, often involving focus on practical, vocationally oriented fields. Whatever the ownership status, the important point is that the distinction between private non-profit and for-profit forms of organization is almost inconsequential in the post-communist setting.

Mission: organizational mission is a further important criterion for intersectoral comparison and the one on which the private sector classifications offered by different scholars have been based (Geiger 1986a, 1986b, 1988, Levy 1986b, 1989). The literature has identified three major types of private institutional goals responding respectively to demand for *better* (elite types), *different* (ethnic and religious, mostly Catholic Christian) and *more* (demand-absorbing) education.¹³ Respectively, three principal types of private institutions, that is religious-cultural, elite/semi-elite and demand-absorbing/non-elite has been identified (Levy 1986b, 1989). According to

¹² Hungary where religious private institutions are tax-exempt and receive most of their funding from the government constitutes nearly only exception not only among our sample countries but also in the entire region.

¹³ Although private institutions enjoy more freedom in choosing mission to pursue than their public counterparts, the roles they fulfill is still very much constrained by the room given by the state.

Geiger's typology (1986a, 1986b, 1988), the three rationales correspond to the three basic structural patterns of public-private differentiation, such as mass private and restricted public sectors, parallel public and private sectors, and comprehensive public and peripheral private sectors. *Mass* private sectors are common in the countries with highly selective and academically elite public sectors, where the governmental production cannot satisfy increasing social demand on higher education. Private institutions that grow in response to excess demand tend to be highly specialized institutions that concentrate on low-cost, high-demand subjects and that often lack prestige and influence. With a notable exception of Japan, this pattern is characteristic of developing countries where governmental supply at higher education level is limited due to insufficient resources.

By contrast, *parallel public and private sectors* characterize countries where the state is a major provider of higher education but where niches are left for private institutions to serve those minorities who demand higher education types that are different from what the state can offer. Such universities are commonly created with the distinctive goal of promoting some strong religious, cultural or ethnic identities. The religious motive has been main moving force behind the early growth of private sectors in the U.S and Latin America, as well as in such developed countries as Belgium and the Netherlands (Levy 1986b, 1987; Geiger 1986a, 1986b, 1988, James 1987).

Finally, *comprehensive public and prophetic public* sectors are common in countries where public sectors serve to meet all social demand on higher education, which sometimes results in falling academic standards or neglecting certain tasks.

For example, elite secular universities in Latin American countries grew to cater to the needs of privileged classes seeking elite alternative during the times when public sector lost its previously elite character. At times, elite private institutions are created because gaining access into best public universities is highly competitive. Providing students with high quality alternative, such selective private institutions oriented on academic goals exist in Japan and France. It was perceived “public sector failure” that prompted the emergence of peripheral private sector in Mexico, as the reaction against highly politicized and overcrowded public universities (Levy 1986a, Geiger 1988).

That said, it must be added here that truly elite private higher education is somewhat uncommon outside the U.S. More widespread and growing type is semi-elite private higher education, the one which lies in between elite and non-elite categories. Semi-elite institutions, the usual niche for which is MBA, is rather recent phenomenon but can already found almost in every region, including Western Europe, and is especially common in countries of CEE and the FSU. The defining features of semi-elite category include entrepreneurial and market-oriented focus often coupled with pro-Western and pro-globalization norms. Competing with second tier public universities, these institutions often aspire transforming from niche leadership to broader excellence (Levy 2008, Levy in progress b and c).

To come to the point, demand-absorbing, religious-cultural and (semi)elite organizational goals account for the private sector expansion internationally. In some countries diverse motives have driven the private development during different periods of time. In Latin America, for instance, the growth was experienced in

clearly discernable three sequential waves, the first serving the Catholic Christian, the next - secular elite and the third – excess demand-absorbing mission. As Levy (2002) has recognized, the distinguishing characteristic of the post-communist private development is the simultaneity of all three motives behind the private growth. While the balance varies, three “ideal” types of institutions serving different purposes can be identified in most former communist countries.

Finance: a further fundamental point for comparing private and public educational organizations is finance. The major private-public difference is that private institutions are privately funded while public institutions are publicly funded. Even if finance is a fairly unambiguous criterion, the most common private-public cooperation exists in this area. This is to say that the majority of higher education systems display some combination of public-private funding (Altbach 1999). Countries that provide governmental funding directly to private universities include Japan, India and Philippines. Another model of mixing of public and private funds is characteristic of the United States where tuition fees for private universities are often backed by student grants and loans. Furthermore, the U.S. private non-profit educational institutions usually receive governmental financial support in the form of tax-deductions and subsidies, while research-oriented private universities obtain financial assistance for the research from various public agencies. Public universities, on the other hand, often receive private funds in the form of corporate, foundation or individual donations for the research and other purposes. It should be emphasized, however, that the U.S. is nearly the only exception in having public sector that draws considerably on private funds (Levy 1986b, 1986c, 1987; Altbach 1999).

In fact, institutional funding is such a crucial criterion that a further typology of higher education systems, representing private-public mixes, offered by Levy (1986c) is based precisely on this single dimension. According to the Levy's taxonomy, higher education systems are examined and further classified based on the following considerations: whether a given system is composed of single or dual private-public sectors, what the size of each sector is and what the contributions of public and private funds for the each sector are. For categorizing diverse higher education systems of private-public blends, the first step is to identify whether a system is structurally single or dual. A single sector can be *Statist* or *Public-Autonomous*, depending on whether public funds are distributed through governmental agencies (statist) or by university and buffer organizations (public-autonomous). A dual sector, on the other hand, can be *Homogenizes*, if two sectors are funded very similarly and *Distinctive*, if they are financed from different sources. When a system is distinctive, two further categories - *Majority Private* and *Minority Private* - are distinguished. The former refers to cases when less than half of the total enrollments are in the private sector, while the latter stands for systems having less than half of the total enrollments in the private sector. Although boundaries between the categories are somewhat arbitrary, Levy thus identifies five main policy patterns, summary of which is given in Table 1.2 below:

Table 1.2: Summary of Five Policy Patterns

SINGLE SECTOR	<p>I. STATIST</p> <ul style="list-style-type: none"> • Almost no privately funded universities • Funds traditionally received from the state • Strong role of ministries in distributing funds among and within universities <p><i>Examples:</i> Communist Nations, most of Western Europe, much of formerly French Africa</p>	<p>II. PUBLIC-AUTONOMUS</p> <ul style="list-style-type: none"> • Almost no privately funded universities • Traditionally mixed private-public funding, but now predominantly public funding • Important role of university, or “buffer organization” between university and state, in distributing funds among universities, allowing choice between universes <p><i>Examples:</i> Australia, Great Britain, Israel, New Zealand, Nigeria</p>	
	DUAL SECTORS	<p>III. HOMOGENIZED</p> <p>Traditionally two sectors, funded differently</p> <ul style="list-style-type: none"> • Evolution toward mostly public funding for private as well as public sectors • Sectoral dualism and distinctiveness now depend less on finance than on tradition and possibly governance and function <p><i>Examples:</i> Belgium, Canada, Chile and Netherlands</p>	<p>IV. DISTINCTIVE, MINORITY IS PRIVATE</p> <ul style="list-style-type: none"> • Private sector has more than 10% and less than 50% of total enrollments • Private sector relies mostly on private finance • Public Sector relies mostly on public finance <p><i>Examples:</i> most of Latin America</p>

Source: Levy (1986c)

Notes:

1. Empirically empty cells are omitted. No nation has a single sector that is financed principally through private funds. And no nations had dual sectors that are both financed principally through private funds
2. There are two forms of overlap: one is boundary overlap, where a case lies only a little more comfortably in one category than another. The second form of overlap concerns public sectors within III, IV, V, that, by themselves, would be Statist or Public-Autonomous.

Despite the usefulness of Levy’s typology for classifying various higher education systems, these categories will have less distinguishing power for our region. This is because the differentiation among the systems offered by Levy is largely based on finance – the very dimension on which there is least variation across post-communist countries. The changes taking place within public sectors that involves diversification of the funding base to a considerable degree would pose further difficulties for classifying countries of CEE and the FSU under the identified categories. Private institutions in post-communist countries are almost exclusively

financed by private contributions and only in rare cases do they have other than private funds available to them. Most notable exception to this generalization is offered by Hungary where not only private Church institutions are heavily financed by the state, but even private foundation institutions obtain substantial part of their income from the public budget. Other exceptions include a small number of semi-elite institutions receiving financial support from international co-founders and religious universities that sometimes receive funding from respective religious groups. Occasionally, public funding, mostly in the form of buildings and other donations, are available to private institutions that serve regional purposes, but these instances are rare and not in every country. In fact, tuition dependency constitutes the main comparative characteristics of post-communist private institutions. Defining private institutions in this setting therefore poses fewer difficulties seeing that newly emerged institutions exhibit almost complete distinctiveness on this one of the most important criteria.¹⁴

The extreme reliance of post-communist private institutions on private resources is hardly surprising seeing that governmental funding available to public universities too was slashed drastically during the years immediately following the regime change. Public financial support has been increasing as economies started to recover from the initial sharp downturn. Some countries even show the move towards extending governmental finance to private institutions, though mostly to students attending them, rather than to institutions directly, and mostly in the form of loans.¹⁵

¹⁴ While finance is one of the most useful measures for distinguishing post-communist private higher education institutions, this dimension, like the ownership status, carries less weight for defining public institutions. This is because public universities in all countries exhibit an increasing tendency of diversifying their financial base, mostly through supplementing state funding with private tuition.

¹⁵ Estonia, Latvia, Lithuania, Hungary, and the Czech Republic are among a few CEE countries that started to introduce student loans from the 2000s. Commonly, commercial bank loans, guaranteed by

As the literature suggests, tuition dependency, and by extension the criterion of finance, has most significant implications for organizational behavior. The fact that their survival depends on the number of enrolled students makes private institutions sensitive to student interests, the employment market for their graduates and the patterns of pricing. Besides, it requires institutions that they allocate their scarce resources in the most efficient way. All these factors compel private institutions to be small and thus flexible enough to adapt quickly to the changing environment. Public universities, in contrast, have no comparable need to be responsive to the changing needs of the labor market (Altbach 1999).

Governance: lastly, governance is the other critical measure for public/private classification. As the general rule, private institutions enjoy more autonomy from governments than their public counterparts. An obvious rationale behind the governmental control for public universities is the perceived need for overseeing performance with the state funds. Empirical reality, however, is rich with examples when public institutions achieve substantial autonomy even when heavily reliant on public resources, whereas tuition-dependent private institutions become subject of strict governmental regulation (Levy 1986a, 1987). Strong support to the latter point is provided by some post-communist countries where private institutions operate in highly regulated environment, even when they receive no public financial assistance.

the government, are granted to full-time students enrolled at accredited private and public universities. In some countries, like Bulgaria and Russia, students can borrow from commercial banks with the standard interest rate and without government being a guarantor or subsidizer. Both countries are planning to implement low interest, governmentally backed student loan schemes in the near future. Governmental grants, on the other hand, apply only to those enrolled in public universities. Georgia is the only country where, since the academic year 2005/06, students winning the competition for state grants (vouchers) can choose to study in private universities. From 2006/07 academic year, students in Georgia are also eligible for student study loans.

Most extreme examples of countries that regulate private sectors extensively include Kazakhstan, where the governance mode has been described as *little more than a combination of private payment and continued state control* (Tran 2000) and Belarus, where the government not only defines the roles private institutions should serve, but also imposes quotas on the number of students they shall train (Bess 2000). However, in less extreme and more prevalent cases, such as the Czech Republic, Slovakia, Lithuania and Hungary, governmental regulatory role is by and large limited to licensing and ascertaining the quality of educational services. Besides compulsory accreditation procedure, various other legal and regulatory barriers have commonly been employed for controlling the growth of the sector. Yet another pattern widespread across the region and beyond is what Levy has termed as *Delayed Regulation* (Levy 2002). It often happens that private institutions start evolving in complete freedom from governmental regulation which soon invites a strong reactive governmental action. This was true for many countries in the region where private institutions proliferated in extremely chaotic and unregulated setting, characteristic of the early years of the regime change. Steep growth of institutions, often of dubious quality and value, has served to prompt strengthened regulatory measures in Romania, Georgia, Russia and Ukraine.

The post-communist evidence is thus consistent with the literature, seeing that none of the above dimensions is explicit enough for distinguishing between the two types of educational organizations in practice.¹⁶ One way out of the complexity related to private-public differentiation suggested by Daniel Levy is to use an inductive,

¹⁶ Despite this, more often than not private-public differences in the post-communist setting have been marked. Mostly financed from private contributions, privately owned institutions are quite private in their governance and their ties with the labor market. However, on the other side, public institutions, though still vastly different from private, are less public than they used to be. Accordingly, private-public distinctiveness is sharp, but qualified in the region.

bottom-up approach, by accepting the legal nomenclature and then investigating the empirical realities along the four criteria, recognized to be crucial as for public-private as well as for country-to-country comparison (Levy 1986b, 1987).¹⁷ This study employs the definition according to which **private** higher educational establishments are those *privately owned* institutions that meet the legal-structural criteria for private higher education institutions of a country in which they operate. Accepting this definition and identifying private institutions by legal nomenclature in each country, institutions will be analyzed and compared how private they are on each of the four criteria.

2.6 Governmental Policies towards Private Higher Education

The mechanisms through which governments influence private higher education in some direct or indirect manner are multiple (Zumeta 1992, 1996, 1997). Below it the listing of governmental policies which are thought to affect private growth patterns in most significant ways and along which governmental stance vis-à-vis private higher education will be analyzed in this research.

- *Legislative Framework* is the most fundamental policy that either permits or proscribes the existence of privately provided education.

¹⁷ Organizational sociologists offer different approach for resolving definitional problems. Based on the notion of scope, this approach associates private higher educational organizations to “specialist” institutions with a limited scope while public organizations - to “generalist” institutions characterized by a greater scope. The latter tend to exhibit significant breadth, openness, looseness and ambiguity as opposed to selectivity, narrowness, focus, and coherence of the former (Levy 1987, 1992).

- *Regulative Framework* includes licensing, quality control and associated regulations. The extent of state mandate and regulation will encourage or restrict private sector growth and distinctiveness.
- *Student Aid Policies* includes portable student aid grants and student loans and can be designed in the way that facilitates or discourages student choice of private institutions.
- *Direct State Funding to Private Institutions* includes financial support to private institutions (other than student aid) such as contracting with and direct appropriations to private institutions. This policy can be viewed as the purchase of study slots at private institutions by the state according to student's choice of a university.
- *Tax Policies* – facilitates private institution development by means of tax exemption, deduction and credit policies. They also include tax exemptions on tuition fees for students and their families who pay them.
- *Governmental Policies toward Public Institution Tuition Levels* is a potent policy that can be used for creating competitive environment in which institutions operate. Whether governments ignore or regulate it strategically, the policy of pricing public higher education services has profound implications for private institutions.
- *Governmental Policies toward Public Institution Expansion* relates to governmental approach towards expanding access to higher education. Governmental policies can be designed so that it supports enrollment growth at public sectors, encourages public sector privatization or assists private sector in accommodating rising demand on higher education

(depending on whether the latter is viewed as an important means for achieving public purposes).

- *The Extent of Private Sector Involvement in Higher Education Planning Process* – governmental choice whether or not to include private higher sector representative in this process has significant implications for the sector.

Examining the above policies in the U.S context, Zumeta found that even though policies range greatly from state to state and often are not purposely designed for private institutions, there is an obvious correlation among them (Zumeta 1997). That is, states with high level of tuition fees in public institutions – a policy that undoubtedly benefits private institutions - turn out to be the ones that also spend a great deal on student aid and have other programs through which governmental finance is channeled to private institutions. For that reason, it is possible to group different mechanisms, with which states influence private growth patterns, into policy postures. *Laissez-faire*, *market-competitive* and *central-planning* are three main policy postures identified by Zumeta.

In the *laissez-faire* policy posture, the state has little regard for private institutions as valued means for achieving its policy aims in higher education and hence ignores the sector altogether. This means little or no funds channeled to institutions either directly or through students and no tax incentives available to them. The governmental effort in collecting and disseminating information about private institutions is usually negligible. Even with respect to regulation, the governmental

activity is minimal, by and large limited to the basic licensing of institutions in order to be established and operate. Besides, denied access to policy-formation process, private institutions have no role to play in a higher education planning process.

In the *central-planning* policy regime, by contrast, the state treats private sector as an integral part of its higher education system and employs private sector to play carefully planned roles to serve public purposes. In other words, such a regime stands as the complete opposite to the *laissez-faire* policy stance. Typically, the state practicing an extensive central planning plays a decisive role in planning and management of higher education system, integral part of which are private institutions. To avoid unnecessary duplication of institutional missions and to insure private institutions serve public purposes, the state becomes involved even in designing program configurations and assigning specific institutional roles to private universities. This is mostly achieved through using financial incentives, both in the form of direct appropriations to institutions and aid to their students, which in turn increases the need for supervising performance with state funds.

In the *market-competitive* policy posture, the state takes entirely different approach towards private higher education from the above two models. It plays much more active role in private higher education development than is the case with the *laissez-faire* regime, yet shunning from the detailed state direction characteristic of the central-planning model. The state in market-competitive policy posture takes comprehensive view of private institutions and uses the sector for achieving its higher education policy goals, but by means of employing market mechanisms and signals like portable student aid grants, lower subsidies built into public institution tuitions

and information policies. Under this model, the governmental regulation is limited to quality control to a certain extent and addressing other market imperfections characteristic of higher education sector, such as insufficient consumer information or inadequate response to particular state needs by higher education system. By using enrollment-driven funding, performance contracting arrangements and other market mechanisms, government will further try to encourage intersectoral competition for student aid cohorts and funds following them. Thus, if the state practicing central-panning policy posture treats private institutions similar to their public counterparts, the state under this regime purposely creates competitive environment in which both private and public institutions operate.

Governmental policy postures were developed by Zumeta specifically for the U.S. context and its application to other countries, including these of CEE and the FSU is somewhat limited. Despite this, salient tendencies in governmental approach towards private higher education across post-communist countries can broadly be analyzed using conceptual framework advanced by Zumeta, although with some caveats and modifications. First point to remember is that these models were developed for non-profit forms of organization in the U.S. context with lengthy history and well-established student and institutional aid practices. It was already emphasized that organizational features of post-communist private institutions are considerably different from a non-profit form of educational organizations. Besides, seeing that post-communist private institutions have had a history of less than two decades, public policies towards the sector still remain in flux and ad hoc, often unrelated to each other in a coherent way. It therefore will not be possible to fit post-communist patterns into identified policy models neatly. Policy postures identified by Zumeta

can nevertheless be employed to broadly guide our analysis in characterizing post-communist governmental stance towards newly created institutions. The major difference between the two settings, however, is that while financial incentives have commonly been employed for achieving control over institutions in the U.S. context, the use of direct control mechanisms has been mostly characteristic of our region. If we conceptualize governmental policy framework in terms of a two-by-two matrix, governmental policy patterns found in those post-communist nations that lean towards central-planning policy posture would fall into the third cell, whereas the U.S. type central-planning model into the fourth. So, even though strong correlation among different policies adopted by post-communist governments is not expected to be found, three general policy dispositions - *Regulatory*, *Laissez-Faire* and *Market-Competitive* – will be used throughout this research as shorthand for characterizing governmental approaches towards private higher education in the selected countries.

Figure 1: Governmental Policy Postures

		USE OF DIRECT STATE CONTROL	
		<u>Low</u>	<u>High</u>
USE OF DIRECT INCENTIVES	<u>Low</u>	Laissez-Faire	Bureaucratic/ Regulatory Planning
	<u>High</u>	Market-Competitive	Comprehensive (Pro-Active) Central Planning

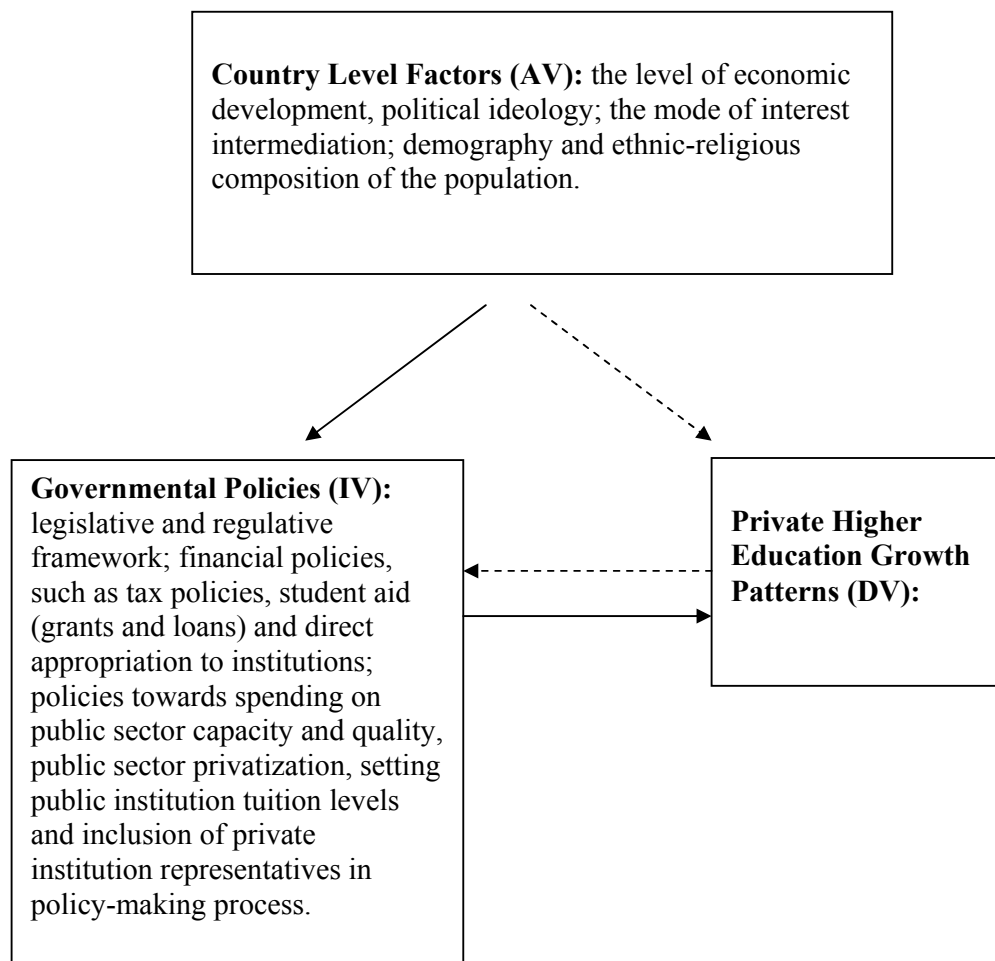
Source: James Hearn in Zumeta (1997)

CHAPTER 3: METHODOLOGICAL CONSIDERATIONS

3.1 Analytical Model

The model below incorporates variables that emerge from the analysis of different bodies of literature dealing with private forms of higher education as well as those suggested by the preliminary empirical examination.

Figure 3.2: Analytical Model



According to the model displaying the direction of the analysis, governmental policies that are influenced by the multiplicity of factors at the national level serve as the major determinant of private higher education growth patterns. Dashed arrows indicate other possible directions of a causal relationship. That is, in case of a complete laissez-faire governmental attitude, the private growth patterns will respond to the broad level factors and basic supply and demand conditions, like with competitive markets. The second dashed arrow signifies that the size and the strength of the private sector will in turn bring to bear on the formation of governmental policies towards private education. Besides, by exerting supply-side influence on policy-making process, ethnic, religious and other ideological groupings will serve as a driving force behind private higher education expansion. The U.S. experience indeed indicates that both the market share of the private sector and lobbying power of different ideological groupings on the supply side constitute important determinants of governmental stance towards private higher education (James 1987; Zumeta 1992, 1996, 1997). Although the relative weight of this viable is expected to be less in the region to compare to the countries with well-established private higher education systems, the study will explore *to what extent do favorable policies influence the size and capacity of the private sector and to what extent are favorably disposed policies the product of its size and influence?*

3.2 Measuring and Operationalizing Variables

3.2.1 Dependent Variable: Private Higher Education Growth Patterns

As it was noted, this study employs the definition according to which **private** higher educational establishments are those *privately owned* institutions that meet the legal-structural criteria for private higher education institutions of a country in which they operate. Accepting this definition, this study will analyze private higher education growth patterns along the dimensions of *funding, ownership, governance* and *mission*, as suggested by Levy (1986b, 1987). Moreover, the size of the sector will be measured in the share of all student enrollments. It is less accurate to measure the sector's size in the number of institutions, as private educational organizations tend to be much smaller in size than their public counterparts.

3.2.2 Independent Variable: Governmental Policies towards Private Higher Education

Different policies along which governmental stance towards private higher education will be analyzed in this study include *Legislative and Regulative Framework, Student Aid Policies, Tax Policies and Direct State Funding to Private Institutions, Governmental Policies toward Setting Public Institution Tuition Levels and toward Public Institution Expansion and the Extent of Private Sector Involvement in Higher Education Planning Process*. Various data sources is employed for this part of investigation such as policy papers and legal documents, governmental decrees,

national laws on higher education, regulations regarding licensing and accreditation towards both types of educational organizations. Special attention will be devoted to scrutinizing mechanisms that guide the allocation of governmental funding to institutions, student financial aid and loan schemes.

3.2.3 Determinants of Governmental Policy towards Private Higher Education

The level of economic development: is a factor that is expected to influence governmental policy direction towards private higher education in a significant way. Internationally, data on how much of a nation's total productive capacity do different countries allocate to higher education or its corollary of how large a percentage of age cohort do they seek should pursue some level of higher education is most varied. Empirical evidence from developing countries suggests that governmental interest in higher education privatization commonly results from its incapability to meet high and rising cost of higher education and often accompanies economic recession or downturn, as has been the case in Britain and Australia (Jones 1992). Across our region, one of the most conspicuous differences observed is on the level of governmental spending on public services in general and on higher education capacity in particular. The relative weight of this variable on governmental policy disposition towards private higher education will be tested using macroeconomic indicators of GDP, as well as overall and per-capita spending on higher education.

Manifold and interrelated questions pertaining to higher education funding that each country will face can broadly be categorized in the following way. First set of questions relates to the level of funding to higher education: How much of higher

education can a nation afford? What proportion of its entire resources should a country dedicate to higher education? The next question is concerned with the mechanism to be employed for allocating the state support to institutions. Other set of questions asks how the responsibility for educational provision should be distributed between private and public sectors in higher education: who should bear the costs of higher education and how it can be shared among taxpayers, parents, students and donors? Should private sectors assume increased role in the movement toward more accessible higher education (Jongbloed 2003)?

Political ideology is another potentially important country-level variable. The choice regarding the role of the state in higher education provision made by each nation is obviously constrained by the economic reality, but it also reflects national ideology and aspirations for social, political and economic advancement. So, even if conditioned by the level of the economic development, the level of publicly provided higher education is by and large an upshot of the complex political decision-making process and it also corresponds to prevalent perception about the place higher education ought to occupy in society and wider political values and beliefs. This helps to explain considerable differences in the scope of governmental activity even among countries of a comparable wealth. Seeing that political party elites are often the key initiators of policy choices, probing into dominant ideology will provide further insight into the governmental aspiration for facilitating or restricting privately provided educational services.

The mode of interest intermediation (lobbying efforts by academic professionals of public and private institutions) is another potent factor that is expected to affect the

governmental stance towards private higher education. This variable refers to a relative political influence of public and private sectors. What is the mode of interest intermediation, which groups have a privileged access to higher education policy formation and how these arrangements shape public policy towards higher education will be explored in each country context. Other data gathering strategies, such as in-depth interviews, archival record analysis and observation when possible will be employed in order to detect outside influence on policy-making process and under the cover of symbolic legislation.

Demography and ethnic-religious composition of the population: In an attempt to develop a complete picture of what characterizes countries with larger vs. smaller shares of enrollment in the private sector and with particular governmental disposition towards the sector, the impact of this variable will be tested. Private higher education growth dynamics in each country case thus will be examined in the light of changing demographics and ethnic-religious composition of the population.

3.3 Working Hypothesis

The following hypotheses that emerge from the private higher education literature guide our explanatory analysis (James 1987, Levy 1987, 1999, Zumeta 1992, 1996, 1997). The first set of hypotheses establishes the relationship between the governmental approach towards private higher education and the scope and nature of the private growth.

HYP 1: A possible consequence of a government's laissez-faire stance towards private higher education is the private sector that is weak academically and lacks political influence. Against the background of a lax governmental approach, private institutions will grow rapidly at first but the growth is likely to be in small, vocationally oriented institutions with practical and application-oriented mission, serving to absorb demand that was left unmet by government provision. In the absence of quality control mechanisms and other barriers to entry, market forces will serve as the dominant factor in shaping private sector growth patterns. Therefore, if there is expanding higher education market, private higher education providers will grow fast to meet increasing student demand on higher education. However, most private institutions will focus on low-cost, vocational study programs offered at low tuition levels and only very few of them will choose a high-quality, high-price strategy. Moreover, without governmental financial assistance in some form, private institutions will struggle to survive in the competitive environment. Having no funding available to institutions, other than those generated from tuition fees, means that financial recourses are increasingly redirected from instruction, which is likely to result in erosion of quality, move towards even more narrow curricula and ultimately, loss of capacity to enroll students. In other words, a probable outcome of the laissez-faire policy model is private sector's failure to provide expanded access and deliver the desired diversity.

HYP 2: A likely outcome of a government taking a strong regulatory approach towards private institutions is a sector that is relatively restricted in size. In situations where licensing and accreditation standards are set high and there are high barriers of entry, private institutions will need to undertake distinctive roles in order to justify

their existence. Therefore, private institutions in these settings are likely to serve ethnic, religious and other culturally oriented missions. Extending governmental regulatory effort to the private sector may have benefits to the extent that they result in enhancing the quality of educational services. When available, governmental financial assistance will serve as a further contributing factor for their success in serving public purposes. But under this regime, private institutions often become subject to various formal and informal external controls which inhibit their institutional adaptability, flexibility and market responsiveness and restrict their ability to sustain the diversity of mission and approach. Private institutions in an extensively regulated environment are likely to lose their distinctiveness and become quasi-public.

HYP 3: A possible outcome of a government taking market-competitive policy approach in higher education is private sector that is responsive to the labor market needs. As proponents of this model claim, institutions in the market-competitive regime are most cost-effective and innovative, capable of exploring new market opportunities and occupying market niches because of its high administrative flexibility and financial incentive. Governmental policies that avoid detailed regulation yet insure some quality of educational services, collect and disseminate comparative information about institutional characteristics and performance insure consumer protection against various market-imperfections which characterize higher education marketplace. That institutions compete directly to student cohorts and the resources that follow them and market signals rather than any other factor guide the allocation of resources is expected to further improve the quality of higher education offered.

The next set of hypotheses establishes causal links between various factors at the country-level and governmental approaches towards private higher education.

HYP 4: It likely to find the laissez-faire governmental policy approach in less wealthy countries with low level of general spending on higher education sector, with high demand on higher education that cannot be accommodated by governmental production, but where any proposed aid to private universities might look unreasonable and unnecessary. Privatization of public educational services is expected to be equally intensive here. The relationship between a ruling party ideology and laissez-faire policies is less predictable, though it is unlikely to find the latter in countries with left leaning parties in power.

HYP 5: It is expected that in countries leaning towards strong regulatory direction in their policies vis-à-vis private higher education, both the level of economic development and higher education funding per-capita are expected to be relatively high, while public sector capacity – significant, so that it accommodates most of the demand on higher education. The political influence of public institutional elite is probably significant under this regime, while other likely factor is the left disposition of the party in office.

HYP 6: The market-competitive policy regime is expected to be found in countries with strong market-liberal political ideology. In this setting, one would expect private

sector also having some political influence. The correlation between the market-competitive policy orientation and macroeconomic variables is not entirely predictable, but this model is less likely to be politically viable in countries with the lowest level of economic development, because of expected resistance that student aid policies benefiting private sector may face.

HYP 7: More ethnically and religiously heterogeneous a country is, more intensive will demand on private higher education be, seeing that ethno-linguistic diversity of population is expected to serve both as supply and demand side variables. The rate of population increase is also projected to be positively correlated with the size of private sectors in higher education.

3.4 Methodology and Case Selection

The reasons for deciding on the comparative case study rather than other methods are several. The first relates to the difficulties regarding quantifying many variables at both the dependent and explanatory sides of the model (e.g. the types of private higher education, political ideology, academic professionals' lobbying efforts and the like). Even when measurements are possible, accurate data on private higher education cannot be obtained, as governments do not typically collect and keep record of private institutions. Besides, private higher education growth patterns and their determinant governmental policy directions are better analyzed by close inspection of interrelated factors in particular contexts, rather than by the analysis of general correlation among aggregated variables. The case study research strategy will yield to best deal with the questions posed here because it permits combination of

qualitative and quantitative analysis and, for that reason, greater appreciation of the problem than either method alone would. Country-to-country comparisons can be carried out by utilizing indicators of macroeconomic performance and quantifiable higher education expenditures on the one hand and by employing diverse sources of data, like descriptive socioeconomic statistics, interview data, policy papers, and various laws, regulations, decrees on higher education, on the other.

The four countries thought to be most suitable both for testing the hypotheses posed here and for further generalizations the research ultimately intends to make are *Latvia, Lithuania, Hungary and Georgia*. The timeline set for the study spans from the beginning of the 1990s up until 2005. On the whole, the settings are analytically relevant as countries share much of communist legacy in general and the tight centralized state control over higher education systems in particular. But countries show a considerable variance on private higher education growth patterns. Georgia is the example of a country where both the initial growth and the ensuing decline in the private sector size has been dramatic. The permissive legal framework for privately provided education was provided in 1991, and since then private growth was so rapid that by the academic year of 1995/96 the sector accommodated almost 34 percent of the total enrollments. However, from that point there has been a striking reduction in the private sector enrollment share (Table 1.3 below shows private growth patterns in selected four countries).¹⁸ Furthermore, with few exceptions of semi-elite type universities, the private growth has mostly been in small, vocationally focused ‘demand-absorbing’ institutions. Other motives for global private higher education

¹⁸ Estonia and Romania – the countries that had experienced explosive initial expansion - also witnessed some reduction in the private sector size but only relative to the public sector. Only in Georgia did the enrollments in the private sector fall in absolute terms as well.

growth, such as religious and ethnic, play marginal roles in Georgia, despite the ethno-linguistic and religious diversity of the country's population.

Table 1.3: Private Enrollments as the share of Total Student Enrollments in Selected Four Countries

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Georgia	29.7	23.8	21.6	20.5	19.2	20.5
Hungary	12.9	13.2	14.0	14.2	14.1	13.7
Latvia	13.3	14.4	20.1	22.9	25.5	27.9
Lithuania	0.1	1.3	2.4	4.5	7.0	7.5

Source: Slantcheva and Levy, 2007.

In Latvia too, the authorization for privately provided education was provided early on in 1991, but the growth has been much more measured and in qualitatively different types of institutions. That is, ethnic-cultural and semi-elite motives account for the bulk of the private sector growth in Latvia. Another important point is that although private institutions grew gradually, currently Latvia's private sector accounts for almost one-third of all student enrollments and is one of the largest in the region (Table 1.1 above).¹⁹

In Lithuania, by contrast, the authorization to establish private institutions was only granted in 1999. Even after that, the increase in private enrollments has been remarkably slow. The very first private institution was established by the religious group and since then the religious motive has served as one of the key factors in further expansion of the sector. Out of four private universities that existed in Lithuania by 2001, three were established by religious organizations and only one –

¹⁹ Revealingly, it is larger than that in Romania, Georgia and Estonia - the countries experiencing the most vigorous initial expansion.

the International School of Management - with foreign involvement (Higher Education in Lithuania 2001).

Lastly, Hungary is the only country in our sample where non-state institutions²⁰ existed before and even during the communist rule.²¹ Since the regime change, however, the growth of the sector has been somewhat limited. Hungary is the exception in the entire region not only because of the predominance of religious institutions, which accommodate more than 40 percent of all non-state sector enrollments, but also because that it stands nearly alone in having non-state (religious) institutions that are tax-exempt and almost exclusively financed by the state. Yet more remarkable is that fact that private (foundation) institutions also draw upon governmental funding, albeit to a much lesser extent than their religious counterparts. Thus, non-state institutions here are much less private on finance - one of the key criteria defining private institutions.

With respect to governmental policies intended to facilitate the emergence of private higher education institutions, the selected countries also exhibit somewhat different patterns. The policy environment in Georgia before the changes of 2003 through so called “Rose Revolution” that marked a fundamental shift in the regulatory regime towards both sectors in higher education was closer to the laissez-faire policy regime. Absent accreditation and other quality control mechanisms, government’s role was limited to basic licensing of institutions. However, there is ample evidence that governmental authorities took a lax approach even in enforcing licensing

²⁰ According to the official nomenclature, privately owned institutions in Hungary are referred as ‘non-state.’ Issues with defining private institutions in this context are addressed in the Case of Hungary.

²¹ Poland is another CEE country where the Catholic University of Lublin continued functioning under the communist rule.

requirements (Gvishiani and Chapman 2002). Furthermore, the private sector expanded rapidly to accommodate more than 30 percent of all student enrollments, but without any financial support from the government. Private institutions thus evolved in almost complete independence from governmental authorities. Only after the political changes of 2003, did the government start to assume an active role in higher education policy-making. Following the implemented reforms, the regulatory regime in which higher education institutions operate has changed dramatically: both public and private institutions need to meet strict licensing and accreditation criteria. Moreover, in order to foster a competitive environment, new funding policy allows students receiving state grants to choose between accredited public and private universities, while it permits higher education institutions to set their own tuition fees. Although grants continue to be merit based, uniform grants that were obtainable by only a few students have been replaced by those on a sliding monetary scale. Besides, a student loan scheme has been initiated in cooperation with commercial banks (Godfrey 2007). Georgia thus represents a sharp shift from the laissez-faire to the market-competitive policy regime.

Latvia is another example of a governmental approach towards private education that is close to the market-competitive policy regime. From the outset, the standards of quality and material base required for licensing and accreditation process have been set high. But the government has also ensured the transparency of these processes and their outcomes. Furthermore, Latvia is almost the only case in the entire region, where private institution representatives actively participate in higher education policy-making. Both *the Latvian Rector's Council* and *the Higher Education Council* - an expert organization offering a source of professional advice on most central

issues of higher education - include private institution leadership. This stands in stark contrast to other post-communist nations where rector's councils and other newly created intermediary and planning bodies are exclusively comprised of public institution representatives and serve as main channels for exerting their influence on governmental policies, often aimed at restricting the entry of private institutions. However, in Latvia, like in most countries in the region, tuition and other private contributions constitute the primary source of institutional funding. The most common public financial aid available to institutions is in the form of buildings from respective local governments. State financial aid grants only apply to public university students, though the government sometimes provides funds for certain study programs if there is perceived need for the qualifications that private institutions offer (OECD 2002). Finally, since 2001, a policy of providing state guaranteed student loans has been implemented for any tuition-paying student enrolled at state-accredited institutions, which are free to determine both the number of students to be admitted and the amount of tuition charged.

In stark contrast to this, Lithuania took a much more cautious approach towards liberalizing its higher education system in general and towards permitting private forms of education in particular. Attempts to establish a private university were disapproved not on the legal but on quality assurance and other grounds. The Lithuanian 1991 law on higher education did not address the question of private institutions explicitly, but it neither proscribed their existence. Even after the first authorization was granted, governmental policies, especially those for licensing and accreditation have remained by and large limiting. As OECD team has noted the highly centralized governance model characteristic of Lithuania reflects *a shift back*

to the most conservative forms of governance historically found in Continental universities (OECD 2002). That is, centralized quality control evaluates individual rather than wider fields of studies, thus making the procedure for establishing a new study program extremely long and cumbersome. The additional issue for private institutions is that the requirements for accreditation are set so high that it is almost impossible for institutions, without solid financial assistance from international or religious donors, to meet them. The roles and functions that private institutions should fulfill are further constrained by the perceived need from governmental authorities. On the other hand, the results of quality assessments are not readily available to the public.²²

Not only in higher education governance and provision, but the Lithuanian government has maintained a stronger profile also in funding, to compare to other post-communist countries. As Table 1.1 shows, the private sector participation continues to be limited. Even in public institutions, the share of fee-paying students is relatively small. For example, in 2001/02, the state funded 66 percent of university and 80 percent of college students, to compare to 56 percent in Georgia and 30 percent in Latvia for the same year. Besides, the level of public tuition fees – one of the key factors for private institutions - is generally lower than in other countries and importantly, much lower than in Lithuania's private universities (Student-Parent Cost by Country: Lithuania 2003). The Lithuanian governmental policies towards private institutions are closer to regulatory policy regime.

²² As the OECD team evaluating higher education policy environment in Lithuania notes the whole process is obscure and non-transparent and does not insure public accountability (OECD 2002).

Hungary presents another case of the regulatory governmental approach. Positioned between the central government and higher education institutions, the functions of the two key intermediary bodies - *the Higher Education Scientific Council* and *the Higher Accreditation Committee* – include offering a professional advice on the most central issues of higher education. Forming their expert and authorized opinion upon relevance of the issues involved, the two bodies decide on the fate of individual programs and entire institutions alike. Strict criteria on which governmental review of proposed new programs are based, coupled with far-reaching legal limitations and other professional barriers, make the establishment of new private institutions extremely difficult (Nagy-Darvas 1999). Furthermore, similar to Lithuania, Hungarian government continues to play major part in the public university funding. The authorization for charging tuition fees was granted in 1996, and since then the number of self-financed students has been growing relatively slowly. In 2001, out of all 16 percent full-time self-financed students half were those enrolled in the public sector. The conditions of the loan scheme that was put into operation in 2001 are such that, irrespective of their income status and financial needs, all students under 35-years of age studying toward their first degree are eligible for loans of a maximum about 100 USD per month for five years.

Finally, with respect to broad political-economic factors, Georgia is an outlier case in the sense that it's economic transformation (as well as political) has been most prolonged and painful, whereas the economies of the other three nations started to recover from the mid 1990s. Lithuania and Latvia are more homogeneous out of four not only with respect to the communist past but also with their political-economic transformation routs while presenting the most unlike picture of private

sector development. Therefore, their analysis will be valuable for studying the reasons responsible for the discrepancies in outcomes. Lastly, the nations under consideration with their varying degrees of ethnic and religious heterogeneity offer a good possibility to empirically test the impact this variable on the private sector dynamics.

CHAPTER 4: THE CASE OF HUNGARY

4.1 Introduction

A number of factors distinguish the HE sector dynamics in Hungary. One is the level of HE participation prior to the regime change, which was one of the lowest not only in our sample countries but also in Europe. Hungary has witnessed the steepest enrollment growth since then so that the HE participation rate that constituted only 12 percent of 18-22 youth age cohort in 1990 had already doubled by 1997. Currently, enrollments have almost quadrupled to its pre-transition level (Berde and Vanyolos 2008). A rapid increase in HE enrollments has been characteristic of post-communist countries that have inherited a large pent-up excess demand from communist times but what is unique to the Hungarian case is that the expansion of previously highly elitist sector has largely been achieved through publicly rather than privately provided education. This is despite the fact that Hungary, where private religious institutions predated communism, has one of the longest private HE traditions of all post-communist states. In fact the prevalence of church-owned institutions which are heavily subsidized by the government and form a separate category besides state and private institutions is another salient characteristic of the Hungarian HE landscape. Overall, the profile that the Hungarian government has retained in the financing both state and non-state institutions is almost unparalleled in the region.

The aim of the first part of the case study is twofold. The first is to explore specificities of private and public higher education growth patterns in Hungary since the changes of 1989 up until 2005. Another objective is to give the detailed

characterization of private institutional types along the dimensions of ownership funding, governance and mission. The second part of our investigation scrutinizes various governmental policies responsible for producing these patterns. Finally, in order to assess the relative magnitude of broad-level factors for shaping governmental approach towards higher education, the final part of the study examines the path of Hungary's political and economic transformation.

4.2. The Structure of the Higher Education System

4.2.1. Inter-Sectoral Dynamics

Before moving to describing the HE dynamics in Hungary, clarification of the key terms employed is in order. In the Hungarian context, institutions owned and operated by the state are referred to as 'state' institutions. In this study terms 'state' and 'public' in connection with institutional types are used interchangeably. Delineation of terms employed for extra-governmentally provided HE poses more confusion though. Although it does not provide the clear definition, the Higher Education Law of 1993 differentiates between and respectively addresses separately to non-state Church and non-state private institutions operated by foundations. According to the Higher Education Law, 2005 which provides a more explicit definition of institutional types, the non-state sector comprises the private (or foundation) and church institutions. Institutions that are founded and 'maintained' by other than the state and church are categorized as private, whereas those operated by religious legal entities that provide training in theology or other fields are grouped as

church institutions (sections 137 and 139).²³ By classifying institutions in this manner, the new law in actual fact sanctioned the status quo that had crystallized. As indicated in the introductory chapters, to facilitate definitional complexities that arise in similar situations, we accept the legal nomenclature as given and investigate the empirical realities along the four criteria recognized to be crucial as for public-private as well as for country-to-country comparison (Levy 1986, 1987). This is why the study will follow the official taxonomy and employ the above terms in accordance to how they are used in the Hungarian context.

Even a brief look at the figures representing the evolution of HE enrollments (Table 4.1) makes apparent an attribute that distinguishes the Hungarian intersectoral dynamics from the countries under consideration and from the region in general. This is a remarkable increase in the public sector enrollments. One immediate outcome of the diminished control of the state, as a unitary actor, over HE that nearly all post-communist countries share is a movement toward mass HE. Whereas an initial expansion of the enrollments elsewhere was largely a result of unregulated processes, initiated by poorly paid academics in response to unleashed student demand, in

²³ Passed in 2005, the new higher education law ACT CXXXIX is effective from January 1, 2008. This study concentrates on previous law and its effects on higher education dynamics but inevitably refers to the new act, especially when there is a need for more complete account of issues involved, like with the definition of non-state private and church institutions, largely missing from the previous legal act. Section 137 (1) of the new law classifies private non-state institutions in the following way: *Where a higher education institutions is not maintained by the state, local government or a national minority government (hereafter the entities listed in this subsection – except for higher education institutions maintained by religious legal entities – jointly referred to as ‘private higher education institution’), it may operate as an institutions committed to a certain religious or secular conviction, and may incorporate in its educational programme philosophical, ethical and cultural knowledge relevant to its religious or secular conviction. Private higher education institution – unless they receive funds from the budget for training provision – may stipulate as a precondition of admission the acceptance of a religion or ideology and the attestation of such acceptance (Higher Education Act 2005).* Whereas, according to Section 139 (1) *training in religious practice together with studies in theology (hereinafter jointly referred to as ‘religious training’) may be provided by higher education institutions maintained by a religious legal entity (hereinafter” ‘church higher education institution’). Church higher education institutions may provide training other than religious training (Higher Education Act 2005).*

Hungary the initiative came from the government itself. *"To equate the number of students entering higher education from the appropriate age group to that of developed democratic society"* was amongst the central objectives set forth by the Higher Education Law passed in 1993. A steady rise in the public enrollments from the beginning of the 1990s thus reflects the fact that widening access to HE was assumed by the government as its own responsibility.

Table 4.1: Numerical Overview of the State and Non-State Higher Education Sectors in Hungary, 1990-2007

Year	State Institutions		Non-State Institutions				Total	
			Church Institutions		Private Institutions			
	Inst.	Students	Inst.	Students	Inst.	Students	Inst.	Students
1990/91	66	107 607	10	550	1	219	77	108 376
1991/92	66	113 788	10	623	1	179	77	114 690
1992/93	61	121 447	26	3 298	4	1 129	91	125 874
1993/94	59	135 695	28	6 110	4	2 755	91	144 560
1994/95	59	157 404	28	7 154	4	5 382	91	169 940
1995/96	58	177 482	28	9 005	4	9 049	90	195 586
1996/97	56	191 291	28	10 629	5	13 195	89	215 115
1997/98	56	224 695	28	12 655	6	17 343	90	254 693
1998/99	55	243 007	28	14 291	6	22 029	89	279 397
1999/00	55	266 144	28	16 227	6	23 331	89	305 702
2000/01	30	283 970	26	17 590	6	25 729	62	327 289
2001/02	30	300 360	26	18 922	9	30 019	65	349 301
2002/03	30	327 456	26	19 821	10	34 283	66	381 560
2003/04	31	351 154	26	21 626	11	36 295	68	409 075
2004/05	31	363 961	26	22 666	12	34 893	69	421 520
2005/06	31	366 797	26	24 078	14	33 286	71	424 161
2006/07 ^a	31	359 758	26	24 403	14	32 187	71	416 348

Source: Statistical Guide, Higher Education 2005/06. The Ministry of Education and Culture, 2006. ^a Preliminary data from the Ministry of Education and Culture in Berde and Vanyolos 2008.

Furthermore, Table 4.1 reveals a trait of Hungary's HE developments that could seem at first sight incongruous: while public enrollments have swelled, there has been a major cut in the number of public institutions facilitating that increase. One aspect of the Hungarian HE traditions that sheds light on much of the contemporary policy practices and for that matter bears mentioning is an extreme institutional fragmentation (Hrubos 2000). Fragmented institutional structure had already been

perceptible before the communist takeover but was further reinforced after the advent of communism placed new exigencies upon HE. As a number of new highly specialized institutions were established and separation of old universities continued, they, in addition, were placed under the control of different ministries so as to permit higher degree of ministerial oversight. Binary differentiation between university and non-university sectors is by no means uncommon, but what had made the Hungarian HE system decidedly more complex is that, aside from horizontal differentiation between universities (*egyetem*) and colleges (*főiskola*) based on duration of studies, high degree of specialization existed within the each sector respectively (The Ministry of Education 2002).

Extreme fragmentation of institutional structure, of course, went hand in hand with the projections of Soviet planned economy as well as proletarian ideology of the communist party, and so did the fluctuations in admission policies – a practice that has traditionally been subject to political manipulations in Hungary. Stated differently, growing share of highly specialized non-university sector, which is commonly held resulted in falling in the academic standards, was effective means for both meeting industrial needs and for allowing increased participation of children of working-class parents. The extent to which these policies in actual fact contributed to enhancing the access of the latter group to HE remains questionable. It is worth noting that empirical studies that had appeared well before the demise of communism in Hungary verified against the declared official rhetoric.²⁴ Whatever the genuine impact of the strategies favoring short-cycle highly specialized programs on social equity, the relevant point is that notwithstanding these efforts, HE in Hungary

²⁴ The point was suggested by Balázs Váradi.

remained, if not qualitatively than at least quantitatively, elitist. Participation rate of about 12 percent at best, in fact, constituted the second lowest in Europe (after Romania). To come to the point, by 1989 Hungary's HE system was elitist as well as extremely fragmented. Seen in the light of the historical developments, it is easily explicable why the main thrust of the restructuring efforts of the first decade of transformation turned around expanding access to HE and overcoming institutional fragmentation by institutional integration.

4.2.2 Non-state Higher Education Institution Growth Patterns

Even though most of the increase occurred in the state sector, the early 90s also witnessed some growth in non-state HE institutions. The legal basis for their establishment was laid down in the Education Law in 1990 which makes Hungary one of the first post-communist countries to have legalized privately provided HE. Several church-owned universities and colleges were created since then and three previously state owned teacher-training colleges were transferred to the church ownership. Dating back to the very origins of the Hungarian HE system, the church-owned institutions have managed to sustain their de-facto existence all the way through state socialism. Since then, their number has been varying along with the changes of the country's political course. As Table 4.2 shows, all denominational institutions were set up in the wake of the regime change and merging rather than diversification has been taking place since the 1996 Amendment to the HE Law of 1993 came in force. Their enrollments, on the other hand, have been growing throughout both in absolute and real terms, though only slightly, so that the sub-sector

captures some seven percent of the total student body. After undergoing the institutional integration process, the church-owned sector encompasses 26 institutions, 21 of which are colleges offering degrees that correspond to the Bachelor's level and five universities, which also provide programs toward M.A. and PhD degrees (see Appendix 2 for the list of institutions).

Table 4.2: Numerical Overview of Non-State Higher Education Sector in Hungary, 1990-2007

Year	Church Institutions			Private Institutions		
	Inst.	Students	The share of total enrollm.	Inst.	Students	The share of total enrollm.
1990/91	10	550	0.50	1	219	0.20
1991/92	10	623	0.54	1	179	0.17
1992/93	26	3 298	2.62	4	1 129	0.90
1993/94	28	6 110	4.22	4	2 755	1.90
1994/95	28	7 154	4.20	4	5 382	3.19
1995/96	28	9 005	4.60	4	9 049	4.63
1996/97	28	10 629	4.94	5	13 195	6.13
1997/98	28	12 655	4.97	6	17 343	6.80
1998/99	28	14 291	5.11	6	22 029	7.88
1999/00	28	16 227	5.30	6	23 331	7.63
2000/01	26	17 590	5.37	6	25 729	7.86
2001/02	26	18 922	5.41	9	30 019	8.60
2002/03	26	19 821	5.19	10	34 283	8.98
2003/04	26	21 626	5.29	11	36 295	8.87
2004/05	26	22 666	5.38	12	34 893	8.28
2005/06	26	24 078	5.68	14	33 286	7.85
2006/07 ^a	26	24 403	5.86	14	32 187	7.73

Source: Statistical Guide, Higher Education 2005/06. The Ministry of Education and Culture, 2006. ^a Preliminary data from the Ministry of Education and Culture in Berde and Vanyolos 2008 and own calculations.

By contrast, only colleges comprised the private sub-sector until recently. The first private university to acquire the state recognition in 2002 was the German-speaking Andrassy Gyula University, founded by joint efforts of Austria, Bavaria, Baden-Wurttemberg, Switzerland and Hungary. Although a private institution, amongst its founders was the Hungarian state. The university offers M.A. and PhD level education in social sciences. Also focusing on graduate training in social sciences and humanities, Central European University (CEU) is another private university

accredited by the Hungarian Accreditation Committee and the Hungarian Higher Education and Research Council. Founded in 1991, CEU gained official recognition in 2005 following the passing of the special Parliamentary law in 2004, which established a Hungarian private HE institution under the name *Közép-európai Egyetem*.²⁵ The rest of sub-sector is comprised of private colleges, four of which were recognized by the Law on Higher Education in 1993 and the increase in their number has been modest since then (Table 4.2 and Appendix 2). At any rate, 12 colleges and two universities that accommodate around eight percent of all student enrollments, is as much as private sector has grown.

On the other hand, five out of 26 Church owned institutions have university status. Regardless of the larger figures for both universities and colleges, church-owned educational organizations accommodate fewer students, that is, 5.7 percent of all students enrolled, to compare to the 7.7 percent studying at private foundation-owned institutions (Table 4.2). Obviously, this is because denominational institutions tend to be of a smaller size. Both Church and private universities are heavily concentrated in Budapest. In fact *Debrecen University of Reformed Theology* is the only such university located outside the capital. College type institutions provide more regional diversity, though this is mostly true for the Church sub-sector, as 12 out of 21 church colleges are spread across the different parts of the country. By contrast, only four out of 12 private colleges are located outside Budapest. The sections that follow demonstrate that although part of the same non-state sector, private and church institutions differ considerably on many other crucial dimensions, such as

²⁵ The English-speaking CEU is also accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools of the United States.

organizational structure, institutional funding, mission they serve and, not least, political influence they have. This provides an additional reason, alongside the official taxonomy, why the two sub-sectors should merit an examination in their own right.

4.2.2.1 Ownership Status

It was noted that according to the official nomenclature, *state* institutions are owned and operated governmentally, while institutions owned by church and foundations comprise *church* and *private* sub-sectors of *non-state* HE respectively. Far from being entirely clear-cut, the Hungarian legislation appears to be less vague concerning the legal status of non-state institutions and its tax implications than is usually the case elsewhere in the region. According to the 1993 Law on HE, denominational institutions are registered as non-profit educational organizations and are therefore exempt from paying taxes. The institutions owned by foundations operate de facto as foundations, which also give them a tax break on educational activities and student tuition fees, but they have to pay corporate taxes on other activities performed (Nagy-Darvas, Darvas 1999).

4.2.2.2 Institutional Funding

Besides tax deductions, institutions of both sub-types enjoy public financial support and are eligible for state subsidies in different forms. For Church institutions, an additional source of income comes from the respective churches, while most foundation institutions are supported by municipalities with which they have developed mutually beneficial relationships. What follows expands on mechanisms which form the basis for financing the two sub-sectors.

Church institution funding, in general, is somewhat vague. Guidelines for their financing are based on the more general regulation governing church finances. According to the 1993 law, church institutions are eligible for normative state funding just like their state counterparts. In case of the two denominational universities that offer non-religious education and the three colleges under the church ownership that train teachers and thus serve public purpose, the level of public normative finding is equivalent to that provided to public institutions (Nagy-Darvas, Darvas 1999). Even institutions of theological training draw considerable part of their income from the state. As Table 4.3 below demonstrates, during the time frame from 2000 to 2006, altogether there were more full- and part-time students funded by the state in Church owned institutions than in the state sector. In other words, funding, although a key dimension for distinguishing between private and public educational organizations internationally and in the post-communist setting especially, is of little help for telling apart the state and church owned institutions in Hungary. The other major source of their revenue, as expected, comes from the respective churches which in turn are funded by the state. No matter whether the reasons for the continuous state support lie in the entrenched relationship between the state and church institutions or in the skilful lobbying strategies persistently pursued by the latter, as suggested by the authors writing on the Hungarian private sector (Nagy-Darvas, Darvas 1999), the important point is that the public resources readily available to church-run institutions render them less susceptible to labor market fluctuations.

Table 4.3: The Share of State-funded Students in State and Non-State Sectors in Hungary

Total (full and part-time students)			
	State Institutions	Religious Institutions	Private Foundation Institutions
2000/01	61.62	65.66	16.41
2001/02	58.37	64.92	15.29
2002/03	54.77	65.14	15.37
2003/04	53.36	62.03	15.21
2004/05	52.08	64.52	17.19
2005/06	52.97	63.67	20.58
2006/07	54.41	64.60	22.62
Full-time Students			
2000/01	90.23	82.52	53.89
2001/02	88.11	81.86	46.27
2002/03	86.44	81.22	44.26
2003/04	85.27	79.27	41.53
2004/05	82.84	80.83	42.39
2005/06	82.67	79.04	43.90
2006/07	81.03	78.72	44.55

Source: Hungarian Ministry of Education and Culture in Berde and Vanyolos 2008

Private institutions, on the other hand, are more tuition-dependent but they too receive direct state funding, which is unparalleled in the entire region. In fact, achieving sector neutrality not only with regard to the procedures leading to the state recognition but also to the state financial support was central to the proclaimed objectives of the 1996 amendments to the HE Law of 1993 (Nagy-Darvas, Darvas 1999). Accordingly, private institutions are also entitled to the normative state funding, though only when a special “authorization agreement” with the state exists (Higher Education Law 1993, Section 9/H). The latter specifies the number of student aid grants, which forms one of the six allocation units, to be provided to private institutions. As precise procedures for applying and gaining student normative funding, as well as for program support remain ill defined, private institutions receive much less normative governmental funding than church and state

institutions. Nevertheless, Table 4.3 above shows that there has been some increase in the support for part-time students attending foundation institutions lately. Most common state financial backing to private institutions is in the form of buildings or other support coming from respective municipalities, which often view private institutions as the necessary means for the regional development. But this kind of support has been slowly diminishing as municipalities become less actively involved in private sector development, due to the economic pressures.²⁶ In addition to governmental funding, private institutions receive endowments from their founders and sometimes are supported by local business communities. Although the latter have a few incentives to do so, as they receive only partial tax deductions for their support to institutions. The main source of income for private foundation institutions, therefore, comes from tuition fees, the level of which is autonomously determined by institutions.

Despite the fact that both types of non-state institutions in Hungary are eligible for more direct governmental appropriations than is commonly found across post-communist countries, indirect funding that institutions obtain through student loans was not available to them until 2001. The groundwork for developing the loan scheme was laid down in 1998, with active involvement of the World Bank and international advisory board of economists Maureen Woodhall and Nicolas Barr. The main characteristic of the Hungarian model is that all students, regardless of their social background and academic credentials, are eligible for loans, repayment of which is contingent to future income (Berlinger and Gönczi 2007). Besides loans, tuition paying students who attend both state and non-state institutions do receive a

²⁶ For example, the financial support provided by the city of Székesfehérvár to János Kodolányi College has dropped from 16 million HUF in 1992 to 6 million in 1999 (Nagy-Darvas, Darvas 1999).

tax release on 30 percent of the amount charged by *state* institutions from their taxable income (Personal Income Code, 1996); but this policy has trivial implications for students and their parents because of the low level of tuition in state institutions.

4.2.2.3 Governance and Control

In relation to the government regulation of the non-state sector should be noted that, more often than not, the Higher Education Law makes no distinction between the two sub-sectors: both types of institutions are required to gain state recognition and the approval from the Parliament and they shall further demonstrate the possession of necessary means, be that personnel, building or finances, for them to operate. Moreover, both church and foundation-owned institutions need to get accredited in every eight years. On the level of formal law, the same regulatory rules apply not only to foundation and church institutions, but also there is a little difference concerning the way that the state and the non-state sectors are steered. Unsurprisingly, institutional funding is the measure upon which most regulatory guidelines diverge and it will be treated at length in the subsequent chapters. Other than funding, the set of laws concerning internal organization and operation of institutions, rights and obligations of the faculty, students and support personnel, requirements with respect to academic degrees, full-time employees and resources necessary for carrying out educational, artistic, and research activities, does not usually discriminate between state and non-state sectors. As interviewed policy-makers have noted, the sector-neutrality with respect to establishing procedures in fact results in the policy that discourages the scope and breath of the private sector growth (for list of interviewees see Appendix 3). Quite evidently, requirements for setting up a new institution and gaining official state recognition remain the major obstacle for the non-state sector.

But there are areas where non-state institutions enjoy considerable freedom. First of all, the strict provisions of the public Employment Act do not apply to non-state institutions, which means that they have relative freedom in defining the admissions system and employment criteria, designing organizational structure and choosing institutional leadership as they see them fit. Furthermore, having much of their revenues coming from non-public channels, foundation institutions do not always feel compelled to abide by the regulations laid down in the Higher Education Law, even when these apply to both state and non-state institutions equally. There is an empirical evidence of private institutions, indeed, taking more latitude in deciding on the goals pursued or in initiating changes in their internal organization, governance, or admissions policy, even when at odds with the prescribed requirements. The state control and authority seems to apply even less to the church-run sector in spite of their heavy reliance on the public budget. Although existing evidence lends itself to little possibility for making definite assumptions, it is argued that the church-run sector had escaped much of the governmental regulation until central control of a certain degree through accreditation process was introduced (Nagy-Darvas, Darvas 1999).²⁷

However, when an empirically intricate relationship between the state and university is being probed, several other factors need to be taken into account. One is the role of

²⁷ An incident that has evoked much of the controversy and that may serve as an illustration of the self-rule that church institutions enjoy in setting and upholding their distinctive goals concerns an expulsion of a theology student from Károly Gáspár Reformist University following the revelation of his homosexual orientation (in fact “displaying true spirit of tolerance in dealing with otherness” is contained in the mission statement of the university). An additional reason why this occasion should engage our interest is that the rationale behind financing the church-run sector exclusively through general tax-payer borne money is maintained to be its service to the public purpose (the example was suggested by Balázs Váradi).

the intermediary agencies played as in directly shaping the nature of university governance as well as in mediating between the state and university. Just as the representation of state and non-state institutions in the two coordinating agencies of the Hungarian Accreditation Committee (HAC) and the Hungarian Education and Scientific Council (HESC) is highly asymmetrical, so is their political influence on determining policy outcomes. But with a certain caveat, religious establishments of higher learning, in all probability because of the deep-seated ties with the state, still enjoy notably privileged status (Nagy-Darvas, Darvas 1999).

4.2.2.4 Institutional Mission

As expected, stringent standards for establishing and accrediting institutions serve to guarantee a certain level of quality of education provided. In fact, only a few non-state institutions, established in the wake of the regime change would be qualified as *demand-absorbing*, but they too were closed down as the result of the first cycle of accreditation, conducted through 1995-2000 (Váradi 2004). Most private foundation institutions operating in Hungary fall under the category of *semi-elite* institutions that are narrowly focused and serve pragmatic mission yet aspire for high academic standards in their selected fields, while two - Andrassy University and Central European University - would fall under *elite* category. Striving for academic excellence, the former concentrates on culturally oriented goals, while the research intensive CEU strives to combine academic excellence with social mission of supporting values of open society and democracy. Another key factor beside strict regulatory regime clearly contributing to the educational quality is other than private funding available to the Hungarian non-state sector. The natural question that arises here is whether the government becomes involved in any form in assigning specific roles to institutions so as to avoid unnecessary duplication of institutional missions

and to insure private institutions serve public purposes because of that funding, as the literature would predict (Zumeta 1992; Levy 1987, 1999). This and other questions related to institutional mission will be explored in the following sections.

Pragmatic motive: The case studies of foundation-owned institutions located in the regions does indeed suggest that local governments view private institutions as valuable means for the regional development. This is why municipalities commonly become (co)founders of private institutions and provide direct financial assistance by donating buildings and contributing to the maintenance costs or indirect financial aid through sponsoring their students. Institutions in response try to fulfill regional and community development functions by training specialists in relevant fields. Having had no college before, the local government of the city of Székesfehérvár has played central part both in founding and financing *János Kodolányi College*. The college, in turn, has tried to maintain strong ties with the local government and to contribute to the regional development by offering training in much-needed service sector, such as languages, communication and tourism. The same is true for *the College for Modern Business Studies* established in formerly mining city of Tatabánya – also with no HE institution of its own previously. The college has been instrumental in the city’s move towards developing its service sector, which became necessary after the closure of mines and auxiliary energy sector plants. Besides donating more than one building, the local government has contributed generously towards college’s operating and maintenance costs, as well as provided student aid to every high performing student (with over GPA 3.5) and full tuition remission to top four students in each group. Private institutions located in Budapest take more latitude in choosing their focus but this too commonly turns out to be entrepreneurial and pragmatically

oriented fields such as studies in languages, information, communication and business. It is common for institutions to keep strong relationships with industries and businesses, which explains extremely high rate of employability of their graduates. It is difficult to generalize for all institutions but available evidence suggests that the demand for most private institution exceeds the institutional capacity (Nagy-Darvas, Darvas 1999).

Ethnic-Religious motive: Church institutions, by contrast, concentrate mainly on religious and theological studies and only rarely on humanities, teacher training or social work programmes. The fact that church-owned institutions have not really shown concern for extending their focus beyond religious studies is hardly surprising, given the extensive governmental funding available to them. Indeed, being relatively independent of student contributions, institutions are less compelled to be responsive to student demand and the labor market fluctuations. Of all denominational institutions of higher learning, only seven offer non-theological training most important of which is Pázmány Péter Catholic University that, besides religious subjects, offers instruction in fields as varied as humanities, information technologies, law and political science. Among other institutions providing non-theological training notable are those teacher-training colleges that were transferred back to church ownership in the early 1990s. Despite this change in ownership, the institutions have kept the previous profile in teacher training (The Ministry of Education 2002).

The majority of denominational institutions with religious focus are those established by the Catholic Church, though there are few belonging to the Reformed Church.

Having retained their traditional profile, the church-owned educational organizations predominantly concentrate on religious teaching. Although much of the theological training focuses on Christian learning, there are these catering for followers of other religions. For example, *the Gate of Dharma Buddhist College* provides four years of full-time HE in Buddhist studies and *Jewish Theological Seminary* that, apart from Rabbinical, Cantor and Teacher training in Judaism offered on the college levels, also provides postgraduate specialization in Jewish Cultural History.

Finally, a few non-state (private) institutions, among them CEU and Andr ssy University, offer education in other than Hungarian language, which is to be related with particular mission they pursue. Other than that, the non-state sector has not provided language diversity, which is hardly surprising given that the language of the overwhelming majority of the population is Hungarian.

4.2.3 Conclusion

We have seen that although Hungary has relatively lengthy traditions of private institutions and is one of the first countries to have legalized privately provided HE soon after the regime change, the scope and pace of the growth has been somewhat restricted. One of the main distinguishing characteristics of the Hungarian non-state sector is availability of extensive state funding. The level of governmental financial backing is especially high for denominational institutions, equaling and sometimes exceeding to that for state institutions. Accommodating tax policies for both Church and private institutions is another conspicuous feature of the governmental approach

towards privately provided education. While there is significant blurring on the dimension of funding, institutions of both sub-sectors are distinct on the criteria of ownership and quite distinct on that of governance. Both Church and private institutions are subject to most stringent licensing and accreditation requirements but are quite free in their daily activities after obtaining state recognition. This is especially true for governmentally heavily funded denominational institutions that escape much of the state regulation, in all probability because of the Church's deep-rooted relationship with the state.

Finally, institutional mission is a criterion around which turn most significant inter and intra-sectoral differences. Unlike much of the region, where public institutions, in their attempt to attract fee-paying students, have undertaken roles usually associated with private sector, the extent of public sector privatization has been somewhat limited in Hungary. Indeed, the scope that the government has maintained in the state sector funding renders institutions less compelled to offer market-oriented subjects. Providing labor market relevant education has been the main thrust of foundation-run institutions, while church institutions mainly focus on religious and theological training. Absent any major diversification of the course-offerings in the Church sector, it is therefore left to private institutions to cater for emergent demand for programs like communication, informatics, languages, business administration, tourism and the like. In addition to this, private institutions have provided significant geographic diversity and serve regional development goals, mostly attained through governmental financial incentives, both in the form of direct appropriations to institutions and aid to their students. Thus, the differences between the two types of non-state educational organizations are to be found not only in their number and

enrollment rates but there are conspicuous variations in the ways they are funded and governed, as well as in their ownership status, profiles, mission and political influence.

4.3 Governmental Policies towards Higher Education

4.3.1 Legislative Framework

It was noted that the overall pattern of HE reforms initiated in the early 1990s in Hungary, with its overstated emphasis on academic and institutional autonomy, bears close parallel to these in other Central European countries. As expected, HE systems of all newly liberated nations with a shared legacy of extreme dependence on the state authority faced problems and questions of a comparable nature the most important and contentious of which was redefinition of the state role in the provision and governance of the sector. Yet, significant differences in the nature and pace of the restructuring process became traceable soon after the regime changes of 1989.

One of the notable distinguishing factors of the Hungarian developments is related to the role played by the World Bank (WB) in HE restructuring. The WB's readiness to financially assist in enhancing human capital and putting the HE system upon a more efficient and firmer footing turned out to be of greatest importance for the future of Hungarian HE transformation, caught in between the "catching up with Europe" rhetoric and the economic reality. Owing to the Bank's relatively long-term involvement in the Hungarian economy's reconstruction and the latter's solid

reputation as a reliable re-payer of loans, Hungary had been selected to launch a qualitatively different project of supporting restructuring of the HE sector as an integral aspect of the Bank's aid to a broader economic transformation in emerging democracies. As the grounds for the project aimed at improving human capital was laid down as early as 1988, the Human Recourse Development Program Loan Agreement for 150 million USD could already be put into operation in 1991 (Szep 1998).

Based on an extensive fieldwork of the Bank's experts in Hungary, its chief policy recommendations were directed at such concerns as expanding the access to HE, enhancing the efficiency of the system and increasing its responsiveness to the shifting social and economic needs. Funding mechanism restructuring by means of unification of financial system and introduction of a normative funding model in turn was perceived as the key to achieving proposed objectives. Moreover, the Bank was in favor of the diversification of institutional funding through introducing partial tuition fees, private donation or some other sources of revenue. Finally, development of what was termed as "universitas" – that is, comprehensive, multi-disciplinary institution of higher learning – to achieve some reasonable economies of scale and thus alleviate inefficiencies associated with extremely fragmented institutional structure was also recommended from the outset.

It should also be added here that often it has proven difficult to tell apart recommendations offered by the Bank experts from what had already been conceived by Hungarian policy makers. According to what has emerged from interviews undertaken with the key actors, as well as from conducted studies, increasing

responsiveness of the HE system by means of the institutional expansion was an overriding concern of the Hungarian government (Szep 1998). There was also a general consensus about an extreme inefficiency of the system and the urgency of its restructuring for which institutional integration was perceived as an important tool. Having agreed on those, the primary advice of the World Bank turned on mobilizing non-state resources by diversifying the financial base of public institutions on the one hand and encouraging private sector development on the other, as well as introducing a more equitable system of HE finance.²⁸

Although overall performance of the scheme cannot be judged as overly successful, many policy pronouncements supported both by the Bank experts and Hungarian policymakers found its expression in the first law on HE passed in 1993.²⁹ By means of its provision, the new Law on Higher Education was to ensure “*freedom of teaching, freedom of study, and freedom to cultivate arts and science alike*” (preamble). Far from supposing unambiguous fulfillment of the objective of free university now entrenched in the legislation, shift in the way HE sector is steered has nevertheless been considerable. One such change concerned reinstating the authority of the *Ministry of Education and Culture* over all but two (*the National University of Defense* and *the Police College*) institutions of HE. Moreover, the Law established a regulatory framework for a new funding mechanism largely based on formula-driven allocation mechanism.

²⁸ According to the most critical view, Hungary was politically too insignificant a country for the Bank to be interested in pondering policy alternatives. Instead, the underlying motivation behind its involvement has been selling a loan and experimenting what could be later replicated in larger and geo-politically more important countries (Szep 1998).

²⁹ Before 1993, the higher education sector operated under the regulation of the Education Law of 1990.

Some of other recommendations were dealt with a number of regulatory acts that followed shortly before eventually signing the second WB loan agreement in 1998. For example, *the Resolution of Hungarian Parliament*, passed in 1995 was aimed at clarification of HE policy goals. Important among the objectives of the new governmental reform program laid down in this Parliamentary Resolution was to expand the rate of enrollments, to create flexible system permitting transferability between different levels of HE and to standardize the qualification requirements system. Another set of goals was directed at assuring “sector neutrality” so that the quality rather than public or private ownership formed the basis for the public budget allocations and achieving greater efficiency by granting more economic independence to institutions on the one hand and by mobilizing non-state recourses, including tuition and other sources, on the other.

The 1995 Resolution was followed by the 1996 Amendment to the Higher Education Law which provided much patent legal framework with respect to institutional and financial autonomy, and very importantly, concerning institutional integration procedure that was largely missing from the previous law. It thus elucidated the conditions for successful association of institutions and set the deadlines and criteria for institutions to carry out their own merging on voluntary basis.³⁰ The 1996 Amendment also prepared the ground for the integration of post-secondary training into the HE system. Thus, a four-tier structure of HE was introduced as the result of the incorporating of a two-year vocational education in the system.³¹ Taken as a

³⁰ Act LII on Restructuring the Institutions of Higher Education passed in 1999 provided additional guidelines for further acceleration of institutional integration process (the Ministry of Education 2002).

³¹ Because of the low per-unit cost on which those institutions operate, encouraging the growth of short-cycle training programmes could have been an effective way for expanding an access while containing costs, but exceedingly low level of student interest indicates that the integration of vocational training has not been successful. It has been suggested that institutional interests and

whole, the strategic foresight of the new government with respect to HE as well as to the general economic problems the country encountered was much better defined and more clearly articulated.

The second agreement of the WB loan was signed in 1998. In various respects, the policy objectives proposed by the Bank remained almost unchanged, although somewhat more weight was given to the integration of single-purpose institutions into multi-faculty ones. Despite the fact that the circumstances leading to the second reform project, in contrast to the first, was ripe for change, the loan was canceled altogether in 2002 by the Fidesz led government.

Finally, another important event in policy-making process was marked by Hungary's signing the Bologna declaration in 1999 but hardly any steps towards the fulfillment of its principles were taken in the forthcoming years. Only in 2002, the newly elected government started implementing its requirements, such as moving towards a unitary linear system with clear distinction among B.A., M.A. and PhD levels and introducing cumulative credit system. But it was not until passing the new law on HE in 2005 that these requirements became binding for all HE institutions.

4.3.2 Governance Structures for Higher Education Institutions

bargaining are the reasons why vocational schools continue to offer training in technical fields, which reflects the supply-side capacity. Only in rare cases have schools managed to diversify their profile toward high-demand areas. Because of their uncertain labor market relevance, vocational schools continue to serve the interest of those who have failed to meet admissions requirements but intend to pursue their studies at higher levels (interviews with András Semjén).

It was noted that by 1989 Hungary's HE system was elitist, extremely fragmented and for the most part centralized. Seen in the light of the historical developments, it is easily explicable why main thrust of the reforms initiated in the wake of 1989 turned around *institutional autonomy, expansion and institutional integration*. Not just reforms in HE field but in general, restructuring attempts of other spheres of societal activity in Hungary, like many other CEE countries, can be described as reparation of effects of communist practices, restoring the previous order and reinstating the old ties with the rest of Europe. Rationale for giving prominence to objectives of 'freedom to teach and freedom to learn' in newly instituted reforms of HE field thus was twofold: to do away with the past practices and return to Humboldtian tradition (Neave 2003). It was only after the mid 1990s that dominating issues on policy agenda become more future-oriented rather than concerned with the reparation of the damages caused by the previous political order. The question of academic, institutional and financial autonomy that early reforms brought about requires close analysis of a great deal of factors and will be dealt extensively in the following chapters. For now it suffices to remark that governmental rules, regulations and other steering instruments did not always abide by its novel rhetoric with regard to the HE governance.

The overall pattern of governmental steering approach has nevertheless altered visibly in Hungary in an important respect. The change concerned the mode of policy-making process. Along with a waning involvement of the state, the input of different societal actors and government agencies with vested interest in HE matters in policy-making process grew considerable and thus more easily discernible. The changes touched not just the mode of interest revelation and intermediation but also the

number of those conceiving themselves as potential gainers or losers of a proposed restructuring scheme still taking the shape. Hence, from the very beginning of the regime change policy-making field became a good deal more heterogeneous, reflecting the constellation of the interests of more articulate and better-organized interest groups.

Of all actors having claims on deciding the policy priorities, two bodies of senior faculty seem most prominent. Both, *the Hungarian Rectors' Conference* (HRC) and *the Conference of College Directors* (CCD) were founded before 1989 but gained considerable footing as the shift toward relatively relaxed state control over HE become more pronounced. For institutions, the two coordinating agencies that include representatives of the different HE institutions, rectors and college-directors serve as the main channel to negotiate their collective concerns on the future of institutional developments. The role of the two actors together with *the Chair of Art University Rectors* (CUR) as agents in influencing national HE policy was legitimized by the Higher Education Law in 1993 (section 68). The same law instituted two other intermediary bodies – *the Higher Education Scientific Council* (HESC) and *the Higher Accreditation Committee* (HAC).

Positioned between the central government and institutions of HE, the functions of the two key intermediary entities include offering a professional advice on the most central issues of HE development. The members of HESC include experts on academic matters and other professionals elected by institutions, research councils, professional association and local governments. As they form their expert and authorized opinion upon significance and relevance of the issues involved, HESC

dictates the fate not only of individual programs but also of entire institutions. On the other hand, among the powers that HAC possesses quality control of the education provided is the most fundamental. Its members also include university and college representatives on the one hand and members of research institutes and professional units on the other. As it was proclaimed by the 1996 Amendment, HAC is a self-governing body whose decisions are not to be influenced, let alone overridden, by the ministerial authority.

Other important shift in the HE governance structure brought about by the 1993 Law was to establish unified control of the Ministry of Education over the HE system. But it also should be added here that prior to that, one of the severe conflicts that the early 90s saw was that between *the Ministry of Education and Culture* on the one hand and *the Ministry of Labor and Social Welfare* and *the Ministry of Agriculture* on the other over implementing this very policy goal.³² It proved even more problematic to repatriate the research function to establishments of HE. Detached from institutions and having prerogative of awarding academic titles, academies of science had always stood as competitive and countervailing points of authority and power. Bringing together teaching and research, again as a further important step toward reparation of communist practices, was embarked on by legislations of many countries in the region in the wake of collapse of the Soviet system. In Hungary, such proposal for integration of teaching and research were met with outright hostility from HAS. I

³² While the lack of knowledge of the Hungarian language did not pose any problems to interviewing the policy elite, it constrained my ability to probe into various policy papers and the media coverage of these issues. Thus, when discussing public debates and heated conflicts among different actors that emerged in the course of the early 90s over various policy proposals, I resort to Attila Szép's MA thesis on "*The Role of the World Bank in the Transition of Higher Education in Eastern Europe: Hungary.*" He in turn draws on white and other policy papers, media coverage, and in-depth interviews with the key policy-makers that he has conducted. I also rely on recollections of the dominant actors I have spoken with.

shall not pursue the details of the developments what came to be known as “academy lobby” beyond remarking that having become subject of political bargaining, blurring and compromising of educational concerns with that of the HAS and some political factions, it was not until passing 1994 Law on the Hungarian Academy of Sciences that the unity of teaching and research was ultimately instituted.

Finally, fundamentally novel role of students as stakeholders actively partaking in policy-making process acquired a legitimate basis in 1993 when two student bodies the *National Conference of Student Self-government* (NCSS) and the *National Association of Doctorands* (NAD) were authorized to represent student interests at the national level. The 1993 Law also legalized increased participation of students in internal decision-making process. According to it, the share of student representatives in Institution Councils - that is the governing body of HE institutions – shall be no less than one fourth but cannot exceed one third of the total number. Other members include senior academics and some non-academic employees.³³ This heavy representation of students possessing an influential stake in the Council all too frequently divided on the most issues give rise to a situation when strong pressures are wielded by involved parties for swaying students’ stance and winning their votes. As the section below will demonstrate, issues related to cost recovery highlights an incredible strengthening of the locus occupied by the student body in a changing governance structure of institutions.

³³ Separation of academic and management functions for creating more responsive governance has been one of the chief objectives on the reform policy agenda but with no apparent success yet seeing that the management of university remains in the hands of purely academic professionals.

4.3.3 Higher Education Funding Policies

The aim of what follows is to scrutinize the nature of funding policies in Hungary and their implications for the distribution of the responsibility for HE provision between private and public providers. As emphasized before, it was a resolute determination of the Hungarian government and amongst HE leadership to expand the level of participation in postsecondary education that was brought to bear on the early reforms. It will only be added here that amid disagreements already perceptible during the years immediately following the collapse of communism, the idea that the state shall maintain its strong profile in the provision as well as funding of HE has never been actually contested by politicians, bureaucrats, institutional leaders and experts on education otherwise divided on various aspects of the restructuring scheme.

Similar to all countries under communist rule, a history of spending coupled with negotiations and bargaining rather than institutional performance indicators formed the basis for the state finance for HE institutions in Hungary. Lacking transparency, the ponderous process of deciding on budgetary appropriation for institutions involved several stages such as the state approval of the budgetary guidelines, proposals of the relevant ministries, negotiations with the Ministry of Finance, and final approval of the Parliament (Nagy-Darvas 1998). As expected, institutional performance indicators had little relevance to the actual level of the governmental appropriations that was by and large determined by the previous year's operational cost rates, standard increments and, very importantly, the bargaining power of institutional representatives.

Regulatory framework for a new funding mechanism was provided by the Law on Higher Education of 1993 that established a largely formula-driven institutional funding and it also, by placing all but two HE institutions under the supervision of the MoE, unified the HE budget that came in force from the January 1995. Generally speaking, the system of public funding, though containing some attributes of different funding models, continued to be for the most part centralized. Being targeted at certain objectives and with institutions' having no discretion to make use of recourses in accordance to their needs, funding thus reflects social and economic needs of the nation as perceived by the government authorities and policy-makers. Although it does take into consideration performance-related factors to a certain extent, the base of funding is by and large *input-driven* where judgment of the government on the number of students to be admitted is decisive and is contingent on student demand, institutional capacity, and in certain cases – on the labor market projections (Csepes, Kaiser and Varga 2003). The key features of the funding model established by the 1993 Law and its 1996 amendments are summarized in the Table 4.4 below:

Table 4.4: The Higher Education Funding Model Employed in Hungary

<i>Funding Channel</i>	<i>Supply-driven</i> (as opposed to <i>demand-driven</i>) i.e. HE providers are subsidized by the government directly.
<i>Funding Base</i>	<i>Input-based</i> or cost oriented (rather than <i>output-based</i>) through with some performance related elements as well; the number of 'admitted' students centrally fixed by the government.
<i>Funding Condition</i>	Both <i>earmarked</i> and <i>lump-sum</i> funding.

Source: Csepes, Kaiser and Varga 2003.

The funding rates or 'education and facilities maintenance norms' as it is referred to, are correlated primarily to the number of students enrolled by a type of institution and field. Initially, the Law made a distinction among 14 different budget headings. Having undergone a number of changes, budget items, later it included only five categories. These are normative support for students, the education and facilities maintenance, program development, scientific research and basic programs for the development of HE. Methods and number of indicators considered for establishing numerical values of norms have been changing as well, but, as a rule, finances remain to be tied to such considerations as the number of contact hours, the amount of salaries for faculty and support staff as well as material expenses rather than enrollment levels or the program quality.

Introduction of the formula funding mechanism indeed was an important to both initiating and further strengthening the vital changes in the Hungarian HE system, but it can be argued that criteria according to which allocations were initially made had

not encouraged the most efficient use of recourses.³⁴ The fact that state-run institutions had an advantage of receiving governmental support to cover the deficits and thus allow them to shun bankruptcy has not created a situation which would compel institutions to seek the ways for enhancing their efficiency and for utilizing recourses more economically. Furthermore, before allowing for some performance-related indicators along with the student numbers for deciding on the level of the public disbursement, state institutions, as generally is the case, had a little incentive to contain costs and increase productivity.³⁵ Quite the opposite, it was in the interests of the institutions funded on input bases to enroll as many students as possible that inevitably resulted in falling academic standards and quality of the services provided, as many experts have come to believe. Without seeking to offer unambiguous assessment of the quality of the educational output, it should be stressed that the very policy of moving from elite to mass HE through increasing the participation rate twofold in few years time already implied deterioration of quality to some extent and not necessarily owing to the lack of incentives or other institutional performance-related reasons, but to the fact that universities and colleges start with a less select student bodies, so to speak, qualitatively different inputs.³⁶

One of the most contentious and thorny questions related to institutional funding that has triggered a great deal of controversy is the issue of cost-sharing. Beside a number of practical considerations that has made cost-sharing practices hard to put into operation, attempts to lower the level of the government appropriations to HE have

³⁴ In fact, the extent to which formula funding is *normative* remains subject to a nuance. There is compelling empirical evidence pointing to a considerable difference between the amount calculated by the formula and actually received by institutions (Semjén 2003).

³⁵ Introducing some performance-related indicators while having no objective means for assessing the quality implies that amount of grants will largely depend on the bargaining power of individual institutional leaders (Semjén 2003).

³⁶ The point suggested by Balázs Váradi.

been less successful as the notion of cost recovery has remained politically unpalatable. Most of the public HE institutions in Hungary had continued to draw almost all of their income from the state until 1995 when a policy of tuition fees was first adopted under the pressure of the Bokros plan. When the authorization was initially granted, the annual tuition of about 20 000 HUF (180 USD in 1995) *for all students* was set by institutions, which then constituted roughly 1/7 to 1/6 of the amount charged by foundation colleges (World Bank 1998). It should not come as a surprise that attempts to impose tuition fees, even if negligible compared to the real cost of instruction, in a country lacking any tradition of it, have triggered organized opposition by students. It was owing to the same protests that state institutions, despite the permission obtained, refrained from charging higher supplementary fees. The course toward diversification of financial base was further reverted in 1998, when a newly elected government amended the Law once again, this time nullifying tuition fees for the first-degree programs in the state-led sector, as pledged prior to the elections.³⁷

The policy of admitting self-paying students alongside those funded by the state that nearly all post-communist countries have introduced in the years immediately following the regime change was established in Hungary in the mid 1990s. The permission to admit those who had failed to comply with the admissions requirements for state-funded places but who could nonetheless meet lower standards set by individual institutions, provided that they also were willing and could meet the costs of educational services, was granted by the 1996 Amendment. Since then, the

³⁷ As interviews undertaken with the policy elite have made it clear that the decision on the shift in policy was precipitated by the Prime Minister unilaterally without taking into account position of institutional leadership, the Ministry of Education and experts associated with Fidesz, all favoring the idea of tuition of some sort (interviews with Janos Setenyi).

number of students not supported by the state has been growing somewhat.³⁸ Table 4.5 below shows that the share of state funded places is somewhat high for full-time students. Not only are they fully subsidized by the state but full-time students also continue to receive state financial support in the form of a stipend. The decision on the criteria for the distribution of student normative support that each institution receives and that is proportional to the number of full-time, state-financed students admitted is made by individual institutions jointly with student unions. In some cases, student support is distributed uniformly and in others relative to academic achievement but only rarely on the basis of financial needs. Finally, the state continues to provide subsidies for institution-run dormitories that accommodate around 40 percent of full-time state-financed students (Csepes, Kaiser and Varga 2003).³⁹

Table 4.5: The Share of Self-financed Students at State Institutions in Hungary

	Full-time Students	Full and part-time students
2000/01	9.77	38.38
2001/02	11.89	41.63
2002/03	13.56	45.23
2003/04	14.73	46.64
2004/05	17.16	47.92
2005/06	17.33	47.03
2006/07	18.97	45.59

Source: Calculated from Hungarian Ministry of Education and Culture Data in Berde and Vanyolos 2008

Income generated from self-financed students constitutes most important source of the non-taxpayer borne money for universities in Hungary, like elsewhere in the region, though there has been the move towards generating revenues from the sale of

³⁸ The annual tuition fees for self-financed students range between 1 500 to 4 800 USD, while for part-time self-financed students it comes to roughly one-third of that (Kozmaa and Bojda. 2003).

³⁹ In fact, since 2003, new dormitories have been constructed.

goods and services. But, as incentives for diversifying financial base are largely missing from the funding mechanism, the level of non-public contributions remains modest. For example, in 1998, some 15 percent of all money available to HE system was derived from the sale of goods and services but the largest part of it was obtained by medical faculties of hospital services (The Ministry of Education, 2002).

As for policies of cost-recovery, owing to the difficulties associated with devising and further implementing a means testing mechanism, it is only since 2001 that student loan scheme has been put into operation.⁴⁰ The conditions of the loan scheme are such that, irrespective of their income status and financial needs, all students under 35-years studying toward their first degree are eligible for loans of maximum about 100 USD per month for 5 years. Already in 2002, 110 000 students that is 30 percent of the all students made use of such loans (Kozmaa and Bojda. 2003). It is notable that in keeping the promise made before the 2002 elections, the Socialist government modified the original conditions of repayment scheme set by the London School of Economics' experts to the extent that many found it advantageous to take loans for starting private business. To mitigate the unfavorable effect that exceedingly low interest rate had spurred, the government was compelled to raise it back to 6 percent.

Availability of state funding perhaps explains why Hungarian universities have been so slow to reorganize their course-offerings towards shifting needs of the economy.

With respect to labor market employability, HE institutions have demonstrated

⁴⁰ Although underlying difficulties with developing means testing mechanism was real, it is argued that not to the extent so as to understand why it took more than ten years of being on the policy agenda for the student loan scheme to get implemented. Balázs Váradi has related this delay to wide-ranging protective strategies pursued by public sector leadership. Availability of the loans from the start would have unmistakably enhanced student choice, encourage the private sector growth and foster competition between the two sectors in higher education.

persistent resistance to the change. Despite the fact that enrollment rates in some fields such as engineering have decreased significantly, whereas in others, mainly in social sciences, have risen sharply, institutions continued to offer instruction in a number of fields with limited labor market employment prospects. In fact, to date no program has closed down.⁴¹ To recall, enhancing the responsiveness of the system previously driven by central planning to the dramatic macro-changes had been at the top of the both reform policy agendas. One reason for institutional unresponsiveness resides in the fact that the number of students admitted is determined centrally, at the same time as student choice continues to play marginal role in an enrollment dynamics. While student demand reflects the labor market projections, supply of places remains to be largely dependent on the training program capacity. As evidenced by data contained in Table 4.6 below, the demand was the highest for training in institutions offering education in law, humanities, arts and economics while institutions offering technical, agricultural and teacher training programs are among the least popular.⁴² As it often happens, students with unsatisfactory scores for getting into high demand programs of their choice are left with a less attractive alternative for fields with no clear employment prospect (Nagy-Darvas 1998).

⁴¹ If the structure of supply has nevertheless changed it is only due to newly introduced courses. Enrollment level in absolute terms remains unaffected even in fields with low student demand and dubious relevance to the labor market (Semjén 2003).

⁴² That student demand is so high on arts programmes is perhaps explained by the fact that study places available are usually limited for arts programmes to start with.

Table 4.6: Percentage of Applications Received above the Admittance Quotas, by Type of Institutions in 1992, 1995 and 1996, Hungary

Type of Institution	1992	1995	1996
Humanities	304	346	260
Teacher Training	209	230	143
Economics	353	247	251
Natural Sciences	685	229	168
State Admin. & Law	507	369	426
Art	810	765	601
Technical	156	139	124
Agriculture	223	193	186
Health Care	255	227	255
Military	280	276	217
Total	246	237	202

Source: Polonyi 1996

In the early 1990s, some steps toward altering the structure of the supply of educational services were made which involved incorporating two-year vocational schools into the HE system, albeit not too successfully. This is because only small share of schools have succeeded in reorganizing their profile toward high-demand areas, while the rest have kept their technical focus. Spectacular growth in demand for private foundation and those Church institutions that provide other than theological training suggests that demand for programmes such as law, business management and administration, information technology still exceeds the capacity of the supply side (Nagy-Darvas and Darvas 1999). On the other hand, a sheer lack of indication for demand for theological training together with the overwhelming number of religious providers highlight the supply-driven character of the state-financed HE sector.

4.3.4 Conclusion

The above analysis has demonstrated that the Hungarian government continues to play the major role in state HE funding. The past two decades have witnessed advancement toward cost sharing policies but only to a limited degree. Important in this respect was the approval granted to state HE institutions to admit self-financed students in 1996. However, private income generated from tuition as well as other activities such as selling goods and services has remained modest, in spite of attempts to diversify the financial base. Available evidence also shows that exceptions notwithstanding, a tight state regulation has generally accompanied state money; a normative rationale being that the government ought to exercise some control over how the scarce funds borne by general citizenry are spent. But as often is the case, a heavy dependence on the state budget inevitably renders institutions susceptible to political pressures and events. As evidenced by the Hungarian developments, the environment in which HE institutions operate has indeed remained by and large politicized.

This is not to say that the governance patterns have not altered visibly since the regime change but rather that the attempts to move toward decentralization and more autonomously governed institutions have been facilitated through establishment of the influential intermediary bodies. Creation and legitimization of the HESC and the HAC can be considered as one of the most important shifts in the structure of the HE governance that the early 1990s witnessed. Entrusting the responsibility for educational output regulation to two intermediary bodies reflects the state's initial attempt to retreat from directly regulating the sector but still keep hold of some

steering capacity. Rapid and all-encompassing changes that HE sector underwent gave rise to the relationship of essentially different nature between the national government and the HE in which the former no longer is a unitary actor. This is not to underplay the prominent role that the state has nonetheless maintained in coordination of the sector, mostly, as it was demonstrated, through the lever of the funding. The state of the Hungarian HE system, it will be accurate to say, can be best described as a nexus of the state, institutional forces and intermediary bodies. Based on the above examination of the governmental policies, we can say that the policy stance adopted by the Hungarian government is closer to regulatory policy regime.

4.4 Determinants of Governmental Policies towards Higher Education

4.4.1 Economic Development

The aim of this section is to look into the relationship between the changes in the level of economic development and the pattern of spending on HE in Hungary. Since the dramatic fall in the growth during 1990-91, the economy continued to exhibit slow and unimpressive performance; by 1994, for example, Hungary's budget deficit had reached 10 percent of GDP, while national debt amounted to 30 billion USD by the beginning of the subsequent year. Tables 4.7 and 4.8 that present several economic indicators indicate that the economy started its slow but steady recovery from the mid 1990s.

Table 4.7: GDP per capita (constant 2000 USD) and Employment Ratio (number of employed as percentage of population aged 15-59) in Hungary, 1989-2005

	GDP per capita	Employment ratio
1989	4,307	83.0
1990	4,166	82.9
1995	3,713	57.2
1996	3,768	56.6
1997	3,948	56.5
1998	4,150	57.4
1999	4,334	59.2
2000	4,606	59.8
2001	4,817	60.1
2002	5,015	60.4
2003	5,200	61.4
2004	5,454	61.2
2005	5,691	61.3

Source: TransMONEE 2007 features: data and analysis on the lives of children in CEE/CIS and Baltic States. Based on World Development Indicators database, 2007. Employment Ratio Data since 1995 based on labor force survey.

Table 4.8: Economic Indicators, Hungary 1989-2000

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Real GDP Growth ^a	100.0	96.5	85.0	82.4	81.9	84.3	85.5	86.6	90.6	95.1	99.3	105.3
Annual change in GDP (%) ^b	0.7	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	4.5	4.9	6.0
Real Wages ^c	100.0	94.3	87.7	86.5	83.1	89.1	78.2	74.3	77.1	79.6	81.0	---
Annual inflation rate ^d	28.9	35.0	23.0	22.5	18.8	28.2	23.6	18.3	14.3	10.1	9.5	---

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001. ^a Based on EBRD, 2000. ^b EBRD, 2000. 1999: estimate. 2000: projection. ^c Based on EBRD, 2000. ^d Based on EBRD, 2000. 1999: estimate. 2000: projection.

Notwithstanding the economic slowdown characteristic of first half of the 1990s, spending on education as the share of gross domestic product was actually growing during this time period. In fact, the slash in appropriations for education sector came

only in 1995, but began to increase again from 1998 (Table 4.9). Mapping the trajectory of the public spending on HE, Table 4.10 displays the same pattern of governmental expenditure. Namely, the state support to HE throughout the initial phase of transformation was increasing in real terms, while it stayed roughly the same as the share of GDP but started its fall from that point on, so that by 1996 it approached 0.82 percent (Polónyi 2002). The years since 1998 saw some increase in the spending on HE; in 2000, for example, the government spend 1.1 percent and in 2001 – 1.3 percent of GDP on HE, which corresponds to the OECD country average (OECD Education Database).

Table 4.9: Public Expenditure on Education in Hungary (percent of GDP), 1989-1999

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
5.7	5.8	6.3	6.6	6.5	6.4	5.5	4.9	4.3	4.8	5.1

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre

Table 4.10: State Funding for HE, in Proportion to Total Central Budgetary Sources and GDP, Hungary, 1991-1994

	1991	1992	1993	1994
Total HE expenditure from the state budget (billion HUF)	56.2	62.2	73.5	91.5
Total HE support from the state budget (billion HUF)	32.1	38.4	45.7	57.7
Total state budgetary expenditures (billion HUF)	856.2	988.7	1264.1	1453.5
GDP (billion HUF)	2491.7	2935.1	3537.8	4330.0
Total expenditures to HE, in proportion to state budgetary expenditures	6.56%	6.295%	5.81%	6.30%
Total state support to HE, in proportion to total state budgetary expenditure	3.75%	3.88%	3.62%	3.97%
HE expenditures, as a percentage of GDP	2.26%	2.12%	2.08%	2.11%
Total support to HE, as a percentage of GDP	1.29%	1.31%	1.29%	1.33%

Source: The Ministry of Education, 2002.

Here it should be remembered that although governmental spending on HE as the proportion of its gross domestic product has declined only slightly while in real terms it has even rose, the early 1990s has witnessed significant growth of enrollments in the state-funded sector. In examining the HE cost patterns, it is therefore important that the proportion of national wealth allocated to the sector be interpreted in the light of how these funds translate into the amount spent on per-unit. Before the regime change, not only did Hungary have one of the lowest enrollment rates in Europe but it also had the highest per-student cost to compare to all European countries. Although spending varied a great deal across institutions, on average, the Hungarian government spent 86 percent of its per capita GDP per HE student in 1993. The

average figure for OECD countries for the same year totaled 45 percent, while for Germany it was as little as 30 percent (the World Bank 1998). Mixed success though it had, the implementation of the first phase of reform policies had brought about a certain reduction in per-student expenditure so that for 1996, the figure for a total per-student spending amounted to 64.1 percent, which is still a good deal higher than the OECD average.

One immediate question that arises here is whether the reduction in per-student spending is indicative of an enhanced operating efficiency or less positively, it reflects deteriorating quality of the educational services provided. A part of the answer to this question lies in the institutional funding mechanism employed, since the way the funds are made available to institutions has considerable bearing, by providing incentives or disincentives, on economic efficiency. Whatever the reality, the relevant point is that the relationship between spending on HE and the level of economic development runs against our conjectured link between the two variables. Despite the sharp economic downturn, governmental expenditure on HE continued to grow, thus enabling public enrollment increase by almost twofold, whereas resources available to the HE sector started to decline against the backdrop of the economic recovery, which gave rise to policies of cost-recovery and to these aimed at enhancing economic efficiency of institutions. This apparent incongruity is explained by several reasons. First, it should be taken into account that the funding independent from governmental appropriations in the form of the WB loan was available to the Hungarian HE sector from the very start, which facilitated carrying out the sectoral restructuring on the one hand and widening access to HE by increasing public sector enrollments on the other.

The other reason is related to political, rather than economic circumstances, serving as the powerful intervening factor. Following the 1994 electoral victory, the new Socialist government (MSzP) under the premiership of Gyula Horn decided to fundamentally alter the course of incremental economic reforms, favored by the Hungarian Democratic Forum (MDF) government, and launch a harsh stabilization program.⁴³ To cut expenditures on public services was among one of the first steps that Lajos Bokros, the newly appointed finance minister, took in his determination to hold the budget deficit back. As spending on HE fell along with several public sector services in which reduced government appropriations was most strongly felt, the system was left with decreased public funds by some 20 percent. If in 1994, for example, the public expenditure on HE constituted 1.1 percent of GDP, in the following year the figure fell to 0.95 and in 1996 - to 0.82 percent (Polónyi 2002). Reducing the number of employees, cutting salaries of the faculty, introducing tuition fees for all students and permitting state institutions to allow self-financed students - all were the consequences of the Bokros austerity policy. HE authorities managed to delay a second round of slashes anticipated for 1996 provided that achieving more efficient use of public resources through adaptation of both institution and sector-wide reforms could be assured. Under the pressure of the Bokros plan, inevitability of far-reaching reforms became unmistakably evident to the HE leadership. This is why the initiative for the second reform project came not from the government but from *the Hungarian Rectors Conference* and *the Conference of College Directors*.⁴⁴

⁴³ Although it had secured the parliamentary majority, the MSzP decided to form a coalition with the Alliance of Free Democrats (SzDSz).

⁴⁴ Indeed, besides the willingness, solid financial and legal bases were required for fulfilling ambitious plans. That is when the government of Hungary requested another 150 million USD loan from the World Bank to support its USD 250 million reform program (the World Bank 1998). This is to say that, a driving force behind the Hungarian government's request for the World Bank's financial

No matter what has caused the reduction in public spending for HE, this instance highlights inter-relationship that exists between the level of funding available to the sector and policies put in place. Having confronted with unprecedented decline in the resources, the turning point in the course of developments did come about in 1995 when policy pronouncements towards streamlining the sector and cost-sharing practices were made. Even if events fueled by the slash in financial support was an immediate reaction to the sudden and unforeseen shock rather than a genuine effort for more efficient use of resources, as some interviewed policymakers have claimed, the relevant point still remains.⁴⁵ That is, first notable steps towards cost-sharing practices, which include introducing tuition for all students and allowing institutions to admit self-financed students alongside those funded by the state, were taken precisely this time and presumably under the pressure of the Bokros austerity package.

4.4.2 Political Parties and Ideology

The previous section has drawn attention to the prominence of a political factor in relation to just one aspect - that is, public spending on education. This section will expand upon the link between political changes and shifts in HE policy, which proves

assistance in preparing and implementation of the second reform program has been an impact of the serious financial crisis of 1995 on higher education.

⁴⁵ It is difficult to speculate about the route in which the second cycle of restructuring efforts would have evolved, had it not been discontinued, but there are good reasons that suggest that the system would have resisted the changes. The perplexing fact is that despite the earnestness of the preparatory work for the second World Bank reform project, some of interviewed experts were utterly skeptical about the success of the project. Unforthcoming politicians and self-interested academics were usually taken for the main obstacles to fulfilling the policy pronouncements (interviews with policy-makers).

to be especially well-pronounced in Hungary. Since the 1990s elections, Hungary has witnessed the change in government in every four years. Indeed, an installation of a new governing coalition has been accompanied by a new set of regulations, acts, modifications and amendments to an existing legislation. Table 4.11 below maps some of the most important changes in the course of HE development carried out under dominant parties. It should be noted that constant fluctuation in the legislation for HE has been characteristic of the transformation process in general, even in countries with more stable governments. But the bearing of the governmental change on policy outcome is unmistakably clear in case of Hungary. It is quite another question how consistent these changes are with the ideological stance embraced by respective parties. This section maps policy changes within the broader context and examines the origins of observed variations in policy outcomes.

Table 4.11: Higher Education Policy Choices in Light of Electoral Outcome in Hungary, 1990-2006

<i>Governing Coalitions</i>	1990-1994 MDF+FKGP+KDNP Right-leaning	1994-1998 MSzP+ SzDSz Left-leaning	1998-2002 FIDESZ+FKGP Right-leaning	2002-2006 MSzP+ SzDSz Left-leaning
<i>Important Changes in the HE Policy:</i>	<ul style="list-style-type: none"> - Permissive framework for opening private institutions provided by 1990 Law on Education - the WB Loan signed in 1991 -The 1993 Law on HE -The 1994 Law on the Hungarian Academy of Sciences 	<ul style="list-style-type: none"> -1995 “Bokros package” (tuition fees for all) - Parliament resolution passed in 1995 -1996 amendment allow self-financed students - the second WB loan signed in 1998 	<ul style="list-style-type: none"> - Preparation of the student loan scheme starts in 1998 -Abolishing tuition fees in 1998 - The 1999 Amendment - Student loan scheme is put in operation in 2001 - Canceling the WB loan in 2002 	<ul style="list-style-type: none"> -Change in terms of the loan in 2002 -Government started to adopt the Bologna principles in 2002 -Preparation for the third phase of reforms - New law on HE passed in 2005

Far from supposing a widespread consensus over each and every issue on the reform policy agenda, political parties of Hungary before the 1990 elections and during its

immediate aftermath, when the first law on HE was drafted, could not yet be differentiated on the basis of their programs on conceived paths of HE restructuring. It was not until the next elections that conflicting positions had crystallized. Yet, the period when the most crucial choices of economic and institutional design were hammered out through protracted negotiations and pacts has shaped the future course of HE in one way or another.

By 1989, a general consensus had reached between the old and new elites about the necessity of far-reaching political changes before the existing economic problems could be dealt with. But beyond that, choices of democratic institutional design were crafted through extensive roundtable negotiations between the reformist wing of the Hungarian communist party and still emerging opposition. As there was no strong communist party, opposition forces were not compelled to unite. This explains why multi-party system, although nascent, had begun to form even prior to the first election in 1990. On the one side of a political bargaining the ruling party was represented by the Hungarian Socialist Party (MSzP) – the newly created party from the Hungarian Socialist Worker’s Party. On the other hand, the most prominent actors on the opposition side included the Alliance of Free Democrats (SzDSz) - urban intellectuals’ dissident movement founded in 1988, the Hungarian Democratic Forum (MDF) - more populist party established in 1987, and the Alliance of Young Democrats (Fidesz) - critical students’ movement. In addition, different historical parties, such as the Agrarian Independent Smallholder’s Party (FKGP) and the Christian Democratic People’s Party (KDNP) had revived and resurfaced at the political arena just before the 1989.

Having negotiated the ending of the old regime and having elected the new government, policy issues that called for most urgent dealing were indeed those concerning the country's economy. While the necessity of changes in the property structure have never been brought into question, considerable disagreements on various aspects of privatization scheme as well as economic policy in general were manifest from the outset between the liberal-democratic coalition of the SzDSz and Fidesz on the one hand (before the latter's divorce from the liberal position) and the Christian-national-populist side on the other. I shall not pursue the details of this debate beyond remarking that during its four years in office, the MDF government took only small and modest steps toward economic restructuring. The strategies favored by the Antall government were that of incremental reforms directed at remedying immediate problems and making no allowance for long-run effects of the preferred policies. On the whole, the first phase of Hungary's economic transformation was characterized with gradual changes and great cautiousness (Stark, Bruszt 1998).

It was against this background that the debate revolving around the university restructuring had opened up. Again, underlying the discourse was a widespread consensus among politicians and HE leadership concerning the urgency and necessity of fundamental transformation of the HE field. Nonetheless, the attitude that the transformation of institutions could be assured by a gradual process, or more generally, that the system that had started its move toward decentralization some three decades earlier could afford a policy of incremental reforms could be discerned from the onset. Besides, having toyed with introducing some market elements into the system, there were bureaucrats who could claim the advantage of accumulated

practical experience required for further reconfiguration of the system of HE.⁴⁶ So, even if the official rhetoric had a strong resonance with that in other post-communist countries, the formative period of the Hungarian HE policy-making distinguishes itself through its slow and lengthened attempts further hindered by the resistance of potential losers of the reorganization proposal.

In the wake of the transformation, if there was a consensus among those having a stake in the future of HE, this had to do with upholding the leading responsibility of the state for the transition to a more accessible HE. Importantly, interests of the previously informal group of the key institutional leaders that by the aftermath of the regime change had become formally organized and thus capable of pressing their aggregate interests for or against a policy more effectively also favored the public sector expansion. This univocal endorsement of the time-honored notion of HE as a public good benefiting society at large assured privileged footing of the sector against other public sectors in competing for the tight state budget. But soon after, the stance taken by different political parties and stakeholders toward the state involvement in HE had become a great deal more diverse. Presenting HE policy variation against the background of political changes, Table 4.11 shows that attempts to lessen the role of the state in HE funding put forward by the left-leaning parties were reverted by the successive government soon after its election.

Another obvious instance when the course of reforms was changed fundamentally following the governmental change has to do with canceling the second WB loan signed under the MSzP led government. Following the electoral victory in 1998, the

⁴⁶ In fact, some interviewees have described the mode of the early stages of policy-making in terms of “learning by doing” (interviews with Laszlo Dinya).

Fidesz formed the governing coalition with the Agrarian Independent Smallholder's Party (the FKGP). Soon after it had installed, the new government, discontented with the way the reforms started to be implemented, suggested the following additional components: to conduct in depth analysis of pertinent laws and regulations, to assure greater consensus and commitment among stakeholders and to develop a communications strategy that would permit greater awareness of the issues involved among wider public (The World Bank). But in 2002, the Fidesz led government altered the course of the reforms fundamentally by canceling the loan altogether.

These examples are noteworthy also to the extent that they highlight the obvious contradiction that exists between political party ideology and policy outcomes in Hungary. Indeed, practices such as imposition of tuition fees upon all students, allowing institutions to admit self-financed students and to charge higher supplementary fees run against the social protectionist stance embraced by the Socialist party. The reason for this apparent contradiction, however, resides in the fact that social-cultural orientation more than economic issues structure the political party-divide in Hungary. This in turn is explained by the fact that emerging opposition parties, in effectively competing with incumbent reform communists who could credibly assert their adherence to market economy principles, needed to base their appeal on other than economic policy (Kitschelt et al 1999). It appears that like with economic reform, left/right placements have a weak predicting force for a party's ideological viewpoint surrounding HE issues.

Therefore, even if the Fidesz positions itself on the right to the center, its standpoint toward HE remains to be largely social protectionist - advocating further expansion of

already impressive rate of enrollments and maintaining strong state profile in funding as well as provision of educational services. According to its official rhetoric, postsecondary education shall be an effective re-distributive tool in the hands of government and the powerful means for enhancing lifetime chances of socially, politically or otherwise disadvantaged strata of the population. Surprisingly, the movement toward mass HE is defended in the name of the Humboldtian – that is inherently elitist – traditions (interviews with Janos Setenyi). At the same time, the reform project advanced by the SzDSz, left to the center but market liberal party, favors decreased involvement of the state and correspondingly encourages market mechanisms in steering of the sector.

4.4.3 The Mode of Interest Intermediation

From the study undertaken it has become apparent that, in spite of pioneering reform attempts, accomplishing policy pronouncements has proven to be decidedly challenging in Hungary. One point that has emerged from multiple interviews conducted with key actors as well as from examination of written sources is cautious strategies preferred by politicians over taking politically unpalatable decisions that are requisite for achieving far-reaching results. Another and most salient point, however, is vested interests of institutional leadership, often directed at preserving status quo and against conceived changes.

The examples indicative of the strength of the academic community in Hungary are multiple. That the movement toward fulfilling one of the earliest reform goals of the

institutional integration could eventually be started in 1999- 2000 and only under the pressure of the state authority is one clear illustration of the persistence that the HE system has exhibited. In the same way, much of the difficulties along the way of the implementation of other objectives set forth by the WB could be related to their incongruity with that of lobby groups and senior academics representing different institutions. Being composed of HE experts and representatives and headed by the MoE, the *Catching up with European Higher Education Fund* (CEF) proved to be overly susceptible to pressures hailed from various interests groups and stakeholders.⁴⁷

As already discussed, difficulties with re-integrating teaching and research activities, and with establishing unified control over the HE sector are to be related to the same protective strategies pursued by potential losers of the restructuring scheme. The study has also emphasized that the reasons why vocational schools have not managed to diversify their profile toward high-demand areas and still provide instruction mainly in technical fields, and in general, why HE institutions continue to reflect the supply-side capacity also reside with overriding power of senior academics. As the interviews undertaken have revealed, like with other reform proposals already considered, political influence that institutions bring to bear on policy-making process accounts for the endurance of largely redundant programs (interviews with András Semjén). One of the most vivid illustrations of the strength of institutional forces, however, relates to the remarkable resistance institutions have shown to implementing changes necessitated by the Bologna process. Moving to the Anglo-Saxon type three-level system that most post-communist countries, including Latvia,

⁴⁷ Responsible for implementation of the objectives of the project, the fund was established in 1991.

Lithuania and Georgia, have accomplished by the mid 1990s, has proven to be particularly challenging in Hungary. Fulfilling the requirements of the Bologna agreement to which Hungary signed in 1999 has been resisted by institutions on the grounds that binary system was more apt for the Hungarian context until the implementation of the new Law on Higher Education outlawed the dual system.

Final and most important to this research point is that interests of powerful institutional leaders, who regard private institutions as tangible competitors for already shrinking age cohorts, are held largely responsible for existing constraints upon private sector expansion (Nagy-Darvas, Darvas 1999). Being organized as a group, vested interests of senior academics find effective translation into choices of the higher educational policy. One such important professional group, *the Hungarian Rectors Conference* (HRC) was established as early as 1987 and gained legal existence as a formally organized body already in 1991. In collaboration with two other institutionalized groups, *the Conference of College Directors* (CCD) and *the Chair of Art University Rectors* (CUR), which encompass representatives of nearly all universities and colleges, effective mechanism for coordinating their interest, foreseeing long-run effects of proposed changes, setting the strategy and articulation of the aggregate demands was created. These instances also reveal an essential part played by two intermediary bodies in attending to the leaders of the state institutions in successfully pressing their organized interests for a preferred policy. Having significant advisory powers and being composed by representatives of various colleges and universities, *the Higher Education Scientific Council* (HESC) and *the Hungarian Accreditation Committee* (HAC) are in control of both authorization of new programs as well as institutions and ceasing the old ones. As evidenced by

recent practices, the changes in the both directions have been equally protracted and cumbersome. Thus, the Hungarian developments bear out the conjectured negative link between the strength of academic community and other relevant interest groups, and private HE growth.

4.4.4 Demographic, Ethno-Linguistic and Religious Factors

Out of the four countries under examination, Hungary is ethno-linguistically most homogeneous, where ethnic Hungarians constitute 92.3 percent, while Roma - the second largest ethnic group – 1.9 percent of the total population (World Factbook based on 2001 census. See Appendix 4 for more details). Given the fact that almost 94 percent of the population speaks the Hungarian language, it is not unexpected to find ethnic-linguistic motive playing almost no part in non-state sector growth in Hungary. There are few private universities that provide education on other than Hungarian, like the German speaking Andrásy University and the English language CEU, but this has less to do with serving the needs of the country's ethnic minorities but rather with the nature of studies these institutions provide and the mission they pursue.

In contrast, the religious factor has played potent role in the Hungarian non-state HE growth. We have seen that both university and college type church institutions outnumber private foundation institutions (though the total number of enrollments is greater at private institutions). This is hardly surprising as Hungary is much more diverse religiously than it is ethno-linguistically. The dominant religious faith is the

Roman Catholicism, adherents of which account for little more than half of the population. The second largest group is Calvinist, accounting for 16 percent, while other groups include Lutheran and Greek Orthodox. Respectively, Catholic institutions dominate the Church sub-sector, but there are also several reformist institutions as well these catering for the needs of Lutheran, Jewish, Buddhist and other religious belief followers. Despite such heterogeneity, there is good evidence to suppose that the predominance of denominational HE institutions reflects supply rather than demand side capacity. Religious establishments of higher learning, in all probability because of the deep-seated ties with the state, continue to enjoy notably privileged status, especially when it comes to funding issues. It is noteworthy that political levers that Church institutions possess sometimes have been employed to the detriment of the foundation-run sector growth (Nagy-Darvas, Darvas 1999).

Given their extreme financial reliance on the central government it is understandable why religious associations often act similarly to interest groups for securing benefits. To this we should add growing competition for age cohorts created by sharply falling demographics. It is notable that while downward demographic trend is noticeable in most countries in the region, including the three under consideration, from 1989 onwards, whereas the decline started in Hungary well before that date. As Table 4.12 shows, as early as in 1980, the rate of natural population increase was 0.3 and in 1989 it had declined to -2, the lowest point among 17 post-communist countries (UNICEF Innocenti Research Centre, 2001. See Appendix 5 for figures for the selected countries). Therefore, intensified competition created by a sharp demographic challenge is perceptible in the rest of the region only after 2005, it has been taking its toll on HE enrollments in Hungary already from the mid 1990s.

Table 4.12: Higher Education Enrollments (percent of 19-24 population) and Demographic Change in Hungary, 1980-2000

	1980	1989	1991	1993	1995	1999	2000
Higher education enrollments	n/a	12.2	12.3	14.1	18	28.9	n/a
Rate of natural population increase	0.3	-2.0	-1.7	-3.2	-3.3	-4.8	n/a
Population age 0-17 (beginning of year, thousands)	n/a	2,648	2,587	2,497	2,358	2,135	2,090

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001 based on EBRD (2000), 1999 estimate, 2000 projection

4.4.5 Conclusion

To sum up what was said above, the broad level factors provide fairly adequate account for the state-led nature of the Hungarian HE. The thrust to broaden the participation rate in formerly elitist HE sector through public enrollment growth was central to the early reform-policy agenda, which is consistent with the general political environment characteristic of the Hungary's initial phase of transformation. In fact, the belief in the utter importance of human capital development for fostering economic growth and enhancing productivity of the country of limited natural resources had taken its roots during the public discourse among prominent scholars and representatives of the HE sector that got underway in the late 80s. And, as the public discourse permeated a policy debate over the future of the sector, the legitimacy of the state in fulfilling this mission was never brought into the question by the policy elite, even after the regime changes, the way it was in a number of

countries in transition.⁴⁸ In Hungary, like in other CEE countries, defining institutions against the state, reasserting the dual concept of freedom in teaching and learning and thus restoring the Humboldtian ideal carried political symbolism and stood as a part of a wider political debate. Symbolical significance though these appeals had, the state authority was never altogether discredited in Hungary. Attempts of the reformist faction of the communist party have ensured that some faith in the state was sustained. That the party-state did not collapse and institutions were not destroyed but rather were transformed legally can explain much of state-university relations as well (Stark, Bruszt 1998).

An additional factor is that, unlike many post-communist countries where collapsed economies compelled governments to delegate some of the responsibility for HE provision to private sectors, there has been less pressing need for the Hungarian government to do so. At the outset, the World Bank's loan of 150 million USD was negotiated to Hungary to launch comprehensive restructuring of its public sector and to carry out enrollment expansion. Even if some experts on education lament that the great opportunity to embark on sweeping reforms was missed precisely then, at the same time as others endorsing the most extreme stance view the World Bank's reform project as a complete failure, the relevant point still remains (interviews with policymakers). That is, comparatively, initiatives to implement far-reaching changes in state institutions so as to bring their curricula and course-offerings up to date were far less constrained by the economic reality in Hungary. Thus, the part of explanation

⁴⁸ In Estonia, for instance, the immediate aftermath of the collapse of communism witnessed a spectacular growth of private institutions carrying out an ambitious and distinctive mission of challenging and substituting for existing institutional order the legitimacy of which had brought into disrepute. It was only afterward that this pretentious aspiration had worn away until poorly endowed private institutions were left with a common and less-ambitious motivation of a profit seeking (Tomusk 2003).

for limited extent of the non-state sector development and the state sector privatization lies in the economic factor.

But more importantly, our investigation has exposed the remarkable influence that different organized groups, such as religious and senior academics, have brought to bear on governmental stance towards privately provided education. Available evidence indicates that there were attempts of establishing institutions by faculty driven by a need for additional employment opportunities in the non-state sector, but these endeavors were well controlled via various legal restrictions from the start. Other policies, like delaying student loans that, according to the literature has considerable implications for paid sector development, can be counted as part of this general strategy. Quite evidently, the comparative success of the Hungarian academic community resides with their formal organization, lending itself to effective advancement of the long-term institutional interests. But the question about driving forces behind their attempt to thwart private sector development still remains. The fact that Hungary has been facing a sharp demographic challenge already since the beginning of the 1980s has obviously made the competition for university age population more heightened and well-pronounced from the start. However, public funding available for private institutions that is unparalleled in the entire region has served as the crucial factor for fostering strong inter-sectoral competition.⁴⁹ Thus, in Hungary, in difference from much of the region, the two sectors in HE compete not only for student cohorts but also for scarce governmental resources.

⁴⁹ The availability of state funding for non-state sector perhaps has to do with the long-existence of religious institutions historically funded from the public budget. Governmental funding policies could not discriminate between the two types of non-state institutions greatly.

CHAPTER 5: THE CASE OF GEORGIA

5.1 Introduction

In much of the region, the beginning of the 1990s witnessed creation and growth of private higher education institutions on the one hand and privatization of public educational services on the other. The Georgian developments mostly fit this general pattern, but, in many respects, it is an extreme case. First of all, the scale and intensity of private growth and its subsequent fall on the one hand, and the privatization of public institutions on the other, have been dramatic in Georgia. In fact, not only private but public sector as well saw striking fluctuations in its growth patterns. These major transformations in the field of HE have taken place against the backdrop of an extremely lax regulatory regime characteristic of the first decade of Georgia's political-economic transformation. The governmental change in 2003, however, marks the major shift in the regulatory regime towards both sectors in HE. Thus, the Georgian case is also interesting from the point of the impact of that drastic change in the governmental policies on HE development.

The case study is divided into three main parts, each concentrating on developments taking place before and after the changes of 2003. The first part examines the ways in which two sectors in the Georgian HE have been evolving since the collapse of communism up until 2005. The comparison is facilitated by examination of inter-sectoral dynamics along the dimensions of ownership, finance, governance and control, and mission. The second part of our investigation analyses various governmental policies put in place that are thought to have significant effect on HE

dynamics. The aim of the final part of the case study is to assess a relative weight of each explanatory variable on the documented evidence.

5.2 The Structure of the Higher Education Sector

5.2.1 Inter-Sectoral Dynamics

Table 5.1 below reveals a remarkable fluctuation in student enrollments at both sectors in HE. Following an explosive growth in the beginning of the 1990s, private enrollments continued to expand further until 1996/97 when the sector enrolled the highest number of students. Measured in the share of all student enrollments, the growth of the private sector had reached its peak during the academic year of 1995/96, when the sector accommodated 33.8 percent of students enrolled in all HE institutions. However, from that point there has been a striking reduction in the private sector enrollment share. It is important to add that since 1996/97 the size of the sector has been decreasing in absolute terms as well.

Table 5.1: Numerical Overview of the Public and Private Higher Education Sectors in Georgia, 1990-2006

Year	N of Private Institutions	Total Private Enrollments	Private enrollm as % of the total HE enrolm.	N of public institut	Total Public Institution Enrollments	Self-financed students as % of the total public enrollm.
1990/91				19	103 893	---
1991/92	48	10633	9.4	19	102 818	---
1992/93	131	33063	26.7	18	90 909	---
1993/94	Na	Na		23	91 110	7.8
1994/95	93	41348	30.4	23	94 642	10.7
1995/96	109	42006	33.8	23	82 230	12.8
1996/97	122	42889	33.1	21	86 506	18.1
1997/98	159	40162	31.5	23	87 258	26.1
1998/99	154	38272	29.8	24	90 054	34.3
1999/00	162	40126	29.7	24	95 013	35.9
2000/01	146	33138	23.8	26	105 822	38.1
2001/02	153	31887	21.6	26	115 546	43.3
2002/03	154	31465	20.5	26	122 223	43.1
2003/04	150	29338	19.2	26	123 866	43.6
2004/05	172	35440	20.5	26	137 021	46.3
2005/06	146	30512	21.1	25	113 801	47.9

Source: Calculated from the State Department of Statistics Data

Note: by the 1st of October 1997, the number of registered private higher education institutions was 267, but only 60% of these were covered by statistical observation. Data for the academic year of 1993/94 are unavailable.

Equally prominent are the changes that have been taking place in the public HE sector since the collapse of communism. Before the events of 1989, the HE cohort enrollment level in Georgia constituted around 19 percent, fairly high according to the Soviet standards (UNICEF Innocenti Research Centre 2001) (Appendix 1). During years immediately following the Soviet rule the number of public enrollments actually dropped. As can be calculated from Table 5.1 above, by 1997/98, the number had fallen by some 20 percent compared to 1990/91. It is only from 1997/98 that we observe the public participation rise, clearly owing to the growing body of self-financed students. As for the number of public institutions, the state-provided HE in pre-transition Georgia was composed of 19 institutions offering training in more than

400 disciplines. The number of public institutions has been growing since then so that by 2004/05 the public sector was comprised of 26 universities along with their 18 branch institutions, which makes 44 campuses altogether.⁵⁰

Owing to the constant flux in both sector enrollments, significant fluctuation is observed also in the total student numbers and in the rate of HE participation, which expanded by some 10 percent over a decade. Table 5.2 below illustrates this:

Table 5.2: Participation in Higher Education in Georgia, 1989-2000

Year	Total Student Enrollm	% of 19-24 age population
1989/90	n/a	19.1
1990/91	103 893	21.7
1991/92	113 451	23.8
1992/93	123 972	26.2
1993/94	91 110 ^a	19.4
1994/95	135 990	28.6
1995/96	124 236	26.1
1996/97	129 395	27.0
1997/98	127 420	26.2
1998/99	128 326	26.0
1999/00	138 961	29.0

Note: ^a student data 1993 excludes private institutions

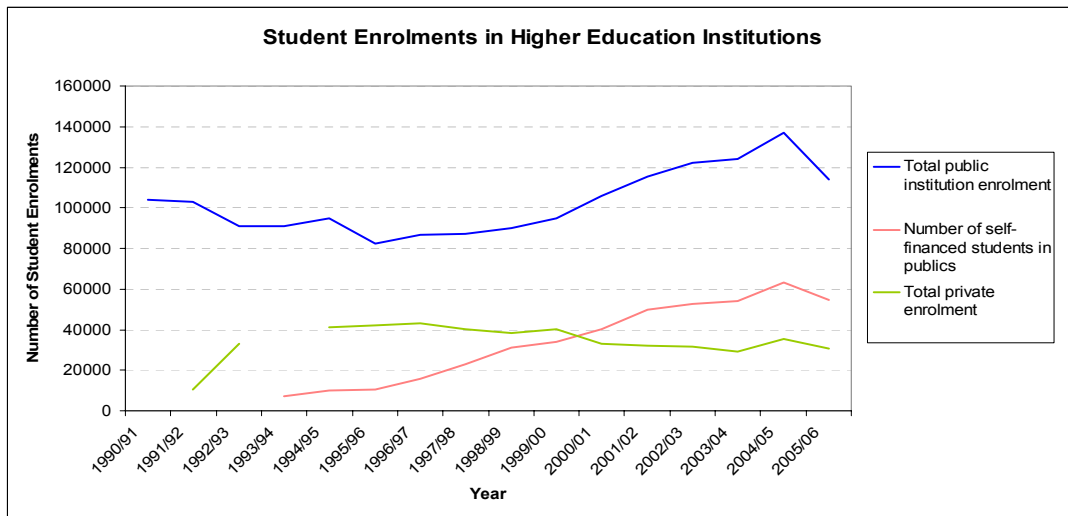
Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research centre, 2001. The State Department of Statistics Data

It is not difficult to garner from Table 5.1 above, that this increase was mostly due to the growth in self-financed students both at the private and public sectors in HE. Public institutions have been trying to increasingly complement scarce public revenues with private funds, mostly by means of study fees. State institutions were authorized to admit self-financed students in 1993 and if during the first academic

⁵⁰ The decrease in the number of public institutions from 26 in 2004 to 25 in 2005 reflects the fact that one public institution (the Georgian Technical University) failed to obtain the state accreditation.

year only 7.8 percent of all students enrolled in the public sector paid tuition fees, by 2002 that figure would be 43.3 percent. Graph 1 below better captures the private-public growth dynamics, showing that public enrollments expand in line with the increase of self-financed students, while the latter is negatively correlated with the private enrollment growth.

Figure 5.1: Student Enrollments in Higher Education Institutions in Georgia



Note: A figure for private enrollments for the academic year of 1993/94 is unavailable.
 Source: The State Department of Statistics of Georgia.

Student payments represent the major source of income for most public universities. In 2001-2002, for example, revenues generated from student tuition at *the Tbilisi State University* and *the Medical University* constituted respectively, two and three times higher than funds received from the state (Gvishiani and Chapman 2002). The dependence of public institutions on tuition fees is a remarkable privatization. In finance, it clearly makes the public and private sectors more alike. Indeed the financial change then relates to other changes. It is now difficult to discern the difference between activities undertaken and mission pursued by Georgia's two

sectors in HE. In an attempt to attract more fee-paying students, public institutions, like private counterparts, have tried hard to stay attuned to labor-market fluctuations by providing training in high demand fields like information technology, law, business administration, and foreign languages. Whatever their full profile, all public universities run programs in market-oriented law and economics. In addition, besides the official Georgian language of instruction, courses are offered in languages of the country's minorities, such as Russian, Armenian and Azeri, as well as in English and German.

The same holds true for religious education. A wide availability of religious studies in the public sector can be seen as a reaction against communist atheism and reflects the absence of clear separation between the state and religion, which, to a certain extent, obviates the need for its private provision. According to private HE literature, such ethnic and religious appeals have been characteristic of private HE (James 1987, Levy 1987). As the section below will demonstrate, the Georgian case defies certain private sector patterns characteristic elsewhere, but even more remarkable is the private-public juxtaposition – the public sector undertaking a kind of internal diversification (ethnic and religious) normally associated with the private sector, yet largely absent from the Georgian private sector.

Although Georgian developments run parallel to those observed elsewhere in the region, in no other country were public institutions granted with such leeway to open new business oriented courses and new campuses to run them, as in Georgia. Georgia thus represents an extreme case not only with respect to intensive private growth and

its equally intensive fall but also with respect to aberrant public sector in its being private in some key respects.

5.2.2 Private Higher Education Institution Growth Patterns

As in other countries in the region, public higher education predates private in Georgia. *The Decree of the Supreme Council of the Republic of Georgia* passed in June 1991, served as the basis for the establishment of first privately owned institutions. Since then, the growth of private institutions was so rapid that by the 1992/93 academic year, there already were 131 such higher educational establishments (Table 5.3). The major fall in the number of institutions came about in 1994/95. It is important to note that even though the number of private education providers had reduced, student enrollments had actually grown which might indicate that smaller institutions that could not attract sufficient number of students could not stay in business. The more recent development, however, is marked by a considerable reduction in the private sector size, measured in both absolute numbers and relative to public enrollments.

Any interpretation of the above evidence, though, must be preceded by a caveat on accuracy of these figures. For various reasons, the number of actually operating institutions can be different from what is recorded by the Ministry of Education or the State Department of Statistics. As note to the Table 5.1 indicates, it is often the case that there are more institutions operating than covered by data and vice versa, it also happens that not all licensed institutions are in operation. For instance, according to

the figures provided by the MoE, in 2002, there were 209 licensed private institutions. But owing to insufficient student demand, only 153 institutions actually functioned, which captured around 21.6 percent of the total student enrollments. It is of utmost importance to emphasize from the outset that not all sources document the private sector dynamics in the same way. The numbers in Tables 5.1, 5.2 and 5.3 were calculated from the State Department of Statistics of Georgia data – one of the most reliable sources there is. But as from interviews with the MoE representatives it has become clear, they are, at best, a close approximation of the real picture (for the list of interviewees see Appendix 7). In general, governmental agencies rarely keep neat record of private higher education development so the lack of accurate data is by no means uncommon internationally (Levy 1986, James 1986), but the incongruity between various and ostensibly equally credible sources are sometimes so great in Georgia that it becomes almost unfeasible to base analysis on these figures. That being the case, in this study all effort is made to report uncertainly and account for different versions of the private sector development.

Table 5.3: Numerical Overview of the Private Higher Education Sector in Georgia, 1990-2006

Year	N of Institutions	Total Enrollments	Private enrollm as % of the total HE enrollm.
1991/92	48	10633	9.4
1992/93	131	33063	26.7
1993/94	Na	Na	
1994/95	93	41348	30.4
1995/96	109	42006	33.8
1996/97	122	42889	33.1
1997/98	159	40162	31.5
1998/99	154	38272	29.8
1999/00	162	40126	29.7
2000/01	146	33138	23.8
2001/02	153	31887	21.6
2002/03	154	31465	20.5
2003/04	150	29338	19.2
2004/05	172	35440	20.5
2005/06	146	30512	21.1

Source: the State Department of Statistics

Note: by the 1st of October 1997, the number of registered private higher education institutions was 267, but only 60% of these were covered by statistical observation. Data for the academic year of 1993/94 are unavailable.

Mapping the private sector dynamics, Table 5.3 shows that the growth and decline in the market share of private enrollments has been spectacular in Georgia. Although to a lesser extent, the tendency is noticeable in those post-communist countries that witnessed explosive expansion of private institutions in the beginning of the 1990s, as well as beyond the region (Levy in progress a). However, the private HE decline he finds has been recorded mostly in relative, not in absolute, terms. In Georgia, not only did the share of private enrollments fall by almost 15 percent over a few years time (from 33.8 percent in 1995/96 to 19.2 percent in 2003/04) but the decline was equally sharp in absolute figures as well. Namely, if in 1996/97, some 42,889 students attended private HE institutions, their number had fallen to 29, 388 in 2003/04 (that is a one third drop).

Private HE literature shows that a decline in private enrollment shares after an initial explosive growth is not uncommon internationally. In fact, it often happens that an easy initial proliferation of private educational organizations gives rise to a strong governmental regulatory action.⁵¹ But there are two points of distinction for the Georgian case. One is that the sharp decline in private enrollments concerns not only proportional shares but also absolute numbers. The other distinctive point of our case is that we find no major change in the governmental regulatory regime during the time-period when the decline took place. Examining factors that the private HE literature cites in connection to sectoral share decline forms the subject matter of subsequent parts of the study.

5.2.2.1 Ownership Status

Private institutions are quite distinct on the measure of ownership status in Georgia. Both documents - *the Law on Higher Education, 2004* and *the Law on Education, 1997* - stipulate that a HE institution may be established with the status of a legal entity of public law and a legal entity of private law. The latter are registered as Limited Liability Companies or for-profit educational establishments and fall under the regulation of *the Law on Higher Education, the Law of Georgia on Entrepreneurial Activities* and *the Civil Code of Georgia*. According to these documents, the state and local self-governments bodies may not be founders, interest holders or members of an institutions established as a legal entity of private law. Appendix 6 shows that all private institutions operating in Georgia are registered as limited liability companies that are taxed in the vein of commercial enterprises.

⁵¹ This was markedly true for some post-communist nations. In the mid-1990s, “delayed regulation” of the Russian and Romanian governments, for example, served to inhibit unfettered private growth to some extent (Levy 2005).

5.2.2.2 Institutional Funding

Governmental policies towards private HE have witnessed a considerable change with passing the new Law on Higher Education in 2004. Before that, governmental funding neither in the form of direct appropriations nor through tax deductions and financing via their students applied to private institutions. Only a handful of institutions (co)founded by international organizations had other funds than raised from student tuition available to them, as illustrated by Table 5.4 below. The following sections will demonstrate that these institutions stand out against undifferentiated pool of private educational establishments not only with regard to funding, but also with other crucial respects.

Table 5.4: Sources of Finance in five Private Higher Education Institutions in Georgia

Institution	Sources of Finance
Georgian Institute of Public Affairs (GIPA)	Tuition fees, the USA State Department, OSGF, the Georgian Government, Eurasia Foundation
Caucasus School of Business (CSB)	Tuition fees, Eurasia Foundation and USIA
Tbilisi Institute of Asia and Africa (TIAA)	Tuition fees, support from foreign embassies in form of equipment donations
Grigol Robakidze University “Alma Mater”	Tuition fees, Dental Clinics and TEMPUS program

Source: Kachkachishvili (2001)

More common though was that students' contributions constituted the single source of income for private institutions. Tuition fees at private sector usually range from 150 to 1000 USD that is comparable to those in “paid divisions” of the public sector but less than what top private institutions charge.

The Law on Higher Education, 2004 has established a funding mechanism according to which all HE institutions, be that public or private, are entitled to receive governmental grants. This makes Georgia one of the few post-communist countries where private institutions are eligible for governmental study grants.⁵² Thus, funding follows students who, having won the competition for portable study grants (vouchers), are free to choose among all state accredited private and public institutions. Although grants continue to be merit based, uniform grants that were obtainable by only a few students have been replaced by those on a sliding monetary scale. Institutions of both public and private type freely determine the level of student fees but it is the state that sets the rate of governmental grants, which is equal for the same education program for all HE institutions. In case the level of tuition exceeds the rate set by the state, both types of institutions are authorized to compensate the difference with other resources (Chapter XIII, Article 81). Table 5.5 shows the distribution of state funded student across public and private universities:

⁵² As we have seen, another country providing governmental grants to non-state institutions is Hungary.

Table 5.5: Number of Students Admitted in 2006, Receiving State Grants and Self-financed, by Public and Private Institutions in Georgia

HEIs	Total number of Students admitted in 2006/07	Among Them					Self Financed
		Total	Receiving state grants				
			30% grant	50% grant	70% grant	100% grant	
Public	15583	6561	2929	1647	1225	760	9022
Private	3896	1710	864	369	256	221	2186
Total:	19479	8271	3793	2016	1481	981	11208

Source: MoES Data in Martin Godfrey, 2007.

To sum up, being exclusively tuition-dependent, private institutions were distinctly private on the criteria of funding before the changes of 2003, but there was still significant blurring on that dimension because of increasing tendency from public institutions to compensate scarce governmental recourses by private contributions. Institutional funding has become even less helpful a criterion for telling apart two types of institutions recently as governmental financial policies apply equally for all accredited institutions, notwithstanding their ownership status.

5.2.2.3 Governance and Control

The most fundamental of all changes that the political events of 2003 have brought about relates to the governance and control of not only private HE institutions but also of the entire HE sector. In fact, a largely unregulated and chaotic environment against which the private sector had developed epitomizes the general higher education policy environment present in Georgia of that time. As it was noted, the authorities started to issue licenses to private institutions already in 1991, but subsequent legal acts towards regulating unrestricted expansion followed only from the mid 1990s. *State Program for Education Reform and a Plan for its Realization* issued in 1995 was first such document, which was followed by passing of *the Law of*

Georgia on Education in 1997, *the Georgian Civil Code* in 1997 and *the Law of Georgia on Licensing Entrepreneurial Activities* in 1999. Despite the fact there was some fall in the number of private institutions (but not enrollments) in 1994/95, there is no further evidence suggesting that the decrease ensued from the regulatory measures. The government did stop giving out licenses later in 1997, to be renewed again in 1999, following the Ministerial decision (Sharvashidze 2005). This is when the Licensing Committee was set up and the guidelines for accreditation procedure were developed, through the joint efforts of the Ministry, higher educational leadership and international experts. As the result of governmental effort to establish some control over easily expanded sector, eight private institutions were closed down on the bases of attestation reviews. However, no institution has even been denied a license or closed down since then and before actually putting quality assurance procedure into practice in 2005.

As interviewed government officials have indicated, the earlier drop in institution numbers was mainly due to the fact that smaller institutions could not survive the competition. Those that did emerged stronger to enroll more students (interviews with the MoE officials). Neither is there any indication that the sharp decline manifested in the drop of both total student enrollments and the sector's market shares experienced later ensued from increased regulatory measures. Available evidence instead suggests that HE sector dynamics in Georgia for the most part reflects competitive inter-sectoral impacts: changing dynamics in one sector affect the other sector, spurring the changes in the second sector that in turn affect the first sector (Pachuashvili 2007a). In general, a lack of flexibility in responding to the changing labor market demands has been characteristic of public institutions (Levy

1992). In Georgia too, the inability of public institutions to quickly restructure their curriculum and course-offerings necessitated by powerful political-economic changes served as one of the main enabling factors for incredibly easy private growth. However, from the mid 1990s, public institutions started to emerge as tangible competitors for the self-paying student body. This is not to say that the major reforms were undertaken to transform the sector to suit the requirements of the new economy. Quite the opposite: the reform efforts were mostly absent until the political changes of 2003. However, owing to the negligent attitude from governmental authorities, public institutions too had enjoyed unparalleled freedom to introduce highly demanded courses, not typically offered in public sectors, and open new campuses to cater to the needs of those who could and would pay the tuition.

Both in the region and beyond, it has been common for private institutions to proliferate in an anarchic setting, which usually triggers a reactive action or “delayed regulation” from state authorities. The state reactive action, which most post-communist countries experienced in the middle of the 1990s, was delayed in Georgia for an uncommonly long period of time.⁵³ Among practices that the 2004 Higher Education Law established were strengthening licensing method and setting up accreditation and unified national examination procedures. But before even starting institutional accreditation process, the MoE conducted validity test of already licensed HE organizations. Only 79 out of 178 institutions could meet nominal requirements set by *the Law of Georgia on Licensing Entrepreneurial Activities*. The bulk of institutions not meeting the licensing standards were private.

⁵³ Daniel Levy has employed the term *Delayed Delayed Regulation* in relation to the Georgian developments.

On the whole, the Law on Higher Education does not differentiate between private and public institutions, though private institutions are subject to less governmental power and control (Chapter II). The Law grants private institutions with more self-rule in organizing institutions and defining their hiring policies. For instance, Chapter V on “Personnel of Higher Education Institutions” (with the exception of articles 32 and 35) do not apply to private institutions. Chapter XIV on “Property of Higher Education Institutions” also excludes privately owned educational organizations.

5.2.2.4 Institutional Mission

Pragmatic Motive: As in other countries with few or no restrictions imposed on private growth, Georgia’s private sector is mostly comprised of small, non-university type institutions that are heavily tuition-dependent and serve demand-absorbing function. In other words, the Georgian private HE landscape is dominated by so called “demand-absorbing” institutions (Levy 1986). The available information about institutions accommodating demand for “more education” is so scant that obtaining accurate numbers, let alone further data on student numbers, profile or course offerings, proves impossible. Commonly, these small, non-university type establishments share not only faculty with public institutions but often facilities as well. More so, their majority was established by active effort and involvement of the public institutional representatives. In fact, the first private institution in Georgia was opened on the basis of *the Tbilisi State University* (Gvishiani Chapman 2002). Private universities of this type are exclusively tuition-dependent and pursue pragmatic, market-oriented mission. Most of them offer training in one or two highly demanded, low cost social science disciplines such as law, economics, business

management, and marketing, though the distinguishing feature of the Georgian private HE is availability of medical training. For example, around one-quarter of all institutions operating by 2000 offered degrees in medical science (PHOPHE Country Data Georgia).⁵⁴

With regard to the absence of institutions with true elite standing, Georgia is basically typical of the region (Slantcheva and Levy 2007, Levy 2007). Among institutions that have set high academic standards notable are *the Georgian Institute of Public Affairs* (GIPA), *the European School of Management* (ESM), *Caucasus School of Business* (CSB), *the International Black Sea Sea University*, *the Tbilisi Institute of Asia and Africa* (TIAA) and *the Grigol Robakidze University “Alma Mater”* (Kachkachishvili 2001). Even though they are distinguished from the rest of the sector by numerous factors, the Georgia’s top private institutions too are small non-university type establishments, serving a similar pragmatic mission by providing instruction in selected, high-demand fields rather than concentrating on academic research. Therefore, like most newly-emerged top institutions in post-communist countries, they would qualify what Daniel Levy has termed as “semi-elite” (Levy 2008 and Levy in progress).

One of the differencing features of semi-elite institutions is that they include various international organizations among their founders which also provide financial support to institutions. For example, *the Caucasus School of Business* (CSB) was established

⁵⁴ Internationally, private institutions seldom offer instruction in medical sciences because of high costs associated with its provision. The existence of medical private institutions in Georgia once again points at the lack of quality standards.

by the joint efforts of the Consortium of Georgian Higher Education Institutions and J. Mack Robinson Business College, whereas among the founders of *the Georgian Institute of Public Affairs* (GIPA) was Eurasia Foundation, the United States Information Agency and Local Government Initiative (LGI) (Budapest, Hungary) (Kachkachishvili 2001). Besides, while so called demand-absorbing institutions have added to the geographic diversity so that every larger city now has an institution of its own, all top private institutions are located in the capital city.

The most important characteristic of the top private institutions, however, is that they have set some level of selection standards, which is unthinkable not only for the rest of the sector but also for paid divisions of public institutions. An ability to pay for desired services seems to be the sole prerequisite for gaining an access to the rest of private institutions in Georgia and although successful candidates for self-financed student places in public institutions should pass one entrance examination, in reality everybody, who can meet the cost of the study, gets accepted (Gvishiani, Chapman 2002). What seems even more striking in the Georgian setting is a drop-out rate that the semi-elite institutions have. If examples of both private and public institutions refusing fee-paying students are virtually non-existent, requirement standards in some most successful privately-owned institutions are so high that only about 60 percent of those initially enrolled endure to graduate (Table 5.6). This explains why degrees granted by these institutions enjoy much higher recognition in the labor market even if the public sector retains its greater prestige and status within the population at large. It is not surprising therefore that, more than 20 percent of students winning state grants (vouchers) in 2006 choose to study at private institutions (Godfrey 2007).

Evidently, notwithstanding the increased marketing orientation of public HE, some private institutions continue to hold on their own.

Table 5.6: Graduation and Job Placement Rates for Selected Private Institutions in Georgia

	Graduation Rate (%)	Job Placem. Rate (%)
Georgian Institute of Public Affairs (GIPA)	97	91
European School of Business (ESM)	62	87
Caucasus School of Business (CSB)	89	77
International Black Sea University (IBSU)	87	92
Alma Matter University	90	86

Source: Sharvashidze 2005

Note: many graduates leave the country to continue their studies abroad.

So, if we take the rate of employability to stand for the quality of education provided as it has sometimes been suggested, we can even state that to a large extent, Georgia’s semi-elite private sector does a better job than its public counterpart.⁵⁵ What can be said with more certainty is that general quality failure that the Georgia’s public sector has suffered from leaves plenty of room for elite alternatives. Diversified financial base, high tuition fees, certain academic standards for both gaining an access to and graduating from institutions, high job placement level coupled with high socio-economic status of its clientele – all this signals academic prestige and quality and differentiates them from other private institutions. What semi-elite private institutions do share with the rest of the sector, however, is a narrow focus and specialization. This is to say that even if distinguished private institutions succeed in

⁵⁵ Accurate data for the employability rate of public institution graduates are lacking as the Georgian public institutions do not usually follow and keep the record of their graduates’ future careers the way some of their private counterparts do. But it is thought to be much lower than that of top private institutions.

delivering quality education, they do in highly selected, low cost and much demanded fields. As Kachkachishvili's study of the Georgian private sector has demonstrated, all six institutions concentrate on market-oriented goals.⁵⁶ Finally, much of the private sector concentrates on teaching functions solely. *The Caucasus School of Business* (CSB) where Department of Scientific Research was established in 2002 is notable exception to this generalization. Management, macro and micro economics, marketing and finances are the main fields in which research is conducted at CSB.

Ethnic-Religious Motive: Other motives for global private HE growth, such as religious and ethnic, play marginal roles in Georgia. This is despite the ethno-linguistic and religious diversity of Georgia's population, thus suggesting an exception to the literature's association of national population diversity with special private higher educational institutions that cater to that diversity (Appendix 8). For example, Georgian and not a minority language of the country is the main language of provision in most private institutions. The only exceptions to this generalization are a few top institutions, usually established jointly with foreign organizations, which offer education in English. However, this has to do with the absence of textbooks in Georgian or with an attempt of institutions to attract foreign students, rather than with serving the needs of the country's ethnic minorities.

⁵⁶ For instance, in the mission statement of the Caucasus School of Business we read that its task is to *assist Georgia's transition from a planned to a free market economy through training of a new generation of business professionals and to provide Georgia and neighboring countries with future business leaders* (<http://www.csb.ge/>). The same goal of *assisting Georgia in its transition to a democratic state, based on the market economy, civil society and liberal values* is said to be the mission of the Georgian Institute of Public Affairs. In serving its mission, GIPA takes responsibility for identifying, educating and training Georgia's future leaders - public servants and journalists (<http://www.gipa.ge/>).

Furthermore, on the religious side too, the private sector is limited. Until recently, the private sector included one Orthodox institute – *the Tbilisi Christian Academy* - founded by the Georgian Patriarchate. Formally inaugurated in 1988, the Academy accommodates around 150 students focusing on theology, Christian anthropology and Christian art. *The Gelati Theological Academy* – another Orthodox institution - has opened in Gelati recently. The main mission of these religious establishments is to train followers and missionaries for “re-evangelization” of the nation. The costs of training of future missionaries are fully born by the state (interviews with Father Giorgi Zviadadze). It is noteworthy that in spite of complete financial dependence on the state, the religious HE institutions are entirely free from the governmental regulation. Having no official license to operate, they are under the authority and control of the Georgian Patriarchate.

The Sulkhani-Saba Orbeliani Institute of Theology, Culture and History, in contrast, considers itself a secular establishment, providing training in philosophy, theology, history and culture. It should be noted that the license to this first non-orthodox Christian institution was finally granted in 1997, after two unsuccessful attempts in 1991 and 1994. The rate of tuition fee at *the Sulkhani-Saba* is symbolical 50 Lari per year (around \$ 20) while main funds are provided by the Catholic Church. In the mid 90s, there were attempts by Muslim religious groups to set up a private institution but following to a huge discontent that this fact had triggered in stakeholders and the population at large, the governmental authorities declined granting a license (interviews with policymakers).⁵⁷

⁵⁷ Although *the International Black Sea University* (IBSU) is a Turkish branch university, it is a secular educational establishment.

5.2.3 Conclusion

To come to conclusion, the Georgian developments mostly fit the pattern found in many countries in the region and beyond, but what makes them an extreme case is the scale and magnitude of these developments. Over the period of less than two decades, Georgia has witnessed the establishment of the first private HE institutions, its incredible expansion and equally spectacular fall. During the same time frame, Georgia's public sector has undergone equally fundamental transformation. Following their initial fall, public enrollments expanded significantly, matching the magnitude of its privatization. A wide availability of high demand subjects in the public sector and its resultant increased student choice has significantly affected private HE dynamics. As private HE growth pushes public HE to partly privatize, so, in turn, that public reform creates challenges back to the private HE. It seems that when it comes to business oriented courses, the few top private universities with a solid reputation usually rank first or near-first in students' preference orderings. However, those who cannot get there opt for studying business at lower ranked public institutions that still have higher standing and legitimacy than the nameless, undifferentiated and poorly endowed private institutions. The latter, thus, turn out to be the least preferred alternative available to students (Pachuashvili 2007b). Thus, if the rapid private HE proliferation to some extent contributed to public enrollment decrease, later, public-sector reform took its toll on the private HE developments. But the inter-sectoral influences are not limited to figures only. The inter-sectoral influences in the Georgian HE system are so great that the Georgian case defies

certain private sector patterns found elsewhere. Namely, as private contributions play crucial role in survival of resource-starved public universities, the latter increasingly assume roles usually associated with private sector. This, in turn, influences the choice of roles and mission that is left for private institutions to pursue.

5.3 Governmental Policies towards Higher Education

5.3.1 Legislative Framework

The first phase of HE restructuring in Georgia starting from the political-economic changes of 1989 is characterized by the overall governmental inaction and a set of haphazard innovatory attempts initiated mostly at the institutional level. Among the most noteworthy legal acts enacted before 1995 notable are *the Decree of the Supreme Council of the Republic of Georgia*, passed in June 1991 facilitating the private HE development, and *The Decree of the State Council of Georgia* of 1992, conferring autonomy to HE institutions. A further notable change came about in 1993 when public institutions were authorized to admit self-financed students.

The beginning of the second phase was marked by the approval of “*State Program for Education Reform and a Plan for its Realization*” in 1995. Arguably, it constituted the first consistent document issued by the MoE that was intended to accommodate the reform of the HE field. It also formed the basis for the 1997 Education Law. One of the major aims that the document sought was to fill in legislative void and sanction practices initiated from below at institutional level already in operation. For instance, it elucidated regulatory regime with regard to

private institutions and provided firmer legal grounding for the widespread policy of admitting self-financed students into public institutions. It also approved the two-level system of undergraduate and graduate studies characteristic of the Anglo-Saxon tradition, which had been first launched by the Tbilisi State University during the 1994/95 academic year. However, switching to the unified two-tier system that would delay specialization until the graduate level, while a four-year undergraduate track would provide students with generalist education and thus enhance their job mobility was only partially implemented.

The 1997 Education Law also envisaged curriculum reform, defined the state education standards and provided bases for introducing quality assurance mechanism. The Law was followed by numerous governmental decrees and ministerial orders mostly aimed at regulating the enrollment growth via licensing, attestation, and accreditation procedures. Among the governmental efforts of this period most notable are the 1999 Ministerial decision to renew giving out licenses after two years of pause, establishment of the Licensing Committee, developing the guidelines for a new accreditation process through the joint efforts of the Ministry, HE educational leadership and international experts. It must be noted that despite these attempts, accreditation process could not applied until recently. As for licensing, the whole uncertainty surrounding the licensing procedure was partially resolved by the enactment of *the Law of Georgia on Licensing Entrepreneurial Activities* in 1999 that elucidated the terms and requirements for licensing entrepreneurial undertakings in general and educational activities in particular. *The Law on Licensing Educational Institutions* – a further legal act towards clarification of licensing requirements for HE organizations - was prepared by the MoE in 2002 and endorsed by the Parliament of

Georgia in 2003. Finally, important was passing of the Presidential decree in 1999 following to the proposal of the Ministry and the Rectors' Council that authorized the Professors' Council to confer academic titles (Gvishiani Chapman 2002). Even if several, the reform efforts were incomplete, inconsistent and ineffective suggesting the need and urgency of a fundamental change.

The third phase of the legislative reform of HE that is dated from the summer 2001 when the groundwork for a new law on HE (or more precisely, the first law on HE) was laid down. The initiative came from the Georgian Parliament and was supported by the Council of Europe and the Open Society - Georgia Foundation (OSGF), while outlining of the keystones for the future Georgian HE involved a group of local and international experts, government officials, politicians and HE institution representatives. The draft law was further refined and developed by the post-Rose Revolution MoE working group. Apart from spelling out accreditation and unified national examination procedures in more detail, the most notable changes concerned introducing new financial mechanism based on vouchers, separation of administrative and academic functions in (public) university governance and re-introducing the age limit of faculty on administrative positions. The original law had also contained the clause leaving professors of 65 and older out of managerial positions but was removed following to the enormous pressure from academics. Despite the fact the new law fairly closely follows the previous-one in principal respects, it became the subject of much more disagreements than any other reform proposal of the new government, even from authors of the original version. After the third hearing, however, the new law on HE was passed in December 2004. Except for several articles, the law applies to both private and public institutions equally.

5.3.2 Governance Structures for Higher Education Institutions

Indeed, the changes in the HE landscape just described have a certain resonance with those in the rest of the region, but there are overriding differences, especially to compare to CEE countries. This is particularly true with respect to the HE governance and control. We have seen that to repatriate the research function to HE institutions was one of the first steps that governments of newly liberated countries have embarked upon in the wake of the regime change. In Georgia, the integration of teaching and research was not really placed on the policy agenda before the political changes of 2003, when the newly appointed Minister of Education pointed at imminent changes in the structure and functions of the Georgian Academy of Sciences. Neither was establishing unified control over the entire system of HE - another vital component of the post-communist legislative reform - ever applied in pre-2003 Georgia. HE institutions continued to be steered by different agencies, the MoE being just one of them; others included so called branch ministries, the Patriarchy and the Academy of Sciences. As the result, of all 26 public institutions, only 9 were under the direct authority and control of the MoE, 5 had independent status, which in the Georgian context meant that they operated as separate spending units in the annual state budget, and the rest 12 were subordinated to different branch ministries (Gvishiani, Chapman 2002). The new Law on Higher Education has eventually established unified control of the Ministry over all but two institutions; *the Tbilisi Fine Art Academy* and *the Georgian Sports Academy* continue to be supervised by the Ministry of Culture and Sports.

The whole issue of the status of HE institutions had remained extremely vague until recently as clear guidelines defining universities were missing from the 1997 Law on Education. In pre-transition Georgia, only one institution - *the Tbilisi State University* – held university status while the rest were highly specialized institutions typical to the Soviet style HE system. Soon after the sweeping changes of 1989, many specialized institutions turned into universities as the result of which 13 out of 26 public educational establishments functioning by 2002 had acquired a university status. It is needless to add that the surge of upgrading the status was not matched by organizational changes in the structure of educational establishments.

There were many other practices in place to which the 1997 Education Law made no explicit reference. The role played by the intermediary bodies in co-coordinating between the state and HE institutions is case in point. Serving as an important channel for advancing and negotiating the aggregate interests of the public sector leadership, *the Rectors' Council of State Higher Education Institutions*, comprised of rectors and representatives of the major public institutions, was founded in 1993 (Sharvashidze 2005). In all other post-communist countries we witness the creation and legalizing of coordinating agencies, and while none of them can be said to be completely independent from the state influence, this reliance in the Georgian case was much more profound. On the one hand, the members of the council were appointed by the president. On the other, this semi-formal body had direct advisory function to the president who in turn was in command of granting the final approval to all HE policy choices.

As to the institutional level changes, despite considerable transformation of its mode, the governance of state HE institutions had remained to be highly centralized and resided with the rector. According to the stipulations of the Education Law, public institution rectors were elected by respective Academic Boards (Scientific Council) and approved by the president of Georgia, following to the recommendation by the Minister of Education. If considered appropriate, the president could also dismiss rectors before the end of the term (Article 17 Para 4 and Article 23 Para 1). While it is common for post-communist legislation for HE to contain the clause concerning the presidential or the prime-ministerial authority in approving as well dismissing rectors of public institutions, in most cases it serves as a mere formality, if not directed toward enhancing the status and prestige of the elected rector (Hungary is one example). The reverse was true for Georgia: even though the Scientific Council of an institution was vested with formal power to elect its rector who at the same time headed the Council, in actual fact the process entailed in appointment by the president.⁵⁸ Thus, appointed by the president, the rector was in charge of both administrative and academic aspects of an institution. As the chairperson, the rector supervised the activities of the Scientific Council – an elected body responsible for most important matters such as approving curricula, projects and scientific reports as well as supervising elections of the heads of departments, professors, deans and the rector (Gvishiani Chapman 2002). Together with an administrative unit, the Scientific Council also took part in drafting the budget and in defining terms for distributing the state support among its students.

⁵⁸ The developments related to the Tbilisi State University rector appointment in 2003 provide a vivid illustration of this point. Following to Roin Metreveli's resignation, Rusudan Lortkiphanidze was nominated as a candidate for the Rector's position by the president of Georgia. Nomination of a candidate with no previous affiliation with the University by the president was seen as a gross violation of the university autonomy and was countered by several internal nominees. But as most of them withdrew their candidacy just before the elections, the president protégée won the position.

Problems with implementation of licensing and quality assurance procedure most vividly illustrate negligent attitude of the Georgian governmental authorities before the changes of 2003. Not only private institutions have escaped much of the governmental control as discussed in the previous chapter, but the whole system of HE evolved against overly lax regulatory regime. It was noted that the first noteworthy attempts to establish some control over institutions were given in 1995, when the MoE issued “*State Program for Education Reform and a Plan for its Realization*” - the first major document intended to facilitate the reform of the HE field. To establish quality assurance mechanism was one of the major aims of the 1997 Education Law, which was followed by the numerous governmental decrees and ministerial orders, also aimed at regulating the enrollment growth via licensing and accreditation procedures. If only formally, a license became necessary for institutions to get started, whereas accreditation mechanisms would not get implemented earlier than 2004.⁵⁹ To ensure they meet certain standards for appropriate facilities and qualified personnel, institutions were required to obtain a license, but in reality, almost no institution has ever been denied one. On the other hand, there is ample evidence pointing at the corrupt practices pervasive in licensing agencies of that time.

⁵⁹ There are several reasons responsible for this. Firstly, not just higher education provisions, but implementation of laws in general had proven to be most enduring setbacks in Georgia of that period. The Education Law, in particular, lacked the depth and detail necessary for a successful application. Secondly, the pressure instigated from public institutional leadership opposing accreditation of public institutions seems to have prevailed over the effective functioning of the accreditation working group. Exploiting their status, some of the most prestigious and well-established institutions opted not to abide in any way by the new regulation and continued awarding their own institutional degrees (Gvishiani and Chapman 2002). The Georgian example of public institutions restricting introduction of the quality assurance mechanism stands in stark contrast to post-communist communist experience in which accreditation process was brought into play as an effective means of controlling and regulating private sector expansion. Clearly, it could be employed for thwarting the growth of private institutions, which, in spite of their being poorly endowed and less prestigious, have considerably fostered competition. But it should be remembered that quality is by no means a concern only for private sector in Georgia. While public institutions still continue to enjoy higher prestige and status, they too have many reasons to fear quality evaluation.

Both, the 2000 Lorentzen and the 2002 Gvishiani and Chapman studies of the Georgian HE sector, as well as numerous interviews with stakeholders and the ministry officials indicate that the licensing process had been a source of corruption endemic to the HE system and to the country in general (Janashia 2004).

The regulatory regime in which HE institutions operate started to change fundamentally only after the governmental change in 2003. Although pace and efforts have varied, reforms were undertaken in all public sectors, education being one of the most prominent. The major objectives on the reform policy-agenda included curbing widespread corruption, establishing some control over unruly processes taking place in the field in general and implementing quality assurance procedure in particular. Responsible for carrying out accreditation of HE institutions, *The National Education Accreditation Center* was set up in October 2004. In the same year, but before the agency started functioning, the revision of all licensed HE institutions was carried out, as the result of which only 79 out of 178 licensed institutions satisfied nominal requirements. It is important to note that among the institutions that were not allowed to admit students for the 2005/2006 academic year were ten public institutions. Accreditation is voluntary for public institutions but if an institution fails to obtain accreditation twice, the government retains right to dismiss management and administrative body officials or initiate reorganization or liquidation of it.

5.3.3 Higher Education Funding Policies

Annual bargaining and negotiations rather than any other factor had continued to form the basis for the state funding for HE institutions in post-communist Georgia before the changes of 2003. Allocation of public financing to institutions was based on the state order scholarships. At the central level, three ministries – Finance, Economy and Education – played central role in deciding on the level of finance for each institution, though different line ministries that had stake in a budget distribution actively participated in the process. Thus, the Ministry of Economy together with other ministries just mentioned defined and approved state financial norms, drafted the state order and submitted it to the president for its final approval (The Education Law, Article 19). The state financial norms in turn were based on a formula that took into consideration the number of students and the Ministry of Finance estimates of the per unit cost of instruction at each institution. However, as the formula only considered recurrent expenditures but not capital costs, the level of funding allocated to each institution tended to be much lower than the actual operating costs (Gvishiani Chapman 2002). Certainly, the discrepancy between received and actual costs compelled institutions to diversify their financial base and seek for additional recourses. Most widespread and undemanding solution found in Georgia was to increase the number of fee-paying students.

The protracted process of determining the actual amount of state support to public institutions involved a host of actors and agencies but started with institutions themselves. Having agreed on the level of the funding necessary for carrying out educational activities, it continued with the Ministry of Finance, which reviewed and imposed limits on a proposed budget, if deemed appropriate. Determining the

number of state order scholarships, on the other hand, was the prerogative of the Ministry of Economics together with the MoE and all other branch ministries concerned. But most decisive stage in finalizing the draft financial plan began after it had reached the office of the president. The influence that the Rectors Council brought to bear on settling the level of the funding for each institution cannot be exaggerated. Having significant authority and the privileged status of an advisory body to the President, the Council could shun budget cuts or even recommend changes in the tax structure. Only through the extensive negotiations and bargaining process did the draft budget reach the Parliament for deliberation and ultimate approval (Gvishiani Chapman 2002). Finally, while institutions had enjoyed considerable autonomy in deciding on the amount of the state support they wished to receive, once negotiated, the budget was presented in a line-item form. The degree of leeway exercised by recipient institutions to deviate from a prescribed budget-spending course used to be marginal. This is hardly surprising as the lack of autonomy in re-allocating already approved funds internally, is typical to countries that rely on negotiated budgets.

It is hardly surprising that the dramatic fall in the state funding characteristic of Georgia had been compensated through the increase in fee-paying students and not by encouraging more efficient use of recourses.⁶⁰ Excessive number of personnel found in Georgian institutions is a clear illustration for highly inefficient use of scarce recourses. The prerogative of hiring personnel that institutions have enjoyed had been employed for preserving rather than dismissing largely redundant staff. For 2001/02 academic year, student teacher ratio in public institutions in Georgia was 7 to

⁶⁰ The Georgian evidence is consistent with international data and the literature that recognizes that negotiated allocation mechanism lacks incentives for efficiency (Albrecht, Ziderman 1992).

1 which is considerably higher than in OECD countries. One obvious way to maintain an oversized staff level in institutions starved for public recourses was to increase the number of tuition-paying students.⁶¹ We have seen that the number of self-financed students in public institutions have been increasing rapidly since 1993 (Table 5.1). In some public institutions, student contributions have grown to the extent to become the major source of income. For instance, for the academic year of 2001-2002, the amount of tuition fees in *the Tbilisi State University, the Medical University and the University of Foreign Languages and Culture* were respectively 2, 3.2 and 5.4 times higher than the public finances received. In average, an estimated 56 percent of total university revenues were generated from tuition fees, 41 percent came from the state budget and the rest 3 percent from other sources (Gvishiani Chapman 2002).

In 2004, the Law on Higher Education introduced voucher-based funding mechanism, details of which were discussed in previous sections. The process of its implementation has been accompanied by other changes aimed at increasing economic efficiency, like downsizing the staff at universities. Besides, a student loan scheme has been initiated in cooperation with commercial banks (Godfrey 2007). Despite the fact that more than half of students paid for their studies, student aid was unavailable until 2006, when the loan scheme was first implemented.

⁶¹ To increase the share of salaries within the total expenditure was another major way used to avoid downsizing excessive administrative and teaching staff at the Georgian universities. In fact, of all expenditures, the highest proportion spent in every institution turned on personnel wages (Gvishiani Chapman, 2002).

5.3.4 Conclusion

This section has demonstrated that a fundamental shift in the public policies towards HE has accompanied the governmental change through the so called “Rose Revolution” in 2003 in Georgia. The policy environment before was closer to the *laissez-faire* policy posture. Absent accreditation or other quality control mechanisms, government’s role was limited to a basic licensing of institutions. However, there is ample evidence that the governmental authorities took lax approach even in enforcing licensing requirements. Furthermore, the private sector expanded rapidly to accommodate more than 30 percent of all student enrollments, but without any financial support from the government. Private institutions thus evolved in almost complete independence from governmental authorities. Only after the political changes of 2003, did the government start to assume an active role in HE policy-making. Following the implemented reforms, the regulatory regime in which HE institutions operate has changed dramatically: both public and private institutions need to comply with demanding licensing and accreditation criteria. That quality requirements are set so that it is challenging to meet for all universities naturally fosters the inter-sectoral competition. The competition between the two sectors in HE is further reinforced by the newly implemented funding policy which allows students receiving state grants to choose between public and private universities, while it permits HE institutions to set their own tuition fees. Although grants continue to be merit based, uniform grants that were obtainable by only a few students have been replaced by those on a sliding monetary scale. Besides, a student loan scheme has been initiated in cooperation with commercial banks (Godfrey 2007). The introduction of unified entrance examinations, first held in 2006, represents another important step towards curbing widespread corruption and establishing some control

over unruly processes taking place in the field. Georgia thus represents a sharp shift from the *laissez-faire* to the *market-competitive* policy posture.

5.4 Determinants of Governmental Policies towards Higher Education

5.4.1 Economic Development

Georgia's economic transition has been remarkably difficult, even when judged by the Former Soviet Union standards. The extreme economic dependence of peripheries on the center that existed during the Soviet period has had devastating economic consequences for all former Soviet republics (Hunter 1994). In case of Georgia, however, this dependency coupled with political chaos, inter-ethnic and civil conflicts have resulted in complete breakdown of the economy. Georgia's almost absolute reliance on imported energy has served as an additional factor contributing to the economic collapse. At the beginning of Shevardnadze's presidency, some reform efforts aimed at privatization and liberation of the trade were advanced, but as internal conflicts escalated in June 1992, prospects of implementation of the proposed economic restructuring plan became hampered. Tables 5.7 and 5.8 that include some of key economic indicators show that although the rate of inflation was held back from the mid 1990s, as well as there has been a gradual growth in real GDP, the economy has not quite recovered from the initial sharp decline (how Georgia compares the other selected countries on main economic variables see tables in Appendix 9).

Table 5.7: GDP per capita (constant 2000 USD) and Employment Ratio (number of employed as percentage of population aged 15-59) in Georgia

	GDP per capita	Empl. ratio
1989	1,749	82.0
1990	1,493	83.6
1995	459	67.2
1996	517	72.7
1997	579	74.1
1998	604	63.8
1999	629	64.4
2000	648	68.9
2001	687	70.9
2002	733	69.5
2003	823	67.3
2004	880	65.1
2005	971	-

Source: TransMONEE 2007 features: data and analysis on the lives of children in CEE/CIS and Baltic States. Based on World Development Indicators database, 2007. Employment Ratio Data since 1998 based on labor force survey

Table 5.8: Economic Indicators, Georgia 1989-2000

	Real GDP Growth ^a	Annual change in GDP (%) ^b	Real Wages ^c	Annual inflation rate ^d
1989	100.0	- 4.8	100.0	4.2
1990	87.6	-12.4	111.2	79.0
1991	69.9	-20.6	76.5	887.4
1992	38.4	-44.8	50.5	3,125.4
1993	28.6	-25.4	24.1	15,606.5
1994	25.4	-11.4	33.5	162.7
1995	26.0	2.4	28.3	39.4
1996	28.7	10.5	42.2	7.1
1997	31.8	10.8	57.0	3.6
1998	32.7	2.9	71.7	19.3
1999	33.7	3.0	73.2	4.4
2000	34.7	3.0	---	---

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001. ^a Based on EBRD, 2000. ^b EBRD, 2000. 1999: estimate. 2000: projection. ^c Based on EBRD, 2000. ^d Based on EBRD, 2000. 1999: estimate. 2000: projection.

It is not surprising therefore that the severe drop in public support to education was most strongly felt during the first phase of transformation, when the share of public

spending within the GDP had fallen from 6.4 percent in 1991 to 0.5 percent in 1994 (Table 5.9). But to fully comprehend the scale of the unparalleled slash in the state allocation to education, it should be taken into account that during the same time span the Georgian GDP collapsed by more than 75 percent. Since the mid 1990s, education expenditures has been growing somewhat but by 2002 it still constituted only roughly half of the amount spent in *developing* countries (Orivel 1998, Gvishiany, Chapman 2002). The state support for education in Georgia remains to be one of the lowest in CIS nations and is the lowest in our sample countries (Appendix 10).

Table 5.9: Public Expenditure on Education in Georgia (percent of GDP)

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
---	6.1	6.4	4.0	0.6	0.5	0.9	1.2	1.3	2.2	---

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001.

It is hard to achieve definite analysis of how economic decline has shaped the governmental attitude towards HE for the simple reason that there were not many policies conceived at the governmental level during the first phase of Georgia's political-economic transformation. As preceding sections have emphasized, the changes have originated mostly at the institutional level. Moreover, reliable data base for HE development, especially for the first half of 90s, is lacking. But the caveats notwithstanding, a clear link between the level of economic development and spending on HE can be traced. Besides, we can instead look into institutional level changes that the slash in the state funding has spurred. The collapse of the economy

and its corollary decline in the governmental support for public institutions was marked by a downward trend in the public sector enrollments (Table 5.1). Despite the fact that several new institutions were opened, the public sector saw some 20 percent fall in its student body during the first decade of the transformation. This is the period when first private institutions were founded and the most intensive growth took place. Public sector enrollments started to rise only from the mid 1990s, clearly in line with the increase in fee-paying student numbers.

Furthermore, the study has found that powerful shift in the economy has influenced the structure of public HE significantly; though, not in the way that would encourage efficient use of available resources. Instead, public institutions have increasingly sought to balance declining public support by private contributions. The dependency of public institutions on student contributions is so great that the distinction between activities undertaken and missions pursued by the two sectors in Georgia has become decidedly blurred. Public institutions have tried hard to stay attuned to the labor market fluctuations by providing training in fields like information technology, law, business administration, and foreign languages. Today, it is hard to find a public educational organization that did not run programs in law and economics. Revealingly, besides official Georgian, courses are offered in Russian, English, German, Armenian, and Azeri languages. However, while most public institutions have launched new academic programs in different languages and established branch campuses to run them, further changes in the curriculum and course contents has been marginal. In other words, the way public institutions have responded to the sharp economic decline is to develop new academic, high-demand programs that cater to the changing labor-market demand; whereas movement towards improving course

contents, curriculum or else reducing redundant programs and excessive academic and administrative personnel for increasing efficiency has been remarkably slow.

The relationship between economic performance of a country and the nature of private sector is also telling in case of Georgia. The private HE sector, it was shown, is dominated by small “demand absorbing” educational establishments. Excess-demand driven private sector, according to the literature, is mostly characteristic of developing countries where governments are unable to meet all the demand on HE. (James 1987, Levy 1987, Weisbrod 1975). Georgia’s private sector clearly fits the developing world pattern and it also bears out our hypothesized link between the level of economic development and the size and nature of private HE sector.

5.4.2 Political Parties and Ideology

After about two centuries under the Tsarist and Soviet domination, Georgia gained independence in 1991. During the years immediately following the disintegration of the Soviet Union, the country has witnessed political and military conflicts, deterioration in law and order, inter-ethnic clashes and collapse of its economy. It is beyond the scope of this paper to dwell upon the reasons responsible for Georgia’s troubling path to democracy but several principal factors bear mentioning. These are Russia’s determination to keep geopolitically important region under its control and Georgia’s own ethnic and religious heterogeneity. It will not be exaggerated to state that multiple ethnic and religious cleavages and continues conflicts among them have had most damaging impact on post-Soviet developments in Georgia. Ensuing

instability, in turn, has made the newborn state still more vulnerable to the external control and manipulation (Hunter 1994). During the early post-independent years, Georgia had been plagued by interethnic strife and power struggles among its key political figures. It is no wonder that the government preoccupied with military conflicts had failed to introduce reforms in economic, legislative or any other sphere of societal activity. The HE field was no exception. The creation and growth of private HE – one of the most dramatic shift in the whole history of the Georgian HE - took place precisely during this time period, but government officials have played little role in introducing or attending to these changes. With the exception of institutional and academic autonomy question, the future of HE was neither subject of general public interest nor part of political party programs. Even interviewed experts' recollections of the early 90s are extremely vague.

During the period of *glasnost* and *perestroika* political movements started to emerge in Georgia, as the prospect of independence from Russia grew. The first informal political group led by dissidents, *the Ilia Chavchavadze Society*, was founded in 1987, which was followed by the establishment *the Shota Rustaveli Society* - another political group - a year later. The following years saw proliferation of new political parties and fragmentation of the old ones. Important among those were *the Society of Saint Ilia the Righteous* led by Gamsakhurdia, *the National Independence Party (NDP)*, *the Monarchist Party*, *the Republican Party*, and *the Caucasian Club*. Differences notwithstanding, central to political agendas of all newly created groupings was independence from Russia and defeating communists. Initially, all of them also appealed to the same and undifferentiated non-communist majority. But despite being mobilized around the single goal, the opposition could not unite for the

first elections held in October 1990, but rather remained divided into several electoral blocks. Receiving 54 percent of the popular vote, Gamsakhurdia's *Round Table Free Georgia Block* won 155 seats in 250-seat parliament, while *the Communist Party* came the second.

It is difficult to categorize Georgian political parties according to the Western classification. For its pro-Christian and excessive nationalistic ideology, *the Round Table* can be seen as a right wing grouping. The party, like all other political groups registered for the first elections, also advocated political pluralism and free market principles. However, their program was hardly more detailed than general support to these values. As the evidence shows, appearance and sudden growth of private HE institutions on the one hand, and privatization of public educational services on the other, had little to do with market liberal stance of the firstly elected government. Like in much of the region, it was unexpected consequence of the powerful political-economic changes. By the same token, reactive governmental action to step in and regulate the sector to some extent should be attributed to the stabilization of situation in the country in general. The parliament elected in 1995 where communist successor *the Georgian Citizen's Union* had enjoyed 48-seat majority proved to be relatively productive. Several important laws, including the Law on Education, which established foundation for reforms in many areas, were passed during these four years.

Table 5.10 maps the major shifts in the path of HE development against the changes in government in Georgia. It proves rather difficult to trace the relationship between the ideological stance of a given party and policy choices in case of Georgia. The

notable example when the correlation between two factors is apparent relates to the instance when a license was denied for different religious groups seeking opening up a university. As it was noted, the excessive exclusivist-nationalistic policies characteristic of Georgia during the early years of the regime change have prevented the establishment of other than Orthodox Christian institutions. The reason for a weak correlation between the ideological stance of a party and the nature of policies rests on the fact that there exists a little diversity at the level of programs and ideology, despite the impressive multiplicity of political parties in Georgia. A careful scrutiny of different sources shows that apart from general support to the ideal of institutional and academic autonomy, HE related issues feature neither in their pre-election appeals nor becomes the subject of the debate later. Most vivid example highlighting insignificance of party ideology for the nature of HE policy output is offered by the debate that the reforms initiated after the changes of 2003 have triggered. Resistance to the proposed reform scheme is hardly unexpected as the first time since the demise of the Soviet Union fundamental restructuring of HE system is being attempted. Surprisingly though, the most vocal critics of what can be considered to be most market-oriented reform proposal of the new ministry has been right to the center *the New Rights Party*. Led by a group of politicians with business backgrounds, *the New Rights Party* is one of the three parties that emerged as the result of *the Georgian Citizen Union's* collapse in 2001. Both the introduction of vouchers in financing of HE and national unified testing scheme is rejected by the party now in parliamentary opposition solely on social-protectionist grounds. As they argue, increased competition between students as well as between HE institutions that

the two proposals will bring about will put socially vulnerable and unprotected groups of the population in more disadvantaged situation.⁶²

Table 5.10: Higher Education Policy Choices in Light of Electoral Outcome in Georgia

	President: 1991-92 Gamsakhurdia Parliamentary majority: 1990-1992 <i>the Round Table</i>	Chairmen of the Parliament: 1992-95 Shevardnadze Parliamentary majority: 1992-95 <i>the Piece Block (CUG)</i>	President: 1995-2000 Shevardnadze Parliamentary majority: 1995-99 <i>the Union of Georgian Citizens</i>	President: 2000-03 Shevardnadze Parliamentary majority: 1999-2003 <i>the Union of Georgian Citizens</i>	President: 2003 Saakashvili. Parliamentary Majority from 2003: <i>the National Movement</i>
<i>Important Changes in the Higher Education Policy:</i>	-1991 The Decree of the Supreme Council of Georgia – basis for private institution establishment -1991 Private institutions start to appear	-1992 The Decree of the State Council conferring autonomy to HEIs -1993 Creation of the Rector’s Council -1993 public institutions are permitted to charge tuition fees - 1994 creation of the Accreditation Council	1995 – State program of education reform and a plan for its realization -1997 Law on Education 1997 – Suspension of granting licenses -1999 – new law on Licensing 1999- Resuming licensing	-1999 Presidential Decree Conferring the right to the Professors Council to grant academic titles -2001 preparatory work for HE reforms -2003 The Law on Licensing Educational Activities	- 2004 Law on HE introducing voucher-based funding mechanism - 2004 establishing quality control procedure

Other explanations for a weak relationship between party ideology and the nature of policies advocated by political parties reside with fragmentation and instability of

⁶² It seems that not just political parties, but hostile outlook of local experts, assuming virtual dominance over the discourse of ongoing higher education reforms, to be for the most part shaped by personal ambitions and own political agendas. Despite the fact that the draft Law on Higher Education, prepared by the new ministry working group, was largely based on the previous draft authored by a group of local and international experts, it had triggered an outright opposition in stakeholders. As interviews conducted with experts soon after the political changes of 2003 have revealed, the new minister was held responsible for initiating sweeping reforms too hurriedly without preparing the society for painful consequences of the changes and he was charged with missing a one-time opportunity for passing the new law during his first two month in office. The minister and his team were blamed for plagiarizing and adopting the draft law without any changes at the same time as he was accused of wholly distorting the achievement of many years of extensive work. Revealingly, interviewed experts were hardly more specific in their account than expressing general disenchantment over the abstract ideal of autonomy - a major accomplishment of the previous working group - that had gone astray in the new draft. Whatever the virtues and faults of the new version, the noteworthy point is that many of the respondents had their preconceived outlook on the Law even when not having read the document (interviews with policy-makers).

post-communist party systems in general. For the 1992 elections, 35 political parties were registered in Georgia. Despite the introduction of a 5 percent threshold so as to encourage forming coalitions, the number of registered parties and blocks had increased to 53 by the 1995 parliamentary elections. Encouraging larger coalitions was clearly the rationale for changing electoral laws again by raising the threshold to 7 percent for the following elections in 1999. Notwithstanding these attempts, the Georgian political party landscape remains to be overpopulated by small and unstable parties that lack organizational coherence and resources. Personal ambitions and animosity between leading politicians rather than differences in political and ideological underpinnings continue to structure the party system in Georgia.

The developments after the changes of 2003 offer more solid support for the conjectured relationship between party ideology and HE policies though. Launched by the MoE, the reform plan that aims at overhauling the system of HE and thus bringing it closer to European standards has been one of the most ambitious among all reform proposals of the new government, the (declared) resolute determination of which is to integrate the country into Western institutions, to combat rampant corruption and to reorient the economy toward market-liberal principles. Indeed, the recent developments such as moving to voucher funding, cutting down the staff at public universities drastically, setting centralized entrance exam procedure and strengthening quality assurance process so that it is difficult to comply even for well-established public universities, are dramatic and have no precedent in the Georgian context. Governmental funding policies that encourage both inter and intra-sectoral competitions reflect the major shift in the governmental ideology towards HE. In 2006, even more students, that is, around 58 percent of the total public university

enrollments, were paying for their own studies, at the same time as only less than 5 percent of the total student number received full governmental funding (Godfrey 2007). By contrast, there only were students paying the whole tuition and those fully funded by the state before introducing the voucher formula funding mechanism. It is important to emphasize that the decrease in the number of public university students receiving full governmental funding is the result of the changes in the mechanism how governmental funds are allocated not in the amount of it. The shift in HE policies after which governmental financial support to HE applies to both public and private institutions and more and more students are made to bear at least some fraction of the cost of their tuition reflects the recent tendency to inject free market principles into HE. Hence, while rigorous HE privatization experienced earlier was an institutional response to macroeconomic pressures and its corollary decreased institutional funding against the background of total governmental negligence, the current changes originate from the government and form the part of its strong market-liberal politics.

5.4.3 The Mode of Interest Intermediation

Despite its significance to the workings of modern politics, defining and identifying interests, let alone measuring them empirically, has always been challenging (Schmitter 1981). It proves even harder to discern actual effects and the ways in which different organized interest groups influence public policy process in countries like Georgia, since the process of advancing sectional interest there involves arrangements such as clientelism, nepotism and personalism, rather than more

transparent, indirect and predictable means of obtaining political advantage prevalent in Western democracies. Political and economic changes subsequent to the disintegration of the communist regime have encouraged formation of interest groups in Georgia. Yet, trade unions are weak and business associations few. Although their number has been growing lately, business associations continue to rely on less transparent deals in influencing legislation and governmental policy. According to *the Law on Lobbyist Activities* passed in 1998, any legal entity or group of people whose number does not exceed 50 can take part in the legislative process through a hired lobbyist. Despite the fact that lobbying and campaigning activities are legally permitted in Georgia, there has been hardly any registered lobbyist organizations, which once again suggests that business associations continue to favor using personal connections and other less formal methods for securing their policy objectives (Nations in Transit, Georgia 2003).

In influencing the formation of HE policy, *the Rector's Council of State Higher Education Institutions of Georgia* has been the most powerful and important of all interest associations. Comprised by rectors and representatives of public HE institutions solely, this semi-formal coordinating body serves as the main channel for special expertise to be made available to the president and other decision-makers and for various concerns to be brought to their attention. It advises the decision-makers on all-encompassing issues on HE - from *defining the prospects of modern higher education development, reform directions, structure of professional training, priorities of scientific and technical progress, and standards of higher education* to allocation of the state funding to HE institutions (Statute of the Rector's Council of State Higher Education Institutions of Georgia). As the main decision-making power

resides with the president, it is no wonder that the Rector's Council focuses its attention on the president of the country.

Preceding chapters have emphasized that among first founders of private institutions in Georgia many were members of public institutions and their leadership, seeking additional employment opportunities and supplementary earnings in private sectors. This shall not create an impression that the relation between the two sectors in HE has been accommodating and conflict-free. Quite the opposite; while particular faculty members have welcomed the idea of and benefited from part-time employment, their leadership has always viewed the private sector as the threat and competitor for student cohorts and has used various means to protect their institutional interests. The underlying hostility has become more pronounced after public institutions were permitted to charge tuition fees in 1993. It should be emphasized that the bulk of the private growth took place before the rectors of state institutions could organize themselves as a group. When the council was first founded in 1993, there already were more than 33 thousand students (that is 27 percent of total enrollments) studying at 131 privately owned institutions. Most noteworthy attempts aimed at curbing the growth of suddenly multiplied private institutions were given a year after the establishment of the Council when, following the 1994 presidential decree, the Accreditation Council was created in capacity of the HE Committee of the parliament. The main purpose of the Accreditation Council, in which public institutions rectors were heavily represented, was to control the growth of privately owned institutions.

Being perceived as unfair and prejudiced, the proposal according to which only private institutions would be subject to quality assurance procedure was ferociously resisted by private institution rectors mobilized in *the Rector's Council of Private Institutions*. Famous for his balancing skills, Shevardnadze stepped in to resolve an exacerbated conflict that had grown into student street protests (interviews with policymakers). Stability in the country has been commonly ascribed to Shevardnadze's personality rather than any other political or social factors, but his "balancing politics" and his style of governance may in fact be one of the reasons why, throughout his 11 years of presidency, hardly any reform effort which would upset the social and political equilibrium and generate obvious losers has been made. In any event, the workings of the Accreditation Council proved to be utterly unproductive. During its two years of existence, the Council held about two dozen sessions without producing any outcome.

Another telling example of how public policy has been shaped by a special balance of colliding interests comes from a policy battle over admissions procedures which got underway in 1999. Adjustments made in the admissions procedure that enabled students not awarded by the state order scholarships to apply for private institutions during the same year served as the basis for an ensuing conflict. Before 1999, HE entrants could only apply to a single program in one institution during an academic year. Threatened by the prospect that many students would opt for a private alternative against a paid division of the public sector, state institution leadership succeeded in changing the admissions procedure back and thus ward off the consequences of competition. This in turn compromised the interests of private sector rectors who attempted to exert countervailing influence on the regulation. As

the result, the admissions guidelines were modified once again to grant applicants with the second chance for gaining access to HE (Gvishiani Chapman 2002).

To come to conclusion, different sources of data, especially interviews undertaken for this study point toward the fact that the MoE officials as well public HE leadership were as unreceptive, if not hostile, to the private alternative as is the case in most post-communist countries and beyond. As evidenced by this study, high-ranking staff of the public sector has attempted to defend their institutional interests by putting constraints on the private sector expansion, but they have either lacked capacity for organized intermediation needed for successful pursuit of their partial interests or an opposing party, also having a broad access to policy-making, has managed to wield countervailing influence on the course of HE developments. A resultant policy towards private sector thus reflects the influence by dispersed individual interests or balance of colluding group interests. In other words, among the various factors that have paved the way for the private sector expansion, the specific clientelist arrangement of interest intermediation characteristic of the Georgian society should also be counted.

5.4.4 Demographic, Ethno-Linguistic and Religious Factors

According to 2002 census, about 71 percent of Georgia's population speaks the Georgian language. The second largest language group is Russian spoken by around 9 percent, while Armenian and Azeri are spoken by about 7 and 6 percent of the country's population respectively. Georgia is less heterogeneous religiously as

almost 84 percent of its inhabitants are the Orthodox Christian believers. Muslim religious followers, with around 10 percent of the total population, constitute the second largest religious group. As we have seen, the nature of private sector growth hardly reflects that diversity as there are no private institutions providing education in ethnic minority languages. Despite the fact that overwhelming majority of the population are Orthodox Christian believers, only two out of more than 200 private institutions registered by 2000 served that mission, while other than Orthodox Christian religion was represented by one Catholic HE establishment (PROPHE Country Data: Georgia).

One explanation for the absence of private institutions with ethnic and religious focus is public institutions undertaking roles usually associated with private sector, in their organizational adaptation to the resource decline. In other words, the fact the Georgia's public sector widely offers studies in theology and religion as well as courses in the languages of the country's minorities, such as Russian, Armenian and Azeri, restricts environmental niches left for the private sector to fill in.

The set of organizational goals for the private sector to pursue has been further restricted by the state ideology underlying Georgia's politics during the first phase of the transformation, which have made the existence of other than Orthodox Christian institutions hardly possible. *The Sulkhani-Saba Orbeliani Institute of Theology, Culture and History* – the first non-Orthodox Christian (Catholic) institution - was only established in 1997, after several years of failed efforts, whereas attempts to create a Islamic private institution was altogether thwarted by exclusivist policies adopted by the Georgian government. It is noteworthy that the state constrains to

ethnic-religious organizational goals were in accord with values and choices of the majority of society. The state authorities in fact, have often evoked prevalent and well-expressed societal discontent to justify the policies limiting pluralism in organizational goals (Pachuashvili 2005). Hence, if we consider the overriding importance of the political and economic factors, somewhat aberrant nature of public and private sector growth in Georgia becomes explicable.

Finally, an important factor cited by the private HE literature in connection to inter-sectoral dynamics is a demographic challenge experienced by post-communist countries (Levy 2008). Downward demographic trend has been characteristic of post-independent Georgia too: the share of population aged 0-17 of total population has decreased by 4.2 percent over a decade (Table 5.11). But as the fall in the cohort rates is noticeable only since 1989, the expected consequences on HE enrollment rates become considerable mostly from 2006/07, when the part of the population born after 1989 reaches the university age.

Table 5.11: Higher Education Enrollments (percent of 19-24 population) and Demographic Change in Georgia

	1980	1989	1991	1993	1995	1999	2000
Higher education enrollments	n/a	19.1	23.8	19.4	26.1	29.0	n/a
Rate of natural population increase	9.1	8.1	7.9	--	3.4	0.1	n/a
Population age 0-17 (beginning of year, thousands)	n/a	1,589	1,579	1,553	1,493	1,361	1,285

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001 based on EBRD (2000), 1999 estimate, 2000 projection

5.4.5 Conclusion

The undertaken study has demonstrated there are two discernable and vastly distinct phases of the HE development in the post-communist Georgia. The major increase and fall in the private enrollments as well as steep public sector privatization took place during the first phase of the transformation, characterized by an overall governmental inaction. As we have seen, among various factors that have paved the way for the unfettered private sector expansion important were the economic collapse and the general chaos that the country was plagued by in the course of the early 1990s. A closely related factor further fueling an increase in private providers was corruptive practices pervasive in the HE system and in the country in general, which have made getting a license to operate within virtually anybody's means. Finally, what might lie at the core of the unrestricted growth of private institutions is the specific clientelist arrangement of interest intermediation characteristic of the Georgian society.

The first phase in HE development is also interesting from the point of view that it lends important generalizations concerning inter-connectedness of the two sectors in HE. That these major transformations of the field of HE have taken place against the backdrop of a fairly unchanged regulatory regime and broad political-economic picture, as well as quite constant demographic characteristics, has crystallized the relationship that exists between the public and private sectors and the influence of other important factors, notably market forces, on inter-sectoral dynamics. The initial failure of public institutions to meet unleashed student demand on HE has made

spectacular expansion of private institutions possible, which, together with the ensuing public expansion, has made for equally spectacular private fall. As we have seen, there is a clear correlation not only between the growth patterns, but also between the types of Georgia's two sectors in HE. It will not be exaggerated to state that the nature and growth dynamics of the HE in pre-2003 Georgia is mostly a reflection of the processes taking place within the field itself, in response to the changing labor market demand. This is not to downgrade the influence of demographic, political-economic or other factors on HE, even regulatory ones. But, the Georgian example, where both public and private institutions evolved in nearly complete freedom from the state authorities shows how labor market demand and competition between the two sectors in HE shapes inter-sectoral dynamics.

The government became a key player and started to assume an active role in HE policy-making only after the political changes of 2003, when popular demonstrations, triggered by fraudulent parliamentary elections, forced Shevardnadze to resign. The regulatory regime in which institutions of both types operate has changed considerably from that of complete negligence to strong market-liberal policies, encouraging increased student choice and inter-sectoral competition. Georgia stands out to the degree that strengthened regulatory measures are directed not only at private but also at public institutions, seeing that the latter have also suffered from chaos and quality failure. These remarkable changes in governmental approach once again highlight the influence that political party ideology can have on the course of HE developments.

CHAPTER 6: THE CASE OF LATVIA

6.1 Introduction

Being one of the first post-communist countries to have legalized private HE institutions, Latvia presents markedly distinct pattern of the private sector growth. Despite the early start, the ensuing increase in the share of private enrollments has been rather gradual but steady. Capturing almost one-third of all student enrollments, the Latvian private HE sector currently is the second largest in the region, after Poland. Notably, the share of students enrolled at the Latvia's private sector is considerably higher than that in the neighboring Estonia, Romania and Georgia, the countries that have experienced a strong initial expansion followed by a slowdown and even a decrease in the private sector growth. But even more remarkable is the fact that the private sector increase in Latvia, measured both in absolute terms and compared to the public sector enrollments, has taken place against the background of shrinking public sector and overall higher education enrollments. It is notable that the role of the state in public sector financing has lessened considerably. In fact, with almost 70 percent students enrolled at public universities financing their studies, Latvia has one of the highest shares of tuition-paying students in the region. However, Latvia also is the first post-communist country to have implemented student loan scheme, to balance the steep increase in fee-paying student shares both at private and public sectors in HE.

The plan of the chapter is as follows: the first part offers a detailed overview of the Latvia's private and public HE sector dynamics. From that starting point the analysis moves to examining different governmental policies designed to facilitate powerful changes in the HE field. The final part of the case study presents an assessment of the relative weight of various factors at national level for determining the Latvian government's attitude towards private HE.

6.2 The Structure of the Higher Education Sector

6.2.1 Inter-Sectoral Dynamics

Access to HE in pre-transition Latvia was somewhat lower than in the other Baltic States, though with around 20 percent of 19-24 youth age cohort enrolled at HE institutions by 1989, the participation level was still notably high by the communist country standards (A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001). Before it started to increase sharply, HE enrollments fell in Latvia at first, though this decrease by some 2 percent was not as marked as in Estonia and Lithuania. On the other hand, the growth that followed shortly after was so rapid that already by 1998, the HE participation rate had more than doubled to its 1989 level. In 1999, for example, more than 46 percent of the population aged 19-24 was enrolled at HE institutions - the highest figure in the region (Appendix 1). The following years saw a further increase in the enrollments so that in 2001, almost half of the same age group participated in HE (Higher Education in Latvia, 2003). It is important to note that the access to HE has widened

not only as measured in the share of university age population but, as Table 6.1 shows, in real terms as well.

Table 6.1: Numerical Overview of the Public-Private Higher Education Sectors in Latvia, 1990-2008

Year	Total		Public Institutions			Private Institutions	
	Institutions	Students	Institutions	Students	Of which are state funded	Institutions	Students
1990/91	10	45953	10	45953	-	-	-
1991/92	14	46279	14	46279	-	-	-
1992/93	14	42217	14	42217	-	-	-
1993/94	26	38967	20	37908	-	6	1059
1994/95	26	39683	19	38046	-	7	1637
1995/96	28	46680	18	44048	30536	10	2632
1996/97	30	56164	17	51378	30944	13	4786
1997/98	33	64948	18	58271	31633	15	6677
1998/99	33	76653	19	68025	32763	14	8628
1999/00	33	89509	19	78156	32572	14	11353
2000/01	33	101270	19	87207	34129	14	14063
2001/02	36	110500	20	89724	32988	16	20776
2002/03	37	118944	20	91745	32257	17	27199
2003/04	49	127656	30	94370	30944	19	33286
2004/05	56	130706	36	94215	30674	20	36491
2005/06	57	131125	36	93742	29856	21	37383
2006/07	60	129497	38	90500	30172	22	38997
2007/08	60	127760	38	87047	31933	22	40713

Source: Data obtained from Central Statistical Bureau of Latvia

Several other points emerge from Table 6.1 above. First of all, this remarkable growth in student enrollments has been achieved through the increase in both private and public providers of HE. Among the first public universities established after the regime change notable are *Latvian Academy of Culture* (1990), *Rezenke Higher Education Institution* (1993), *Stockholm School of Economics* (1993) and *Riga Higher School of Pedagogy and School Management* (1994). Alongside these mostly concentrating on pedagogy, humanities and social sciences, several new institutions were opened which focus on training specialists in fields like military, legal sciences and maritime affairs. Such are *Police Academy of Latvia* (1991), *National Academy*

of Defense of the Republic of Latvia (1992), and *Latvian Maritime Academy* (1993). The number of public institutions had already doubled by 1993/94 – the year when the total number of students studying at HE institutions was the lowest. There has been a strong upward trend in HE enrollment dynamics from that point up until 2004, when public sector enrollments started to fall again. It is important to emphasize that public enrollments have declined not just in relation to the private but in absolute numbers as well, whereas private growth has been sustained hitherto in the face of declining overall demand on HE. The decrease in the total student numbers is noticeable only from 2005, which should be attributed to the downward demographic trend characteristic of Latvia since 1989. But it should be emphasized again that, thus far, overall decrease in the demand on HE has affected public rather than private sector enrollments in Latvia.

Table 6.2 makes it further evident that despite some fluctuations, the number of state funded places at public universities has remained roughly the same. This means that students themselves have financed much of the increase in public sector enrollments. In fact, Latvia has one of the highest shares of self-financed student enrolled at public institutions.

Table 6.2: Numerical Overview of the Public Sector in Latvia, 1990-2008

	Number of public institutions	Total public enrollments	Public enrollments as the share of total enrollments	Number of state funded students	Tuition-paying students as the share of total public enrollments
1990/91	10	45953		-	-
1991/92	14	46279		-	-
1992/93	14	42217		-	-
1993/94	20	37908	97.28	-	-
1994/95	19	38046	95.88	-	-
1995/96	18	44048	94.36	30536	30.68
1996/97	17	51378	91.48	30944	39.77
1997/98	18	58271	89.72	31633	45.71
1998/99	19	68025	88.75	32763	51.84
1999/00	19	78156	87.32	32572	58.33
2000/01	19	87207	86.13	34129	60.87
2001/02	20	89724	81.2	32988	63.23
2002/03	20	91745	77.13	32257	64.84
2003/04	30	94370	73.93	30944	67.21
2004/05	36	94215	72.09	30674	67.44
2005/06	36	93742	71.49	29856	68.15
2006/07	38	90500	69.89	30172	66.66
2007/08	38	87047	68.03	31933	63.32

Source: Central Statistical Bureau of Latvia

It is not surprising therefore that the public enrollment growth has mostly been on pragmatic, commercially oriented fields. In 2002/03, for example, there were 7 716 state-funded students in high demand social science programmes, while the number of self-financed social science students at public universities constituted 54 946, that is more than 7 times higher figure (The Ministry of Education and Science, 2003). Although both university and non-university type institutions offer instruction in practically focused subjects, the recent public institution growth has been dominated by non-university type educational establishments. It should be noted, however, that the distinction between institutions with university and non-university status is rather blurred in Latvia (The Ministry of Education and Science, 2003). This blurring is not atypical for the region where, following the changes of 1989, most formerly narrowly

specialized institutions have upgraded their status to university level and often without implementing concomitant structural changes. However, the line of demarcation between the two types of HE establishments is especially fuzzy in Latvia, as both universities and institutions offer academic as well as professional programs. Judged by their content, neither is clear the distinction between programmes categorized as academic as opposed to professional (OECD 2001).⁶³ Whatever the differences, the majority of HE institutions operating in Latvia are of non-university type educational establishments. Out of 40 institutions registered by the beginning of 2002, for example, only 12 had the university status. But only one institution among them – *the University of Latvia* – can be classified as “classical” university offering instruction in most study fields. The rest institutions with the university status, like Riga Technical University, Latvia University of Agriculture or Riga Stradins (medical) University, have more narrow profile focusing on a specific study field (Higher Education in Latvia, 2003).

6.2.2 Private Higher Education Institution Growth Patterns

The legislative basis for the establishment of private HE institutions was created in Latvia as early as in 1991. The beginning of 1990s witnessed proliferation of extra-governmental providers of HE in many other post-communist countries but mostly as the result of newly created institutions exploiting existent loopholes in respective legislations. The creation of private institutions in Latvia, however, was preceded by

⁶³ The Law on Higher Education Establishments of 1995 defines universities as institutions that offer education in one or more scientific fields and are entitled to grant degrees at all three B.A., M.A. and PhD levels (Law on Higher Education Establishments, Section 3).

the permissive legislation and not vice versa. *Higher School of Social Work and Social Pedagogies "Attistiba"* - a first private institution - was founded in 1991 by reorganizing the Centre of Qualification and Training of Adults „Attistiba”. The private growth that followed after has been measured but continuous (Table 6.3, Appendix 11). Capturing almost 32 percent of all student enrollments by the academic year of 2007/08, the Latvian private HE sector is the second largest in the region. But even more noteworthy is the fact that the steady increase in the number of private institutions and student enrollments as well as in the private sector’s market share has prevailed notwithstanding the overall decline in HE enrollments since 2005.

Table 6.3: Numerical Overview of the Private Higher Education Sector in Latvia, 1993- 2008

	Number of Private Institutions	Number of Private Enrollments	Private enrollments as share total HE enrollments
1993/94	6	1059	2.72
1994/95	7	1637	4.12
1995/96	10	2632	5.64
1996/97	13	4786	8.52
1997/98	15	6677	10.28
1998/99	14	8628	11.25
1999/00	14	11353	12.68
2000/01	14	14063	13.87
2001/02	16	20776	18.80
2002/03	17	27199	22.87
2003/04	19	33286	26.07
2004/05	20	36491	27.91
2005/06	21	37383	28.51
2006/07	22	38997	30.11
2007/08	22	40713	31.87

Source: Central Statistical Bureau of Latvia

Concerning the nature and types of institutions, one of the distinguishing features of the Latvian private sector is the absence of private institutions with the university status. Over 90 practically oriented study programs, mostly at B.A. level, are offered

by the 22 non-university type institutions (for the list of institutions see Appendix 1). There are few institutions that provide M.A. programs and only two – *School of Business Administration, Turiba, Ltd* and *Transport and Telecommunications Institute* - that extend their course-offering to the doctoral level. Another salient characteristic of Latvia’s private sector is heavy concentration of private institutions in the capital Riga. That is, 16 out of 17 institutions operating in Latvia by 2004 were located in the capital city (Hansen and Vanags, 2005). Though, this heavy concentration is compensated by the fact that almost all institutions operate regional centers in different parts of Latvia. The majority run at least one, while more than half have several branch institutions operating across the country. *The Baltic International Academy* (Previously Baltic Russian Institute), for instance, has seven branch institutions in different parts of Latvia.

Table 6.4: Size Distribution of Private Sector Establishments by Country

Size	0-250	251-500	501-10000	1001-2000	2001-3000	3001-4000	4001-5000	>5000
Estonia	13	5	3	4	1	0	0	0
Latvia	2	4	2	3	2	2	0	1
Lithuania	2	1	3	2	1	0	0	0

Source: Morten and Vanags, 2005. *The Private Sector in Higher Education in the Baltics: Permanent Feature or Transition Phenomenon?*

Table 6.4 above shows quite even size distribution of institutions in Latvia, the majority falling within 250-4000 category. There are only two institutions enrolling less than 250 and one – more than 5 000 students. Accommodating over 7 000 student enrollments, *The Baltic International Academy*, is the largest private institution not only in Latvia but in the Baltic countries in general. Irrespective their size, the bulk of private institutions are organized around a few and sometimes only a single study field. *Riga International School of Economics and Business*

Administration that trains specialists in law, economics, business, languages, information technology and mathematics is notable exception to this generalization. Other institutions with relatively broad profile is *School of Business administration, Turiba, Ltd* offering accredited programs in several fields, though all in social sciences such as law, economics, public relations, business administration and truism management. Finally, the study of private HE sectors in the Baltic countries has found that to compare to their public counterparts, private institutions in Latvia too have more favorable class sizes, better equipped libraries and classrooms, use more up-to-date teaching methods and seem less subject to academic corruption (Hansen and Vanags, 2005). Evaluating the quality of services offered is beyond the scope of this study but the enrollment dynamics is in itself suggestive of unparalleled competitiveness of the newly established sector. The fact that tuition fees in top private institutions tend to be considerably higher than study-fees in top public universities serves as an additional indicator of high standing that private institutions enjoy in Latvia (Kasa 2003a).

6.2.2.1 Ownership Status

In Latvia, most state HE institutions have a legal status of derived public persons (legal entities of public law). Exceptions include *the Latvian Police Academy* and *the Latvian National Defense Academy* which, together with state colleges, are registered as state institutions (the Law on Institutions of Higher Education, 1995 its 2000 and 2006 amendments, Section 7, articles 1 and 2). Private HE institutions, on the other hand, can choose between the status of commercial companies and foundations (Section 7, paragraph 3). Established by the Central Cooperative Association Turiba, Birznieka Biznesa Centrs Ltd. and Reinman Ltd in 1993, *The School of Business Administration, Turiba, Ltd*, for example, bears the status of the limited liability

company and operates in accordance with the Commercial Law, while *Latvian Christian Academy* and *Higher School of Social Work and Social Pedagogics "Attistiba"* are registered as foundations and comply with the Law of Associations and Foundations insofar as they are not in conflict with the Law on Institutions of Higher Education. At the level of legislation, the Latvian government treats all HE institutions and colleges as foundations which gives them *right to receive tax relief in accordance with the legislation in force* in addition to the fact that *institutions of higher education shall be released from customs duties and fees, as well as from taxes for the import of reconstruction materials and equipment* (Section 78 (amended in 1996, 2000 and 2006) articles 5 and 6). In reality, however, most private institutions do pay corporate taxes. The discrepancy between the legislation and empirical reality has been characteristic of post-communist developments in general but the confusion surrounding the issue of legal, and by extension, tax status of HE institutions has been particularly great. In Latvia, this is true not only for private but also for public institutions that, despite the provisions of the Law, were subject to paying taxes. The issue was resolved by the Law on Corporate Tax according to which all private institutions are subject, whereas public institutions are exempt from paying corporate tax (correspondence with Janis Stonis. For the list of interviewees see Appendix 12).

6.2.2.2 Institutional Funding

The primary source of funding for private institutions in Latvia, like in other post-communist countries, comes from student fees. Private institutions do receive some governmental financial support in the form of student aid (loans only), buildings and other donations but rarely in the form of direct funding. *Higher School of Social Work and Social Pedagogics "Attistiba"* is a single institution receiving considerable

direct financing by the state. According to the possible rationalization of this exception offered by interviewed Andrejs Rauhvangers (secretary general of the Latvian Reactor's Council), this has to do with the fact that government authorities had only vague idea about the sources and means of private sector financing when Latvia's first private university was established. Indeed, the 1991 Law on Education that was formulated during the time of general euphoria and uncertainty, allowed up to 50 percent state funding for private institutions. It seems that *the Higher School of Social Work* has received the benefit of the direct state funding also because no institution before could train social workers that the state needed.⁶⁴ Another private institute seemingly receiving substantial state financing is *the Christian Academy of the Latvian Evangelical Lutheran Church*, though accurate information about the amount or principle employed for its funding is unavailable, save for the speculations that the state provides *indirect* financial aid through offering study grants to its students ("the procedure whereby the stat covers the costs of students at university") (Kasa and Loza 2000).

Whatever the underlying motivation and principles behind providing monetary support to these two institutions, this kind of funding policy has never been extended to the rest of the sector.⁶⁵ In fact, private institutions in Latvia turn out to be nearly as distinct on the dimension of funding as is the case in much of the region. That is, they neither receive direct state funding nor are eligible for a particularly high level of indirect financial backing. Although the 1995 Law on Higher Education Establishments equates all HE institutions to foundations and thus exempts them from

⁶⁴ Later, the program on social work was developed and offered by the University of Latvia, so that currently there is a competition for the student cohorts between these two programmes.

⁶⁵ According to another viewpoint, privileged standing of these institutions in obtaining state funding should solely be related to personal reasons (interview with Juris Dzelme).

paying taxes (Section 78, articles 5 and 6)⁶⁶, it has always been difficult for private institutions to make use of this provision, especially after passing the Law on Corporate Tax which has established corporate tax responsibility for private providers (Dzenis, Lacis and Stonis 2003, correspondence with Janis Stonis). Yet, one type of tax break that does apply to private institutions is through their students who are exempted from paying taxes on tuition fees (Kasa and Loza, 2000).

The main source of governmental financial support available for private institutions is in the form of contractual relationship between the state and institutions. According to the Higher Education Law, governmental authorities - be that the MoES or other ministries - may enter into agreement with state-accredited private institutions about preparation of specialists in specific field or conducting of research and therefore allocate governmental funding respectively (Section 78, article 4). Other source of indirect governmental funding includes funding through private institution students. Student loans for those enrolled in the state-recognized private institutions constitute most widespread form of student aid, however it is also common that different ministries provide student aid grants for students studying in relevant private institutions. Sometimes, a local government offers building and donations in other forms to private institutions, especially to those providing regional diversity. Altogether, the level of governmental financial support received through the different channels is not as trivial as commonly found in the region, despite the absence of the direct state funding. *The School of Business Turiba*, for example, obtained more than

⁶⁶ The Law stipulates that, as taxpayers, institutions of higher education and colleges shall be equated to foundations, and they have the right to receive tax relief in accordance with the legislation in force. Institutions of higher education shall be released from customs duties and fees, as well as from taxes for the import of reconstruction materials and equipment (The Law, Section 78).

10 percent of the total income for the academic year 2000/01 from the government. It should be added here that, the state support has been lessening since then so that the share of governmental funding for 2002/03 constituted only 5 percent (Aldis Baumanis 2005). The main distinguishing characteristic of private institution funding in Latvia, however, is that there is an additional and important source of financing for Russian language providers coming from Russia. Although there is hardly any formal data on these activities, it is well-established and widely known fact among governmental officials and policymakers. The governmental authorities, however, have tried neither to stop nor to control these practices (interview with Juris Dzelme).⁶⁷

6.2.2.3 Governance and Control

In Latvia, HE institutions in general are granted with considerable autonomy to determine the content and form of study programs, to set complementary conditions for student admissions and establish basic directions of scientific research, as well as the organizational and administrative structure (OECD 2001). In the same manner, there are little constraints imposed on private institutions for deciding on the scope and mission they aspire to serve. Once authorization is granted, private providers are given substantial freedom to manage their day to day activities. In Latvia, the MoES is responsible for granting a license which institutions need in order to be founded and function. The Ministry is also responsible for carrying out accreditation process according to the regulations established by the Cabinet of Ministers, though accreditation is not compulsory for private institutions. Yet, only students of

⁶⁷ Juris Dzelme has also emphasized that some of the Russian language institutions were noted to be associated with the dishonest academic practices and even illegal activities connected to granting degrees in Russia. There were cases of students, who have never been to Russia, obtaining diploma from a Russian (not distance learning) university.

accredited private institutions are granted state-recognized degrees and are eligible for different forms of student aid. In Latvia, like in its neighboring Lithuania, there is little difference in quality assurance standards set for the private and public HE establishments; institutions of both sectors need to comply to the same requirements for material base, for number of full-time professors or for those with doctoral degrees. It is hardly surprising that the quality evaluation practices in the Baltic States bear significant parallels. After the period of each country looking elsewhere for models and experiences which to emulate, the issue of quality assurance has served as the point around which the three countries come together to co-operate. Recommendations for the formulation and application of quality assurance guidelines were elaborated by the Baltic Higher Education Coordination Committee. General guidelines for quality evaluation process were provided by the Law on Higher Education Establishments passed in 1995, whereas the terms and requirements to the study programmes and HE institutions were further spelled out in the Accreditation Regulations for Higher Education Institutions approved by the Cabinet of Ministers in the same year.

According to these regulatory acts, accreditation, self-evaluation and evaluation by external experts form the key parts of the HE quality assurance process. It is important to note that since the actual process of quality evaluation started in Latvia in 1996, several private institutions have closed down on account of institutions not complying with the quality requirements. Among them were *Engineering and Information Technology Academy*, *Riga Humanitarian Institute*, *International Tourism School*, *Veseluma pieejas augstskola "Izaugsme"* (not translated) *Baltic College and Business and Economics College* (HEQEC). A decision concerning reorganizing or closing down an institution is taken by the Cabinet of Ministers,

following a recommendation of the MoES and the Higher Education Council (HEC). The latter is the most prominent of all intermediary bodies in Latvia, tasks of which include taking decision about accreditation of HE institutions, developing the national strategy in HE and coordinating between HE establishments, governmental agencies and the public at large. It should be noted here that its membership, proposed by a MoES and confirmed by the Saeima (parliament), includes leadership of both public and private sectors, representatives of Latvian Chamber of Commerce and Industry, Latvian Employers' Confederation and Student Union.⁶⁸

6.2.2.4 Institutional Mission

Pragmatic Mission: Providing instruction in commercially oriented high-demand and low-cost fields and thus serving the pragmatic mission, the private sector dynamics in Latvia has followed the pattern observed elsewhere in the region. In fact, there are only a few institutions, among them *Riga International School of Economics and Business Administration*, *Transport and Telecommunications Institute* and *Information Systems Management Institute*, which extend their course offerings beyond social sciences and humanities, as they offer instruction in mathematics, computer sciences and information technologies. Even in these cases, the focus of private institutions remains to be essentially practical and application oriented. In some CEE and the FSU countries, the immediate aftermath of the collapse of communism witnessed the creation of private institutions carrying out an ambitious and distinctive mission of challenging and substituting for existing institutional order, the legitimacy of which had brought into disrepute (Tomusk 2003). Such were *the Estonian Institute of Humanities*, Estonia's first private institution, and *the European*

⁶⁸ The Minister of Education and Science is ex officio member who represents the Council at in the government meetings (Higher Education in Latvia, 2003).

Humanities University of Belarus – both designed after the model of a Western comprehensive university. In Latvia, we find no such motivation behind the institutional growth as all private institutions are narrowly focused *non-university* type educational establishments. Despite this, private institutions rank high in these selected fields and would qualify what Levy has termed as “semi-elite” type institutions.

Ethnic-Religious Motive: there is a significant religious diversity in Latvia. Lutheranism had been a dominant religion here since the fifteenth century, but due to its decline to a far greater extent than Roman Catholicism, the latter has grown to be the largest religious group with around 22 percent of the country’s population. Lutherans and Orthodox Christians - two other major religious groupings – account for 20 and 15 percent of the total population respectively (CIA World Factbook, see Appendix 13 for more details). Despite such religious heterogeneity, the religious motive has played minor role in the private growth in Latvia. *Latvian Evangelic Lutheran Christian Academy*, previously Lutheran Deacon Institute, was one of the first private institutions founded in Latvia as early as 1993, as well as one of the first to get state accreditation in 1997. It offers both professional programmes, like “practical theology”, and academic programme in humanities and theology at B.A. and M.A. levels. Established in 1993, *Latvian Christian Academy* is another non-secular private institution. Interestingly, its declared mission is not to promote a particular religious faith but rather to bring religious and academic values together. Correspondingly, rather than catering for a specific segment of the population, the Academy enrolls students from Latvia’s three main religious groups, to offer them

education in both religious and bible studies and fields like public relations and social work.

In contrast to the religious motive, the ethnic factor has been a potent influence, perhaps second most important factor after the pragmatic mission, for shaping private sector growth patterns. Latvia is a highly heterogeneous country where ethnic Latvians account for not more than 58 percent of the population. Russian is the second largest ethnic group, constituting around 30 percent of Latvia's residents. The rest represent Belarusian, Ukrainian, Polish and Lithuanian ethnic minorities (CIA World Factbook). Even though the main language of instruction at HE institutions in the Soviet Latvia was Latvian, many subjects, especially in technical and engineering fields, were taught in the Russian language. It was common for universities to run dual track systems for most subjects which allowed students to study both in the Latvian and Russian languages. The abolishment of the latter after the language law came into force has created a sizeable demand as well as supply for Russian language instruction. The bulk of professors previously lecturing in Russian who had left public universities became compelled to seek employment opportunities outside the public sector. Though, there were such exceptions when Russian speaking faculty continued teaching in the Russian language unofficially. *Riga Institute of Aviation* (formerly the Riga Civil Aviation Engineers Institute, where specialists for the whole Soviet Union were trained) that continued to offer instruction in Russian until its closure in 1999 is one such example (Hansen and Vanags, 2005).⁶⁹ But, in general

⁶⁹ It is telling that the Riga Institute of Aviation maintained the language of instruction but not its technical focus, which was changed considerably towards business and economic studies (Hansen and Vanags, 2005). Closed down as the result of political decision following the corruption charges, the institute was shortly reorganized as the Institute of Transport and Telecommunications which is operational to date.

there was a major gap created both on the demand and supply sides for the Russian language instruction. In fact, the sheer size of that demand has served as one of the principle rationales behind permitting private institutions in Latvia. According to the interviewed actors who were significant influences on HE policy formation during the early years of independence, the private sector was created with the aim for it to serve the interests of non-Latvian speaking minorities, for it would be hard to justify denying the access to HE to almost half of the population altogether.

It is not surprising therefore to observe that much of the studies at private institutions are conducted in the Russian language. There are altogether seven institutions offering instruction in Russian. But the number of institutions does not adequately reflect the prominence of the Russian factor in the private sector dynamics. This is because private institutions in Latvia generally tend to be of a rather large size. Especially those with Russian language focus operate branches in different parts of Latvia, mainly in the eastern part which is most heavily populated by the Russian minority. *The Baltic International Academy* (previously, Baltic Russian Institute), for example, runs 7 branch institutions in different regions of Latvia. Being the largest private institutions in the Baltic countries with the student body of over 7 000, the Baltic International Academy offers business studies at both academic (like European Studies, Information Sciences) and professional (such as business managements, arts management, public relations and interpreter studies) programs. When it was first established, the Academy provided education only in Russian but later it extended its course offerings beyond English and Latvian languages. Although the bulk of the studies are still conducted in Russian, the Academy does offer MBA in all three

languages. *Institute of Transport and Telecommunications* – another major Russian language private institution has also chosen to provide instruction in other than Russian language. As the result, around 80 percent of its tuition is conducted in Russian, some 17 percent - in Latvian and around 3 percent - in English (Hansen and Vanags, 2005).⁷⁰

6.2.3 Conclusion

To sum up, the sharp increase in fee-paying student numbers both at the public and private sectors distinguish inter-sectoral dynamics in Latvia. A steady and continues rise in the private sector enrollments against the background of declining public sector enrollments and university age population in general, suggests high standing and competitiveness of the Latvia's private sector. Despite this, all private HE institutions are of non-university type, narrowly-focused and pragmatically-oriented organizations and therefore fall under the *semi-elite* category. Another major factor driving the private expansion is ethnic heterogeneity of population, which, as policymakers contend, has played the crucial role behind legalizing privately provided institutions in Latvia. Like elsewhere in the region, private institutions are quite distinct on the measure of funding (receiving considerable *direct* state financing, *Higher School of Social Work and Social Pedagogies "Attistiba"*, is the only exception to this generalization) and quite distinct on the measure of governance.

⁷⁰ The recent years has seen the growth of Latvian language departments at so called "Russian" institutions. It appears that Russian minority students increasingly choose to receive education in Latvian which allows their better integration in the society. On the other hand, there are cases of Latvian speakers opting for instruction in Russian in order for them to improve their language skills (Hansen and Vanags, 2005).

Despite this, the distinction between the two sectors in Latvia is especially blurred but only because of the remarkable influx of private resources in public institution funding.

6.3 Governmental Policies towards Higher Education

6.3.1 Legislative Framework

Similar to its Baltic neighbors, the movement towards reforming HE sector in Latvia started as soon as the central control began to loosen, during the period of *perestroika*. One of the first steps in this direction was the founding of *the Association of Scientists in Latvia* in the end of the 1980s. The main objectives of the Association included initiating the process of integration of research institutes into HE institutions that were separated during the Soviet rule, and introducing a new financing mechanism that would allocate funds among scientists and research institutions on competitive bases. These early undertakings largely reflect the influence of Latvian émigrés and the Latvian (natural) scientists who were provided with the possibility to work in Western universities in the 1960s and the 1970s. As other cases studies have demonstrated, the influence of individual academics in shaping HE field was undeniably strong in post-communist countries during the first half of the 1990s. The same proves true for Latvia where scientists with Western experience have served as the main driving force behind instituting a number of far-reaching changes. That HE institutions in Latvia started to grant B.A. and M.A. degrees already in 1989-1990, for example, is attributed to innovative efforts of the University of Latvia's rector. Juris Dzelme – the elected rector of the University in

1987 and currently the head of Higher Education Quality Evaluation Centre (HEQEC) - was the first to introduce Anglo-Saxon type three-level study programmes. Another innovation associated with Dzelme's name, who had an extensive working experience from the US universities, is implementation of the credit system in Latvian HE institutions (interview with Juris Dzelme).

Hence, despite the fact that Latvia has been a forerunner of legalizing innovative undertakings, here too, many changes that the beginning of the 1990s saw were initiated at the institutional level and had preceded the legislation. Yet, the most principal legal document of this period - the Law on Education, passed by Saeima in 1991 - was drafted by the team of the MoES officials with limited participation from other groups. Among most important changes that this legal act has introduced is to open the possibility for the creation of private institutions and to authorize public institutions to charge tuition fees. Other important provision was granting autonomy to HE institutions. Mostly concentrating on institutional autonomy, however, the aspects of institutional accountability were largely absent from this document. In general, this was a frame-law lacking sufficient detail for regulating the relationship between the state and HE institutions.

The limits of institutional autonomy were defined, at the same time as the scope of the MoES widened, by the first Law on Higher Education Establishments, adopted in 1995. Among other things, the Law elucidated the terms for creation and re-organization of HE institutions, delineated tasks and functions of Higher Education Council (HAC), the rights and duties of already existing Rector's Council, and provided much-needed clarification about the status of HE institutions. For instance,

the previous law did not distinguish between academic and professional HE institutions but only between academic and professional study programmes that could be offered by any institution. The 1995 law divided institutions into universities and professional HE institutions. Though, this did not resolve the confusion that existed about their status, as professional study programs could still be provided by universities. Importantly, the law created quality assessment and accountability system. It instituted a regular accreditation requirement for both the study programmes and entire institutions in every 6 years. More detailed guidelines for the quality evaluation procedure were put forward by regulation No. 370 on “Accreditation of Higher Education Establishments” approved by the Cabinet of Ministers in 1995.⁷¹

Despite the numerous necessary provisions that the Act contained, there remained a number of aspects not sufficiently addressed by the legislation. This is why the first amendment to the Law followed already a year later. Since then, the law has been revised several times in 2000 and 2003, twice in 2004, and in 2006. Among the issues that the amendments sought to illuminate further are institutional funding mechanisms and institutional self-governance, creation and reorganization of institutions and their legal status. More detailed discussion of some of these issues forms the subject matter of the following sections.

⁷¹ Another important regulatory act is Cabinet of Ministers Regulation No.238 on “Licensing of Higher Education Establishments”.

6.3.2 Governance Structures for Higher Education Institutions

In major respects, the shift in HE governance structures in Latvia follows the same paths observed in the rest of the country-cases. That is, an initial period of the extensive autonomy acquired by HE institutions followed by a governmental reactive attempt to define the borders of the autonomy and impose some control over institutions, through devising mechanisms of accountability and quality control. Yet, as this section will demonstrate, there are notable variations in the approach of the Latvian government.

The first point to emphasize relates to the role of the MoES in HE policy-making. Even though a number of crucial changes implemented during the first years of the transformation are related to the efforts of the academic elite, it was the team of the MoES officials who drafted the 1991 Law on Education - the key legal document of that period. This is not to say that the self-rule that HE institutions had acquired in Latvia was less extensive but the notable point is that this was mostly a result of deliberate market-liberal stance embraced by the Latvia's first government and not so much of uncontrolled and random processes. In the same way, the Law has served as the basis for the two most important developments that the HE sector witnessed – the creation of private institutions and introducing tuition-fees in public sectors – and not vice versa like it has been a commonplace in much of the region. Interviewed policy makers have described the first Minister as ‘open-minded’ liberal, whose resolute aspiration was to introduce market-liberal principles into HE funding and governance

(interviews with Andrejs Rauhvangs).⁷² In his recollections of the general background against which the first law was drafted and passed, Juris Dzelme has noted that there even was this “crazy” idea about introducing a finance mechanism according to which all public and private institutions would take part in a competition for winning the state financing. Unsurprisingly, the proposal triggered such resistance that was ultimately dropped from the agenda and was replaced with the provision which would allow up to 50 percent of governmental finance for private institutions.

The preparation and drafting process of the 1995 Law on Higher Education Establishments saw more active participation from wider groups but the MoES still remained the main player. It is noteworthy that working groups were coordinated by MoES in such a way that representatives from each HE institution were invited at a time. At these initial stages, the Rector’s Council was excluded from the participation. According to the provisions of the 1995 Law, HE institutions in Latvia are treated as legal entities and are granted with substantial self-rule that encompasses the authority to devise and adopt own by-laws (called *Satversme*, which are approved by the parliament in case of universities and by the Cabinet of Ministers in case of other types of institutions), determine the content and forms of their studies, define own admissions criteria (that is supplementary to general admissions standards), determine the basic direction of scientific research carried out by institutions and regulate their organizational and administrative structure (1995 Law on Higher Education). Apart from this, institutions are delegated with self-rule to hire

⁷² Andris Piebalgs, the first Minister of Education (1990-93), who has been serving as European Commissioner for Energy since 2004, was named by *the Economist* as their “Eurocrat of the Year” for the year of 2007 (the Economist, January 4, 2007).

employees and set their compensation rates as well as to determine the number of fee-paying students and the level of tuition-fees.

The main decision-making bodies of an institution are constitutional assembly (or Satversme assembly), the senate, the rector, the audit commission and the academic arbitration court. The members of constitutional assembly - the highest collegial and decision-making body - are elected by an institution's personnel in accordance with existing quotas for different groups set forth by the Law. Thus, no less than 60 percent of its members should be drawn from academic personnel and no less than 20 percent – from the student body, while the rest members shall be elected from non-academic and administrative staff (chapter III, sector 13). Although constitutional assembly is the highest managerial and decision-making body, in reality it has no real ruling power, its functions largely limited to that of electing the senate and electing and dismissing the rector. In most HE institutions the senate is the most powerful governing body that determines the contents of by-laws and regulations and issues decisions on virtually all matters concerning an institution. Student representation in the senate for all types of institutions constitutes no less than 20 percent, while minimum of 50 per cent of the university senate and 75 percent of the senate of an institution of HE shall be representatives of the academic staff (chapter III, sector 15).

Furthermore, the new Law contained more unambiguous provisions about the competencies and tasks of intermediary and governmental agencies responsible for overseeing HE institutions. Having the authority to implement the Law within constraints of the institutional autonomy, the MoES, by using the expertise of HEC, is

responsible for carrying out licensing and accreditation processes.⁷³ The new law defined the status and functions of HEC according to which this independent entity is in charge of developing broader strategy in HE, promoting co-ordination, overseeing the quality and preparing the grounds for decisions on major issues concerning HE. Its twelve members are drawn from various groups of academic community and society that have stake in HE, such as public and private HE sectors, Academy of Sciences, Rector's Council and Council of College Directors, Chamber of Commerce and Industry, Latvian Employers' Confederation and Student Union. Among multiple functions of this intermediary expert organization, however, most prominent are providing advice on the number of students to be funded from the state budget and on the accreditation of HE institutions.

In Latvia, the need for establishing some sort of quality control procedure was created by a rapid expansion of both types of HE establishments. The process has begun in 1994 when the agreement on quality evaluation was prepared between the Baltic countries. The 1995 Law set forth the basic framework for quality assurance, while the actual process of quality assessment got underway in 1996/97, following the establishment of HEQEC in 1995. The Centre organizes the quality assessment process of study programs and HE institutions and co-ordinates the accreditation process. The procedure is organized thus that the evaluation team, comprised of international experts (at least one of the members comes from other Baltic country)

⁷³ In Latvia too, the MoES unit responsible for overseeing higher education sector has undergone considerable structural changes. The department of Science and Research was created within the Ministry in 1992, owing to the fact that reinstating science in higher education was a primary policy objective of that period. In 1994, the unit was reorganized as the Department of Higher Education and Science. The latter was divided into the Department of Science and the Department of Higher Education in 2002, only to be merged again as the Department of Higher Education and Science two years later. It appears that none other than the interests of an influential individual whose ambition was to become the head of the Department of Science served as the grounds for splitting the Department of Higher Education and Science in 2002 (interviews with Anatolijs Melnis).

reviews self-study and submits its recommendations to HEC. Based on these recommendations, the council makes a decision on accreditation that is finally endorsed by the MoES. According to OECD experts' team that had an opportunity to scrutinize the process and get reflections from HEC and HE institutions alike concluded that the process in Latvia *reflects the best practices of several OECD countries, and, if fully implemented, will have a significant impact on quality and on standing of Latvian institutions in the international community* (OECD 2001. p. 150)

Another important body that serves in an advisory capacity to the MoES and the Cabinet of Ministers and is responsible for strengthening co-ordination among HE institutions is *the Rector's Council*. Its other tasks include deciding on joint study programs, evaluating draft laws and other policy proposals and providing its expert opinion about issues related to HE. An important distinguishing characteristic of the Latvia's Rector's Council is that it includes the representative from all state recognized HE institutions, public and private. It is notable that the co-ordination between HE institutions in Latvia poses significant challenge as institutions continue to be divided among the spheres of influence of different ministries, as it was the case during the Soviet times. Undertaken interviews have revealed that each of many attempts to bring HE institutions under the control of the MoES were met with insurmountable opposition from the ministries that obviously benefited from the existing scheme (in the form of grants, support for infrastructure, additional facilities, placements for students). It must be noted, however, that not all the ministries (e.g. culture) opposed the policy proposal but those who were not willing to give up the benefits, prevailed (interviews with Juris Dzelme). Currently, besides the MoES that is in charge of the rest of HE institutions, there are altogether five ministries

overseeing seven institutions.⁷⁴ Although Latvia was unsuccessful in establishing unified control of MoES over HE institutions, it has been a forerunner in accomplishing other fundamental goals on post-communist countries' HE policy agenda. One such issue is the reinstating scientific research in HE institutions. The Association of Scientists in Latvia that aimed at the major overhaul of the organizational structure of the Academy of Science was formed in the end of the 1990s, when Latvia was still a part of the Soviet Union. Latvia was a one of the first post-communist countries to have introduced competitive grants based funding for research activities and to have started and successfully re-integrated the research into HE institutions.

Finally, the new law has had powerful implications for private HE institutions. First of all, requirements for founding a new institution, be that private or public, are such that they shall have a starting capital of at least 100 000 Lt (around 196 000 USD), minimum number of 400 students, well-equipped libraries, at least 50 percent full-time faculty, 30 percent of which hold PhD degrees (this requirement does not apply to colleges, while the figure for universities constitutes 50 percent). Not only has the establishing new department or HE institution become greatly challenging (previously institutions needed no special permission to open up a new department) several existing departments and even institutions were closed down as the consequence of their not meeting the quality standards put in place.⁷⁵ Additionally,

⁷⁴ *National Academy of Defense* is under the control Ministry of Defense, *Latvian University of Agriculture* - under Ministry of Agriculture, *Police Academy of Latvia* – under the Ministry of the Interior, *Riga Strandis University* – under the Ministry of Welfare and three institutions, *Latvian Academy of Culture*, *Art Academy of Latvia* and *Latvian Academy of Music* are supervised by Ministry of Culture (Higher Education in Latvia 2003).

⁷⁵ Several programs were closed at public higher education institutions as well. What is more, programs were closed down even in the University of Latvia – the most prestigious of Latvia's universities. On the other hand, only one public institution - Riga Aviation University – was closed

through the provisions of the Law, accreditation is compulsory for private institutions if they are to grant state recognized degrees.

6.3.3 Higher Education Funding Policies

The Latvian HE system, which, until recently was financed exclusively from the state budget, witnessed most significant diversification of its financial base. The Latvian is a country case in which both processes - the growth in the number of extra-governmental suppliers of HE and the privatization of public educational services - has been remarkably intensive. These practices were legalized already in 1991 but the 1995 law on Higher Education Establishments provided more detailed guidelines for their regulation.⁷⁶ As the table 6.5 shows, there has been tremendous increase in the share of students financing their studies. Put differently, over the period 1995-1998, the state budget for HE saw the increase by 26 percent, while institutional funding from paid services, mostly comprised from student fees, grew by 115 percent (OECD 2001). In comparative perspective too, currently Latvia has one of the highest shares of both private sector enrollments and fee-paying students at public institutions.

down entirely as the result of the political decision that followed the corruption scandal (interviews with Juris Dzelme).

⁷⁶ Two additional documents regulating funding are Cabinet of Ministers Regulations No. 334 on “the Procedure of Funding Higher Education Establishments from the State Budget Resources (2001) and Cabinet of Ministers Regulations No. 220 on “the Procedure of Granting, Payment and cancellation of study Loans and Student Loans Paid by Credit Institutions with State Provided Guarantees (2001).

Table: 6.5 Tuition-paying Students at Private and Public Institutions in Latvia

	Private Sector enrollments as the share of total enrollments	Tuition-paying students as the share of total public enrollments
1990/91		-
1991/92		-
1992/93		-
1993/94	2.72	-
1994/95	4.12	-
1995/96	5.64	30.68
1996/97	8.52	39.77
1997/98	10.28	45.71
1998/99	11.25	51.84
1999/00	12.68	58.33
2000/01	13.87	60.87
2001/02	18.80	63.23
2002/03	22.87	64.84
2003/04	26.07	67.21
2004/05	27.91	67.44
2005/06	28.51	68.15
2006/07	30.11	66.66
2007/08	31.87	63.32

Source: Central Statistical Bureau of Latvia

The Latvian government's approach to determining self and state financed student numbers is as telling as the figures themselves. Institutions are free to decide on the number fee-paying students they wish to enroll (Higher education in Latvia 2003, Kasa 2003a). This is usually calculated according to the number of graduates and the total capacity in the light of the general student demand for that particular program. The principle determinant for the rate of tuition-fees, however, is student demand and not the cost of a study or any other factor, which strongly reflects market liberal approach to pricing. With respect to tuition fees too, institutions are free to set their rates, which vary greatly across institutions as well as across degree programs. On the whole, the amount of study fees at the two sectors is comparable. For example, in 2003/04, the average level of tuition in public universities was USD 1, 666, while in

private institutions it amounted to USD 1, 429. However, tuition charged by top private institutions (USD 16, 667) are considerably higher than those by top public institutions (USD 10, 095) (Higher education in Latvia 2003)⁷⁷ (which once again points toward high standing that top private institutions have acquired in Latvia).

The number of state financed students, on the other hand, is determined by the Minister of Education based on the HEC proposal. Although the Council is formally responsible for calculating the number of budget places, until recently, the historic distribution of the state finance among the major sectors seemed to be more of an influence (Kasa and Loza, 2000; OECD 2001). Developed in 2001, normative funding mechanism for HE has been put in operation since 2002. The amount of financing is determined on the basis of study vacancies, base costs and indexes of costs for education by subject fields and is allocated only to full time students (Higher Education in Latvia, 2003). Another important factor seemingly affecting the pattern of budget distribution to public institutions is again market demand. First of all, tuition fees in Riga are considerably higher than for the same degree program in other regions. Moreover, most prestigious institutions providing education in highly demanded study fields have the highest rate of fee-paying students. For example, only around 20 percent of Riga Technical University students pay for their tuition, while the figure for the University of Latvia constitutes more than 70 percent (OECD 2001). Most striking example in this respect, however, is publicly owned and publicly run *Banking School of Business and Finance*, where all students pay for their education as it has no state-financed study places (Kasa and Loza 2000, Kasa 2003b).

⁷⁷ The same pattern of tuition pricing is observed in Georgia, where the cost of the study in few prestigious and competitive private universities is much higher than in any public university.

The above examples point to the fact that there has been considerable blurring on the dimension of funding between the two sectors in Latvia.⁷⁸ While remaining under the public ownership, public institutions have increasingly sought to generate private money in order to supplement for highly inadequate public funding. However, there are several institutions, all of them under the supervision of other ministries than MoES, which continue to be almost exclusively funded from tax-payer born money. Having no tuition-sponsored slots, the National Academy of Defense is fully financed by the state. Other institutions having high rates of state-funded students include the Latvian Academy of Music (98.5%), the Latvian Maritime Academy (94.6%) and the Policy Academy of Latvia (86.7%) (OECD 2001).

In contrast to this, there are only two private institutions - Higher School of Social Work "Attistiba" and Latvian Evangelic Lutheran Christian Academy – that draw extensively from public financing. Although they do receive some indirect financial support from the state, tuition fees constitute the main source of income for the rest of the private sector. This is why the policy having most important implications for non-governmental sector is student loan system. The government started to offer loans covering students' social needs from the state budget in 1997 and loans covering tuition - in 1999. Student attending state accredited private institutions are eligible for both types of governmentally subsidized and commercial bank administrated loans. Any full and part-time student with successful academic performance can receive a study loan, intended to cover the tuition, whereas student loans, covering students' daily expenses, are available for academically successful full-time students only. (Kasa and Loza 2000).

⁷⁸ Policy-makers even joke that some public institutions, most notably the University of Latvia, have become more private than private institutions (interviews with Juris Dzelme).

The loan scheme was modified in 2001, when the government approved regulations allowing students to take out commercial bank loans against the state guarantee. Granting loans from the state budget resources was thus discontinued and instead the system of lending students from the resources of credit institutions was put into operation. Government co-sponsored loans are interest-free during the duration of studies but annual interest rate of 5 percent is applied upon graduation. The government subsidizes both - the interest rate charged by the commercial bank for administering the student loan program and the interest rate that students pay after one year grace period following the graduation. The latter can altogether be forgiven in a number of circumstances, among them if a borrower gets employed in the public sector that meets manpower needs of the country. Besides government co-sponsored student loan program that is most extensive scheme in Latvia, private sector lending is also been developing. Using their own initiative, some commercial banks have started giving out student loans, which are treated as conventional loans (Higher Education in Latvia 2003, Kasa 2003b).

Approved by the parliament from the annual state budget, the overall amount of money allocated for both types of loans has been increasing from year to year. It is notable though that, until recently, the amount of money made available for loan purposes has exceeded the demand. One reason for this discrepancy is that students have opted for smaller loans than it had been anticipated. Another factor is that money allocated to a specific institution cannot be shifted to another during the course of an academic year. This often creates a situation when funds are available in the system but cannot be used by students who need them. But, there also is a general

lack of information about the loan system in place as well as a lack of confidence that loans can be repaid (Kasa 2003b). Therefore, the obvious direction that governmental policies can develop is to make the loan system more flexible and to raise awareness among students and their parents. The major flow in the scheme identified by experts, however, is that merit, rather than social need, serves as the main criteria according to which loan resources are being distributed (Kasa 2000, 2003b). Thus, similar to governmental grants that apply to academically successful full-time public university students, loans too are allocated on the merit base. Notwithstanding the above shortcomings, not only is Latvia the first post-communist country to have introduced the loan scheme but it is also the one having one of the most developed systems with different loan schemes in place, where private lending is gradually developing alongside the governmentally subsidized and commercial bank administered loans.

With respect to other policy mechanisms commonly employed by governments for stimulating and encouraging private sectors in HE, the policy environment in Latvia is not much different from those found across the region. First of all this is true for favorable tax policy that despite the provisions of the HE law is not available for even private non-profit educational establishments.⁷⁹ In fact, the confusion about tax status was so great in Latvia that until recently even public institutions were subject to taxation policy similar to commercial enterprises. The University of Latvia negotiated the agreement with the Ministry of Finance in 2001 that would exempt the

⁷⁹ In the post-communist context in general, although legislation differentiates between for-profit and not-profit forms of organizations, the distinction seldom has implications for a tax policy. This should be related to the Soviet past when all industrial enterprises were state owned. All institutions, be that manufacturing companies or those operating in education and health care sectors, contributed to the social security and hence were similarly taxed (Dzenis, Lacis and Stonis 2003).

university from paying taxes on the part of the income directed at financing student scholarships (Dzenis, Lacis and Stonis 2003). This is despite the fact that Latvia already had a legislation allowing scholarships to be freed from social and income taxes but it was the University of Latvia that first made use of such arrangement. Yet, one constructive policy in place, usually absent from other post-communist country legislations, is that freeing fee-paying students and their parents from paying taxes on tuition. According to the Law on Personal Income Tax, 1993, expenditures on education are regarded as eligible expenditures and is subject to state refund, provided that personal income tax was properly paid (Kasa 2003b).

6.3.4 Conclusion

As the above analysis has shown, HE policies employed by the Latvian government is closer to market-competitive policy approach. From the outset, the standards of quality and material base required for licensing and accreditation has been set high. Although these requirements do not differentiate between the two sectors in HE, the government has exercised evenhanded approach in many other respects. For example, following the implementation of quality assurance standards, programs were closed not only in private but also in public institutions, including most prestigious - the University of Latvia. Besides, the government has ensured the transparency of these processes and their outcomes.

As it was documented above, the market-competitive approach has been underlying to HE funding policies employed by the Latvian government. Currently Latvia has

one of the highest numbers of tuition-paying students at the two sectors in HE taken together and separately. On the other hand, Latvia was the first post-communist country to have introduced student loans from national budget as early as in 1997.⁸⁰ Government co-sponsored and guaranteed student loans apply to any academically successful tuition-paying student enrolled at state-accredited institutions, public or private, which are free to determine both the number of students to be admitted and the amount of tuition charged. Although there is a little direct funding, if any, to private institutions, financial aid received through students and other indirect channels amounts to considerably higher rate than is usually found in the region. Another policy having favorable influence on private sector development is the private sector's participation in HE planning through important intermediary agencies. On the whole, interviewed policymakers as well as studies in the Latvia's private sector indicate that governmental authorities have recognized the valuable role that private institutions play in meeting demand on HE and accordingly have supported them (Morten and Vanags, 2005).

⁸⁰ Up until now, only a handful of CEE countries provide government guaranteed study loans, among them Estonia, Lithuania, Hungary, and the Czech Republic which started to implement loan schemes since the 2000s. In other countries, like Bulgaria and Russia, students can borrow from commercial banks with the standard interest rate and without government being a guarantor or subsidizer. Both countries are planning to implement low interest, governmentally backed student loan schemes in the near future (Student-Parent Cost by Country: Russia).

6.4 Determinants of Governmental Policies towards Higher Education

6.4.1 Economic Development

The level of overall education expenditures has been growing in Latvia since 1990s. If in 1985 government allocated around 12.4 percent of its public expenditures to education by 1995 the figure has grown to 16.5 percent. The HE spending as the share of overall education expenditures has also increased from around 10 to 12 percent over the same time (Report on Education in Latvia 2001/2002). Although Latvia's commitments to education has been growing to the level that is comparable to and even slightly higher to EU average of 5 percent, funds available to HE institutions have become increasingly insufficient (Table 6.6). One obvious factor is that the rate of public enrollment growth has been much more rapid than the increase in the rate of funds allocated to HE. As the result, Latvia's per capita student spending (440 lats/year or about 730 USD) is more than 10 times lower than the average per HE student spending in OECD countries (around 8 252 USD) (Report on Education in Latvia 2001/2002).

Table 6.6: Public Expenditure on Education in Latvia (percent of GDP)

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
5.8	4.8	4.2	4.6	6.1	6.1	6.9	5.5	5.8	6.5	7.2

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001.

Another reason for the relatively low level of per student spending is the lower level of GDP itself. Although the economic transition of Latvia has been one of the fastest and most successful of all post-communist countries, its economy has suffered with the same downturns concomitant of the transition from planned to market economy. Many setbacks that the Latvia's economy has experienced stemmed from its previous dependency upon the Russian economy. A policy that allowed Latvia to escape from economic chaos present in former Soviet countries is a successful and timely introduction of national currency (Pabriks and Purs 2002). Already by 1992, Latvia had introduced a transitional currency while *Lats* has been in circulation from the beginning of 1993. Reintroducing the currency of interwar period had, first and foremost, symbolic significance; however, monetary reform has also contributed greatly to the economic growth of independent Latvia. The governmental action coupled with tight control of monetary supply exercised by the Bank of Latvia has ensured fairly balanced governmental budgets, which has little or no deficit to date, and has controlled inflation and foreign debt. Latvia emerged from the Soviet Union with no debt and although over the years it has incurred some foreign debts, still not to the extent of high-spending western countries. As for the inflation, after the triple-digit inflation rates of the early 1990s, it started to decline from 1993 so that by 2000 Latvia had one of the lowest inflation rates in the entire region (Table 6.7). Finally, the nature of privatization policies, which was much more transparent than commonly found across the FSU, is another successful component of economic structural adjustments embarked upon by the Latvian government. It must be noted, however, that its pace and efficiency was slowed down by the decision of the Supreme Council, taken under the influence of the Latvian Popular Front, to return confiscated property to the rightful owners and their descendents. Although politically important,

restitution process has hindered economic effectiveness of privatization. The arrival of Skele government in 1996 has served as the turning point in the privatization process, speeding its pace considerably.

More obstructive to the economic growth, however, was banking crises experienced in Latvia first in 1995 and then in 1998-1999. The lax regulatory regime in which private banks operated was blamed for the former, as the result of which *Banka Baltija*, the largest private bank in Latvia, was closed down in 1995. The crises served to hold Latvia's economic growth back, causing some 10 percent slash in Latvia's GDP and deepening the state budget deficit for the year of 1995 (Tables 6.7 and 6.8). In the course of the following two years banks managed to recover, but only to face another predicament, the cause of which now laid in Russian bank crisis that followed ruble devaluation. As the Latvian economy had become much less dependent on Russia, banks managed to avoid domino effect and the short-term effects of the crisis were more effectively controlled (Pabriks and Purs 2002).

Table 6.7: Economic Indicators, Latvia 1989-2000

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Real GDP Growth ^a	100.0	102.9	92.2	60.0	51.1	51.5	51.0	52.7	57.3	59.5	59.6	62.2
Annual change in GDP (%) ^b	6.8	2.9	-10.4	-34.9	-14.9	0.6	-0.8	3.3	8.6	3.9	0.1	4.5
Real Wages ^c	100.0	105.0	71.9	49.0	51.8	57.9	57.7	54.1	60.7	63.0	65.0	
Annual inflation rate ^d		10.5	172.0	951.2	109.2	35.9	25.0	17.6	8.4	4.7	2.4	2.9

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001. ^a Based on EBRD, 2000. ^b EBRD, 2000. 1999: estimate. 2000: projection. ^c Based on EBRD, 2000. ^d Based on EBRD, 2000. 1999: estimate. 2000: projection.

Table 6.8: GDP per capita (constant 2000 USD) and Employment Ratio (number of employed as percentage of population aged 15-59) in Latvia

	GDP per capita	Empl. ratio
1989	4,217	-
1990	3,901	-
1995	2,364	-
1996	2,477	64.1
1997	2,727	67.4
1998	2,904	67.5
1999	3,024	66.5
2000	3,302	64.9
2001	3,588	66.6
2002	3,854	68.5
2003	4,154	69.6
2004	4,533	70.1
2005	5,023	71.1

Source: TransMONEE 2007 features: data and analysis on the lives of children in CEE/CIS and Baltic States. Based on World Development Indicators database, 2007. Employment Ratio Data is based on labor force survey.

Taken as a whole, macroeconomic steps undertaken by successive Latvian governments have led to a steady economic growth already manifesting itself from the end of the 1990s. In the Latvian case, it proves somewhat difficult to trace the influence of the changes in country's economic development on HE policy. This is partly because there has been a continuation in the governmental stance towards both economic and the HE sector restructuring. From the outset, Latvia opted for the economic policies of fast liberalization and different governments in office have not strayed from that chosen path. The same holds true for the nature of HE policies which saw little shift from the initial direction determined in the years immediately following the regime change. The next section explores the ideological link between HE restructuring attempts and the broader economic policy in place.

6.4.2 Political Parties and Ideology

Since the awakening of the mid 1980s, two major issues that had dominated Latvia's political discourse is independence from the Soviet Union and relations towards country's ethnic minorities (Pabriks and Purs 2002). After regaining the independence, however, much of Latvia's politics has centered upon the ethnic cleavage. The recent times saw the development of other cleavages, like left-right or rural-urban, but ethnic is the core issue that continues to structure the party divide in Latvia. There appears to be a little variation in party platforms on other matters as all party programs concentrate on social issues, such as reducing the poverty and economic disparities across regions and people as well as combating corruption, lowering taxes, and maximizing Latvia's benefits from the EU, (Country Report: Latvia, 2005). Even the issues of economic policy had invited little disagreement between the major political groupings during the times when the most crucial choices of economic and institutional design were hammered out. Few political parties, including reform communists, have questioned the necessity of following a market-liberal economic path. The debate had instead evolved around appropriate approach towards economic transformation, that is gradual vs. shock therapy. From the start, it was decided on the strategy of "shock therapy" that implied implementing sudden and drastic economic measures (Pabriks and Purs 2002). Adherence to the chosen principles was ensured, not least, by the extensive involvement of international agencies, notably IMF, in policy-making in Latvia. But another important factor for the policy continuation has been that political parties on the right have dominated every election (that is five) since Latvia's regaining independence.

In the first independent elections held in 1993, the majority with 36 seats in the 100-seat parliament was secured by the newly formed Latvia's Way, which formed a

government coalition with the Farmer's Union. Latvia's Way was created as a moderate right-wing group with the help of Latvian émigrés who gave the party image of an open-minded liberal political force, being above the dirty politics of the Supreme Council, and capable of leading the country through the path of major transformations.⁸¹ Fragmentation and instability of political parties has been characteristic of nascent party systems in much of post-communist countries. In Latvia too, only few parties (Latvia's Way among them) have survived through all five independent era elections. But despite this lack of political continuity, right-leaning political groupings have dominated every election to date in history of independent Latvia. Thus, another salient feature of the Latvia's party system is the relatively weak representation of left-leaning parties. Obviously, the electoral weakness of the left has to do with the Soviet past; the average voters continue to identify leftist orientation exclusively with the orientation towards Russia (Country Report: Latvia, 2007). Indeed, the main objective of political programmes of left-leaning parties, including communist successor *Equal Rights Movement*, has been the defense of the rights and interests of the Russian minorities living in Latvia.

⁸¹ But the party also included a number of *nomenclatura* representatives, career seekers and moderate Popular Front members.

Table 6.9: Higher Education Policy Choices in Light of Electoral Outcome in Latvia

<i>Electoral Outcome</i>	1993-1995: Coalition government of Latvia's Way and Farmer's Union (centre-right)	1995-1998: Coalition government of 6 right-leaning parties ^a	1998-2002: Coalition government of several right-leaning parties ^b	2002-2006 : Coalition government of New Era Party with three other center-right parties ^c	2006: Coalition Government of center-right Union of Greens with four other parties ^d
<i>Changes the Higher Education Policy</i>	1990: Three-level degree programs introduced at HEIs. 1991: Law on Education 1991: First Private institution is established 1991: public institutions start charging tuition fees	1995: Law on Higher Education Establishments 1995: creation of the Accreditation Council 1997: Social needs loan scheme in place	1999: Loans covering tuition 2000: Amendments to the Law on Higher Education 2001: Commercial bank administrated loan scheme	2003 and 2004: Amendments to the Law on Higher Education	2006: Amendments to the Law on Higher Education

^a These are: Samnieks, Latvia's Way, For Fatherland and Freedom, the Unity Party, the National Conservative Party, The Farmer's Union/Christian Democrats and Green Party (only three out of nine parties that overcame the 5 percent threshold were not included) (Henderson 1997).

^b Altogether 6 political parties overcame the threshold among which were three right-leaning parties such as Latvia's Way, For Fatherland and Freedom and People's Party; one centre The New Party and For Human Rights in United Latvia from left. The position of The Social Democrats is difficult to identify but the party is still positioned on the left of political spectrum (Pabriks and Purs 2002).

^c New Era receiving 26 seats formed coalition with three centre-right parties: Latvia's First Party (LPP, 10 seats), the Union of Greens and Farmers (ZZS, 12 seats) and For Fatherland and Freedom/LNNK (TB/LNNK, 7 seats). People's Party, other center-right party receiving 20 seats did not become a coalition partner (Country Report: Latvia, 2003).

^d These were Voting Union of Latvia's First Party and Latvia's Way, For Fatherland and Freedom, and Harmony Center (the latter supported mostly by Russian minority) (Country Report: Latvia, 2007).

Although economic reforms have not always been pursued with the same vigor, the electoral strength of the right has insured continuation to a certain degree in the market liberal reforms in Latvia. The same holds true for HE policies. Constant fluctuation in HE regulatory and legislative frameworks has been characteristic of countries in transition and Latvia is no exception in this respect. But the examination of the case shows that the same market-liberal philosophy has been underlying much

of the changes that HE system has witnessed. The Latvian case does not enable us to fully grasp the implications of the change in ruling party ideology for HE policy outcomes because of the lack of variance on both factors (Table 6.9), but undertaken interviews as well as examination of different written sources have revealed a clear and well-expressed link between the two. The thinking about how should the costs for HE be divided between the state, and students and their parents, advocated by political party leaders (interviews with Janis Vaivads, Minister of Education in 1993-1995) and expressed in policy papers (Higher Education in Latvia 2003) is consistent with the recent liberal thinking about HE, which favors decreased involvement of the state and correspondingly encourages introducing market mechanisms in steering the sector. The rhetoric of policymakers is influenced by market model which emphasizes the component of private returns besides social benefits that HE confers. The tendency to apply free market principles to HE policies had been manifest from the start in Latvia when the first Minister of Education put forward a proposal for funding private and public institutions on equal terms in order to enhance the quality of services rendered, by stimulating intersectoral competition. Although this proposal never got implemented, the fact is indicative of the ideological stance embraced by the first Minister and his team.

6.4.3 The Mode of Interest Intermediation

Established in 1992, the Rector's Council that unites within itself rectors of all state recognized institutions, public and private, serves as the main channel for institutional leadership to work out common proposals and exercise their influence on policy planning process. In order to ease the dialogue between HE institutions and

government officials, the Council also includes the minister of education and the head of HE department at the MoES, with one voice each. Each rector, whether representing a large or small university, also possesses one voice in the decision-making process. This means that the University of Latvia, the largest university enrolling almost one-third of the whole student body and a small newly created private institution enrolling some 250 students has equal representation in the council. This aspect, distinguishing Latvian mode of interest intermediation from any other post-communist country, has sometimes been exploited for the advantage of institutions. The International Higher School of Practical Psychology - formally an independent private institution - is said to belong to Baltic International Academy. According to the Secretary General of the Latvian Rector's Council, Institute of Psychology, which shares the faculty and other staff members with the well-established Baltic International Academy, was founded by the leadership of the latter with a sole purpose of increasing its representation in intermediary bodies (interview with Andrejs Rauhvangers).

Rauhvangers has noted that the two sector representatives have mostly been able to find and co-operate on common grounds, but the relationship that has been described as fruitful and conflict-free has been marred by disagreements lately, as competition between the two sectors intensifies. Institutional finance is a single issue which has invited most conflict and disagreements. Private institutions have advocated market-liberal approach towards HE finance according to which the state "purchases" student study places at both types of institutions, which freely compete with each other for winning the state funding. Although they have not been able to push this proposal through, private institutions in Latvia have access to HE planning to the extent that is

almost unparalleled in the region. Having equal representation in such an important intermediary body as the Rector's Council implies that HE policy choices to a certain extent reflect the interests of newly created sector. This explains why public institutional leadership have not used the position and power of the Council to the detriment of private institutions in protection of their institutional interests, as has been the case in much of the region. It must be added here, however, that the powers of the Rector's Council in Latvia have been relatively limited to start with. As it was noted, the Council played no role in the preparation of the first law on education and although it did take part in drafting the 1995 law, the MoES remained the principle actor. This mainly is consistent with our conjectured link between the mode of interest intermediation in a given country and the governmental stance towards private HE.

6.4.4 Demographic, Ethno-Linguistic and Religious Factors

Latvia is a highly heterogeneous country both ethno-linguistically and religiously. Three main religious faiths that account for almost 60 percent of the total population are Lutheranism, Roman Catholicism and Orthodox Christianity (CIA World Factbook), while other groups include Baptists and various Evangelical Protestants. While religious factor had little part to play in forming governmental stance towards HE notwithstanding such diversity, ethnic issue has been as overridingly important to shaping HE dynamics in Latvia as it has been to general politics, since the awakening of the 1980s. Currently, ethnic Latvians account for 58 percent and Russians - around 30 percent of Latvia's total population, the rest representing Belarusian, Ukrainian,

Polish and Lithuanian ethnic groups. But the ratio between native population and the minorities was even less balanced in 1989, when ethnic Latvians were just in a majority with 52 percent. Of a particular concern was Russian population, which had grown during the Soviet period to 34 percent (poles 2.3 and others 10.3) (Henderson 1997). Vast majority of them were denied citizenship and could not vote altogether as the first citizenship law granted citizenship, and respectively the right to vote, to pre-war citizens and their descendants only, thus excluding Soviet immigrants from the political process. Latvia remained stuck at the position attained during the immediate aftermath of the communist rule and was unable to develop a new policy dealing with its minorities until mid the 1990s, when the process of naturalization of Soviet emigrants started. Not less central to Latvian politics of the beginning of the 1990s was linguistic policy, which had special relevance to the developments taking place in the HE field.

The Language Law establishing bilingualism of Latvian and Russian was adopted in 1989 by the Supreme Council, under the pressure of popular movements. The Law permitted using other than Latvian in governmental sectors for the transitional period of three years. The Latvian language was declared as *lingua franca* in the territory of Latvia following several amendments to the 1989 Law adopted in 1992. The hierarchy of languages was altered as Latvian became the main language in administrative and governmental organizations. The Language Law had tremendous implications for education sector in general and especially for HE, as it stipulated that state-financed universities would teach primarily in Latvian from the second year of studies (Article 11). Students were granted with a year grace period when they could improve their language skills (Pabriks and Purs 2002). Defending the linguistic

rights of ethnic minorities became a principle objective for a number of political parties and pressure groups (*Headquarters for the Protection of Russian Schools*) and NGOs (*the Association for the Support of Russian Language in Schools in Latvia, the United Russian Society of Latvia*). Thus, there was a considerable pressure to government exerted from different groupings representing ethnic minority interests, affected by the changes in legislation. This case study has documented the significance of lingo-ethnic factor for forming permissive governmental attitude towards extra-governmentally provided HE and further growth of the sector. It must be noted, however that the significance of Russian factor in private growth is declining as more ethnic Russians seek education in Latvian in order to better integrate in the society (Morten and Vanags 2005).

Despite diminishing significance of the ethnic factor, private enrollments not only have not declined but continued to raise both in absolute and relative terms (Table 6.3). Latvia's private sector's competitiveness becomes all the more evident if take into account the fact that the drop in the natural population increase rate in post-communist Latvia is the greatest of our sample countries and one of the highest in the entire region (Table 6.9 and Appendix 5). The effects of demographic decline, however, become considerable only in very recent years, which is beyond the timeline set for this study.

Table 6.10: Higher Education Enrollments (percent of 19-24 population) and Demographic Change in Latvia

	1980	1989	1991	1993	1995	1999	2000
Higher education enrollments	n/a	20.5	20.8	17.9	21.6	46.5	n/a
Rate of natural population increase	1.3	2.4	0.0	-4.8	-6.9	-5.5	n/a
Population age 0-17 (beginning of year, thousands)	n/a	681	678	656	623	560	545

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001 based on EBRD (2000), 1999 estimate, 2000 projection

6.4.5 Conclusion

The above analysis points towards the conclusion that the approach adopted by the Latvian government towards the independent sector that can be characterized as an attempt to ensure some level of quality of services provided, while encouraging market mechanisms in HE, has produced one of the most vibrant private sectors in the region. Against the backdrop of declining private sector enrollments in post-communist countries and beyond, Latvia's private sector continues to present students with viable alternative, albeit only in selected, narrow fields. Our investigation has shown that governmental role with relation to private sector has been limited to ascertaining the quality of education, while allowing market forces to determine such matters as student numbers and tuition levels in both sectors in HE. Although direct state financial support is absent for private institutions in Latvia, it should also be remembered that similar principles has underlined governmental policies towards public sector financing. The governmental stance is best epitomized by publicly

owned and operated *Banking School of Business and Finance* which is entirely financed by private money, because of remarkably high student demand on programmes offered by the institution. The undertaken study has further demonstrated that the Latvian government's attitude has been one of the most distinguished with respect to other policies, like student aid or private sector's involvement in the policy planning process, which are equally crucial for private sector development.

Examination of the broad-level variables that ostensibly bring to bear on the governmental attitude, on the other hand, has underscored the predominance of ethnic factor for forming permissive governmental attitude towards private alternative and nearly equal importance of a strong market-liberal ideology embraced by the Latvia's successive governments. Some policymakers have, in fact, questioned the primacy of the Russian factor and have argued that the early legalization of extra-governmentally provided education had more to do with free-market oriented leadership both in the MoE and the government, and once the permission was granted, there were many providers, notably Russian language ones, to fill the niche (interviews with Andrejs Rauhvangers). Whatever the relative weight of the above factors, we can state with certainty that among the multiple aspects that enabled the spectacular private growth in Latvia, most important were the accommodating policy reflective of the ideological underpinning of the governing parties, differentiated demand for other than governmentally provided education and equally large supply for these services, as well as the lack of organized opposition from the academic elite.

CHAPTER 7: THE CASE OF LITHUANIA

7.1 Introduction

Overall nature of restructuring efforts of the higher education sector in post-communist Lithuania bears considerable parallels to these in Estonia and Latvia and the region in general. Despite this, the Lithuanian developments are distinguished from the rest two Baltic States in a number of respects. Whereas the early 90s saw a significant decline in the state profile in higher education in Estonia and Latvia, the Lithuanian state continued to play dominant role in funding and provision of higher education. The government monopoly in HE provision, for instance, was only challenged in 1999 when a first private higher education institution gained official recognition. Private higher education growth pattern in Lithuania clearly epitomizes the differences that exist in governmental approach towards higher education across post-communist nations.

The next section describes the evolution of public and private enrollments from the beginning of the 1990s up until 2005. The second part of the study gives a detailed analysis of various governmental policy choices, which bring to bear on private sector dynamics in some direct or indirect manner. The final section is an assessment of the relative influence of the national level factors for governmental policy formation.

7.2 The Structure of the Higher Education Sector

7.2.1 Inter-Sectoral Dynamics

With almost 28 percent of 19-24 youth age cohort enrolled in HE institutions by 1989, access to HE in communist Lithuania was one of the highest in the entire region. However, in contrast to most countries in the region, participation in HE started to decrease after Lithuania's re-gaining the independence. Over the period of 1989-1993, the rate of HE enrollments of university age cohorts had dropped from almost 28 to around 21 percent (Table 7.1, Appendix 1). From that point, however, there has been slow but gradual increase in demand on HE, so that in 1999, more than 39 percent of the youth age cohort participated in HE.

Table 7.1: Numerical Overview of the Public-Private Higher Education Sector in Lithuania, 1990-2007

Year	Public Inst.	Total public enrollm Thous.	Self-financed students as share of the total public enrollm	Private Inst.	Total Private enrollm Thous.	Private enrollm as the share of the total HE enrollm
1990/91	18	67	-			
1995/96	19	54	3.5			
1996/97	19	59	5			
1997/98	19	67	10.3			
1998/99	19	75	13.9			
1999/00	19	84	19.7			
2000/01	26	96	33.1	7	1.2	1.3
2001/02	27	117	NA	13	2.8	2.4
2002/03	30	146	33.8	13	6.5	4.3
2003/04	31	171	36.2	17	12	6.5
2004/05	48	191	44.6	17	14	6.8
2005/06	49	198	38.6	18	16.5	7.7
2006/07	50	199	46.3	19	18.5	8.5

Source: Data until 2000 from Higher Education in Lithuania 2001. Data from 2000 is calculated from the State Department of Statistics Data, 2004, 2008.

Concerning the institutional dynamics, during the first years of transformation only four new public universities were opened in Lithuania.⁸² By 1999, the system of HE was comprised of 19 public HE institutions, which had re-organized into universities and academies in 1990. Two major developments contributing to the diversification of a previously homogenous system of HE was the authorization of private institutions and the creation of college (non-university HE institution) sector in 1999. *Vilnius Saint Joseph Seminary* was the first private university to gain the permission to operate in 1999.⁸³ The following year saw the establishment of three more private universities - *International School of Management*, *Telsiai Seminary of Priests* and *Lithuanian Christian Fund College (LCC) International University*. Public sector also expanded significantly from that point but only in the college sector. Altogether, 16 new public colleges were opened by the 2006/07 academic year, while the number of universities has remained the same. With the exception of three universities, the private sector growth was also mostly in the college sector. By 2006/07 academic year the private sector included 12 colleges and 7 universities that accommodated around 8.5 percent of all student enrollments (Table 7.1).

⁸² *Vytautas Magnus University* was re-opened already in 1989; *Law University of Lithuania* was established in 1990, *Klaipeda University* - in 1991 and *Generolas Jonas Zemaitis Military Academy of Lithuania* - in 1994.

⁸³ Please note that, like in Hungary, privately owned institutions in Lithuania are referred to as non-state institutions. However, the term 'non-state' is used in the Hungarian context to denote sector that is comprised of private and church sub-sectors, while in Lithuania the term has no special inference, beyond etymological. Therefore, term 'private' will be used in the Lithuanian context.

7.2.2 Private Higher Education Institution Growth Patterns

In general, a small size relative to public institutions is organizational characteristic of private educational establishments. Private institutions in post-communist countries too tend to be considerably smaller in size to compare to their public counterparts but, as the Table 7. 2 below shows, the Lithuanian private institutions enroll fewer students even by these standards. The largest private institution enrolls not more than 2400 students (Morten and Vanags 2005).

Table 7.2: Size Distribution of Private Sector Establishments by Country

Size	0-250	251-500	501-10000	1001-2000	2001-3000	3001-4000	4001-5000	>5000
Estonia	13	5	3	4	1	0	0	0
Latvia	2	4	2	3	2	2	0	1
Lithuania	2	1	3	2	1	0	0	0
Belarus	1	1	1	4	1	1	2	4

Source: Morten and Vanags, 2005. *The Private Sector in Higher Education in the Baltics: Permanent Feature or Transition Phenomenon?*

Furthermore, in difference from a widespread pattern found in the region where the most private institutions are concentrated in the capital city, the institutions in Lithuania are rather dispersed across the country, especially among three major cities. Out of 12 institutions operating in Lithuania by 2001, only 5 were located in Vilnius, while 4 were in Klaipeda and 3 - in Kaunas. This geographical distribution in part reflects the geographical distribution of the population that is rather dispersed in Lithuania. (Morten and Vanags 2005).

7.2.2.1 Ownership Status

Lithuania is among these post-communist countries that allow for-profit education organizations legally as private institutions can choose between non-profit and for

profit legal status. However, the implications of the legal status for funding and tax policies are insignificant in Lithuania, like in much of the region. Appendix 14 gives the list of private institutions operating in Lithuania by academic year 2006/07. In the Lithuanian context, the term “public” included in the name of a private institution stands for “non-profit” legal status. Thus, out of 19 private institutions, three universities and 10 colleges were registered as non-profit educational organizations.

7.2.2.2 Institutional Funding

Similar to other countries in the region, student tuition constitutes the bulk of the revenue generated by private institutions. However, the Lithuanian private sector is distinguished in the respect that all institutions have alternative sources of income available to them. This is because the Lithuanian legislation obliges institutions that they do not solely rely on student study-fees but instead have religious, international and other donor organizations to support them. Both religious institutions - *Vilnius Saint Joseph Seminary* and *Lithuanian Christian College* - are supported by the donations of the faithful in Lithuania and abroad. Secular institutions, like *ISM University of Management and Economics*, on the other hand, enjoy strong financial backing from their international co-establishers.

Despite the fact that private institutions are subject to considerable governmental control and regulation, public funding is mostly unavailable to the privately owned organizations. This is especially true for direct governmental appropriations to private institutions; but even in case of student financial aid, neither merit nor financial-need based student scholarship grants apply to those enrolled at private universities. This is despite the fact that study fees at private institutions tend to be generally higher than in the other three countries under consideration and,

importantly, significantly higher than tuition charged at Lithuania's public institutions. In 2003, for example, the maximum amount of study-fees set by public universities in accordance to the government regulation was around 3 700 USD, while in private institutions it comprised 16 500 USD, or 4.5 times higher than public sector tuition (Student-Parent Cost by Country: Lithuania 2003). Student study loans that are available since 2003, on the other hand, apply to all tuition-paying students including those enrolled at the state-recognized private institutions.

7.2.2.3 Governance and Control

Although the first private university gained official state recognition in Lithuania in 1999, most privately owned institutions were established and existed in some form well before that date. *International Business School at Vilnius University* started its existence as the Department of International Studies and Management at Vilnius University. *ISM University of Management and Economics*, one of the first universities to the gain the official state authorization, operated as Business Training Center, prior to obtaining the permission to award state-recognized degrees. Other institutions that existed before privately provided HE was sanctioned by the Lithuanian government include *Lithuanian Christian College* (founded in 1991), *Northern Lithuania College* (1993), *College of Management, Law and Languages of Siauliai Region* (1994), *Vilnius Management College* (1994), *Klaipeda Business College* (1997), *Vilnius Law and Business College* (1998). It must be noted that the Lithuanian 1991 law on HE did not proscribe the existence of private HE institutions but the license was denied to institutions on quality and other similar grounds. On the whole, being too general and vague, the first law on Higher Education left plenty of room for manipulation and maneuver. The conditions for establishing a private HE institution was made somewhat more unambiguous first in 1995, when *the Center of*

Quality Assessment in Higher Education (CQAHE) was established, and then in 2000, when the new Higher Education Law was passed. The procedure that institutions need to undergo from submitting an application before obtaining a permission to operate is extremely prolonged and challenging, often taking a few years to accomplish.

By and large, the Lithuanian government's approach towards ascertaining the quality of higher education bears significant parallels to these found in the other Baltic States and across the region. Namely, private educational organizations need to undergo formal quality assessment process in order for their students to be awarded with state recognized degrees and be eligible for student aid loans. Moreover, there is little, if any, difference between the requirements and the criteria that two types of institutions serving distinct missions need to comply. However, the very standards set by the Lithuanian government turn out to be exceedingly challenging to meet. That is, private institutions seeking the state recognition shall demonstrate the possession of necessary funds, material base, premises and well-equipped libraries. To prove they have qualified teaching staff, institutions need to present written confirmation from prospective professors in advance, which commonly proves difficult to obtain. According to interviewed policymakers, of all existing barriers, demonstrating financial capability that the law requires remains one of the most challenging conditions to meet, which is only attainable for institutions with solid support from international and other donor organizations (interview with Rimantas Zelvys. For the list of interviewees see Appendix 15). This is because the Lithuanian legislation *requires* that private institutions have access to other sources of funding besides these generated from student tuition fees. Accordingly, the majority of institutions

operating in Lithuania have international organizations among their founders.⁸⁴ Another hindering factor is that the evaluation of study subjects is an independent process from a program assessment. After obtaining the permission to open a program, institutions need to submit the list of subjects that will be evaluated separately.

7.2.2.4 Institutional Mission

Pragmatic Mission: Almost all private HE institutions in Lithuania concentrate on practically oriented goals, the notable exception being *the European Humanities University*. The latter was initially opened in Belarus by the joint efforts from Byelorussian National Academy of Sciences, the Ministry of Education, the Ministry of Culture and the Orthodox Church, the City Council of Minsk, the International Humanitarian Foundation and a number of prominent figures of Belarusian art and science. After its closure by the Lukashenko's government, the university was relocated in Lithuania in 2006. The European Humanities University offers education at B.A., M.A. and PhD levels in broad areas in social sciences such as philosophy, law, economics, political science and theory, psychology, cultural and gender studies, history and anthropology. Other private HE institutions, notwithstanding their status and academic prestige, are characterized by much narrower scope and pragmatic focus. In this respect, Lithuanian private sector dynamics fits the pattern prevalent elsewhere in the region.

⁸⁴ *ISM University of Management and Economics* was established by the Norwegian School of Management and Innovation Norway; *International Business School at Vilnius University* is supported by the United Nations Development Program (UNDP), while *the Lithuanian Christian College - Christian Fund* which enables them to invite professors from prestigious universities of different countries.

What distinguishes the Lithuanian private sector from the region in general, however, is especially high standing that private institutions have acquired. It is beyond the aim of this study to provide definite assessments of the quality of education provided, but as the multiple sources examined for this purpose, as well as interviews undertaken with policy-makers and experts suggest, the perception of the quality of education offered by the private sector is distinctly high among the population at large. Rimantas Zelvy (an expert, public college director and the member of the Conference for College Directors) has admitted that *students are eager to study at private institutions as they are better equipped with libraries and computers and professors there do not speak rubbish*. That is, students value up to date practical knowledge that can be used in the labor market to the extent that they are ready to bear the cost that is about four-five times higher than public university tuition.

Certainly, this does not hold true for all private institutions. Universities on the whole enjoy higher academic status than colleges that are even more narrowly focused. But many institutions in the college sector also strive for the excellence in their chosen fields. *The Klaipeda Business College* is one such institution with pragmatic mission and close contacts with the labor market, which invites professors with high academic credentials and considerable practical and teaching experience at international and Lithuanian's prominent universities. The major difference between private universities and colleges in the Lithuanian context turns on the former having broader focus, as they offer education at all three B.A., M.A. and PhD levels. Other than that, both types of private institutions serve the same pragmatic mission and strive for high academic standards in fulfilling their mission and have exceedingly high standing in the labor market.

For example, *the Klaipeda College of Social Sciences* - the second biggest private college in Lithuania - has solid reputation among local community and regional business sector alike. The college maintains tight relations with more than 300 Lithuanian business companies, which not only accept college students for training but they also play active role in designing study programmes. The college, on the other hand, provides teaching services to its employees to assist them in upgrading skills at the workplace. Being a member of numerous business associations, *the Vilnius Law and Business College* also provides their students with traineeships at Lithuanian business firms, which in turn participate in renewing study programs to insure that the college provides most up-to-date knowledge.

Ethnic-Religious Motive: Another characteristic of Lithuania's private sector is the prominence of the religious factor in the private sector growth. In difference from predominantly Lutheran Estonia and Latvia, the dominant religion in Lithuania is Roman Catholic. In fact, as much as 80 percent of Lithuania's population is Catholic Christians (see Appendix 16 for more details). Founded at the proposal of Vilnius Archdiocese in 1999, *Vilnius Saint Joseph Seminary* was the first university to gain official state recognition. Moreover, out of 4 private universities that existed in Lithuania by 2001, 3 were established by religious organizations and only one – *the International School of Management* - with foreign involvement (Higher Education in Lithuania 2001). Offering B.A and M.A. degrees in religious studies, the main focus of Vilnius Saint Joseph Seminary is to train priests. After the successful completion of studies which lasts up to 7 years, graduates of the Seminary receive a bachelor's degree in theology. Also founded and supported by the religious association, the

mission pursued by the Lithuanian Christian College (LCC), on the other hand, is to offer Christian liberal arts education by placing broadly focused educational activities within the context of a Christian academic community.

Ethnic factor, on the other hand, has been less significant for the private sector dynamics, as the majority of private institutions provide education only in Lithuanian and there are few that also do in English. This is unsurprising as Lithuania is ethnically most homogeneous country of all Baltic States, ethnic Lithuanians comprising about 84, while Russians only 6 percent of the total population (Appendix 16). Before passing the law prohibiting HE provision besides the native Lithuanian at the public sector, around 15 percent of students studied in Russian.

7.2.3 Conclusion

The fact that Lithuanian private institutions are distinguished by high academic status and social standing is somewhat unusual in the post-communist communist context, where private institutions have largely been viewed as unselective organizations catering to the needs of those who could not gain admission into more prestigious public universities. Several factors help accounting for the comparative prestige of the Lithuania's private sector. First of all, stringent licensing and quality assurance requirements may serve to inhibit institutional distinctiveness and growth, but they also serve to insure certain standards and confer legitimacy to institutions that meet these requirements. International involvement and invited professors that many institutions can afford is a further contributing factor in creating the perception of a

superior quality. This perception is reinforced by somewhat damaged reputation that public institutions and their leadership are held with by the population at large. Interviews with professionals and discussions with citizens alike have exposed widespread perception of (and disdain for) their activities as the pursuit of their narrow interests. Not just at the level of perception, many private institutions turn out to be better equipped with computers and up to date libraries than their public counterparts, as well as maintain closer links with the labor market.⁸⁵ The fact that the Lithuania's private sector is less-reliant on tuition-fees certainly contributes to the quality. It must be added, however, that alternative funding also comes from private sources rather than government, which makes the Lithuania's private institutions much alike to those widespread in the region, in their being fairly distinct on the dimension of finance.

7.3 Governmental Policies towards Higher Education

7.3.1 Legislative Framework

In Lithuania, initial steps towards reforming HE sector started to be taken already in the 1980s, against the background of *perestroika* and *glasnost*. Several HE institutions had already prepared their draft laws before the collapse of the Soviet regime. The grounds for re-opening *Vytautas Magnus University* was also prepared well in advance so that the university could be opened in 1989, with the effort and help from Lithuanian émigrés living in different Western countries. Modeled after

⁸⁵ In their study of private sectors in Latvia, Lithuania, Estonia and Belarus, Vanags and Hansen found that working environment, which includes classrooms, offices and libraries, were manifestly superior in private sectors in all examined countries (Vanags and Hansen 2005).

Western education standards, re-establishing Lithuania's one of the most prominent universities, which was closed down in 1950, had greatest symbolic significance in the country's resolute attempt to break away from the Soviet past and restore the previous order. Right after regaining the independence and against the background of general euphoria, Lithuania had already prepared and passed *the Law on Research and Higher Education* in 1991. According to the interviewed government official, this was highly emotional times when it was widely felt that higher education was too "grand" to be subjected to a political influence (interview with Vengris). Together with *the Law on Education*, this legal act was intended to re-install institutional autonomy and academic freedom, lost during the Soviet times and to free university curricula from the communist ideological influence.

Mostly tailored to the institutional interests, the 1991 Law was too general and vague, leaving much room for contrasting interpretations. The lack of the mechanisms for social control and accountability on the institutional activities constituted the major flaw of this legal document. This is hardly surprising as *the Law on Research and Higher Education* in actual fact was an adapted version of the statute of the Vilnius University (*the Law of the Republic of Lithuania Concerning the Approval of the Status of Vilnius University*) that had been passed a year before. Decision-making at the institutional level has been characteristic of the early years of independence in the region in general, but institutional forces were especially strong in Lithuania. In fact, the Ministry of Education as a separate and self-sufficient unit, capable of putting forward and upholding interests of the state, was only created in 1994. As the authority of governmental officials was negligible, the 1991 Law was drafted and developed exclusively by rectors of Lithuania's leading universities.

To compensate for the absence of a solid legalization, numerous governmental decrees were issued over the course of the first phase of the transformation, but the general instability persisted throughout the 1990s. Not only was the legislation constantly in flux but so was governmental agencies responsible for overseeing the HE sector. The structure of the Ministry of Education has been the subject of continuous reorganization, creating additional problems for co-coordinating and governance of HE institutions. The preparation of the second law on HE, which marks the beginning of the next phase of the HE restructuring, took place against the backdrop of widely shared view that the 1991 Law was too broad and insufficient and did not leave the room for social accountability.

The establishment of *the Department of Higher Education and Research* within the Ministry of Education in 1997 was an important aspect of preparing groundwork for a new document. Whereas the first law was initiated and drafted mostly at the institutional level, this newly created unit within the Ministry served as the main driving force for laying the foundations for the new law. Through the new legislation, finally enacted in March 2000, the government tried to impose some limits on the vast autonomy that HE institutions had enjoyed since the early 1990s. It delineated the roles and tasks, rights and duties of HE institutions on the one hand and of the MoES on the other. It elucidated legal grounds for founding and termination of HE institutions and it also clarified the rights and duties of professors and students within institutions. Moreover, the roles of several newly-created intermediary bodies, such as *the Lithuanian Scientific Council, the Centre for Quality Assessment in Higher Education, the Lithuanian State Fund for Science and Studies, the Rector's*

Conference of Lithuanian Universities, the Director's Conference of Lithuanian Colleges, and the Union of Students, were also more clearly defined.

One of the most important changes introduced by the Higher Education Law of 2000 was a new mechanism for financing HE, discussed in detail in the section to follow. Another significant policy aim that the Law sought to achieve was to create a binary HE system. By clarifying the terms and conditions for establishing both university and vocational HE institutions, the Law thus provided the legal grounds for creating non-university HE sector.⁸⁶ The terms for private institution establishment, largely missing from the previous legal documents, was spelled out more clearly as well. Although first private university was authorized before the new law came into force, it was with passing this legal act that the conditions under which private institutions could be established were finally elucidated. In short, the new Law provided significant and much-needed improvement to the existent legislation in number of respects. First of all, idealistic way of thinking characteristic of the beginning of the 1990s had yielded to a more pragmatic approach from partakers and stakeholders. The set of actors participating in the process was much broader too, including representatives from society, student body, businesses and the government. Above and beyond, the Law provided long-needed clarification to various issues that were absent from the previous legal documents. Yet, according to the widely shared belief, being a compromise between the interests of different stakeholders, the Law did not

⁸⁶ After gaining independence, Soviet type *technicums* were reorganized into colleges but the 1991 Law permitted their establishment only on the bases of special secondary schools. By 1999, 70 state and 18 non-state such colleges provided post-secondary professional training programs in Lithuania. The 2000 law permitted the integration of these colleges into higher education (at the ISCED/5B). However, the conditions under which colleges were to be reorganized as non-university higher education institutions were most widely disputed. The number of institutions to be integrated into higher education and the criteria for selecting them became the subject of the most heated debates during the first years of the 2000 law implementation.

resolve the most pressing issues facing the Lithuanian HE system. According to interviewed policy-makers, numerous amendments that soon followed serve as a clear indication of the inadequacy of this legal document.

Lithuania's accession to the European Union can arbitrarily be taken as the beginning of the third phase of HE restructuring. Meeting requirements of the Bologna process and thus joining to the common European HE area gained special significance for newly accessed countries. However, many aspects of Bologna declaration, including introducing three level academic degrees (B.A., M.A. and PhD) and switching to a credit system, were implemented well before that date in Lithuania. In fact Lithuania was one of the first post-communist countries to have introduced three level academic degrees already in 1992-1993.

7.3.2 Governance Structures for Higher Education Institutions

After Lithuania's re-gaining independence, HE institutions have acquired considerable self-rule to plan and manage their activities and services, whereas the power of state agencies in deciding and implementing policy pronouncement has become considerably curtailed. As it was already noted, *the Ministry of Education and Science* as a separate unit did not exist until 1994. Before that, *the Department of Science and Higher Education*, founded by the government in 1990, was in charge of overseeing the HE sector. The unit ceased to exist after the Law on Higher Education came in force in 1991. The same year saw the establishment of *the Division of Information, Science and Higher Education* – yet another entity with no real means or

legal rights for HE governance. The same holds true for the powers of *the State Agency of Science, Higher Education and Technology* – its successor governmental agency created in 1992 - the existence of which was equally short-lived. After its closure in 1993 and as the result of yet another round of reorganization, *the Ministry of Education and Science* was created in Lithuania in 1994 (Leisyte 2002). The Ministry has since toiled to devise and implement HE policy on the one hand and to impose some limits on institutional autonomy and to hold institutions accountable to the government and the public at large on the other. In the view of the OECD team, one of the reasons for the government's failure to pursue a consistent set of actions and to strengthen its HE system was the constant flux that prevailed even after the establishment of the Ministry (OECD, 2000). For instance, the division under the MoES responsible for creating and implementing research and HE policy had been *the Department of Science and Higher Education*. In an attempt to increase the efficiency of this largely ineffective unit, the Department was restructured into an independent legal entity in 1998. Its role and input in preparing new legislative and regulatory documents has been evaluated positively by local experts and external observers alike, but following numerous changes in legislation, the Department was re-integrated into the MoES in 2002 (Leisyte 2002).

The difficulties have persisted not only with co-ordination between higher education institutions and the state but across different governmental agencies as well. This is especially true for the MoES and the Ministry of Finance that seem to have their own set of policies and priorities rather than common long-term plans. Alternatively, the capacity of different associations of public institutional elite to exert the influence on policy-making process has been decidedly strong in Lithuania. The delay in the

integration process of research institutions into higher education largely reflects on the strength of institutional forces. Formerly belonging to the Academy of Sciences, research institutions have gained complete independence but their integration into HE institutions as basic structural units has been especially delayed in Lithuania, despite the fact that the integration has been a key policy pronouncement on the Ministry's agenda since the regime change. Evidence suggests that its implementation is resisted by both research and HE institutions. The latter oppose the process in fear that already low teacher/student ratio will become even lower. Research institutions, on the other hand, are unwilling to concede their standing and authority over distribution of the resources or other matters and become, what is perceived to be, second-rate units integrated into university structures.

Furthermore, examined sources as well as the interviewed government officials have emphasized the overriding power that the Rector's Conference possesses in deciding on policy choices. Uniting the rectors of all public universities, the main function of the Conference involves coordinating between MoES and institutes of HE and providing expert advice to the government on most important concerns related to HE. Not only is the Conference frequent instigator of a new policy, its powers is so great that, according to an unwritten rule, no policy proposal gets passed and implemented without the Rector's prior consent. In their attempt to rationalize the Rector's Conference's remarkable success in shaping the direction of HE policy, interviewees have pointed at unfailing ability of its members to find common ground around which to unite in spite of often conflicting interests. As one expert has noted, the solution that the Rectors come up with *is never too radical, it can only be stabilizing since it has to reflect the majority interests* (in Leisyte 2002).

It is not surprising, therefore, that one of the major aims that the 2000 Law sought to address was to lessen institutional powers, increase their social accountability and allow participation of external actors in the university governance. According to the new legal document, one-third of the senate and academic council – supreme bodies for academic self-government for universities and colleges respectively - are appointed by the MoES from actors external to the institutions. The other third is appointed by the university senates and college academic councils, whereas the rest is chosen by the consensus within university rectors and college directors. Having representatives in the university council as well, students constitute at least 10 percent of the senate membership. Both universities and colleges have councils providing “the public supervision and care”. These units serve comparable aim and fulfill similar roles with the difference that college academic council appoints the college director, while the university rector is elected by the senate.⁸⁷ Universities by and large enjoy much broader autonomy than their college counterparts, such as the university senate has the authority to independently approve study programmes and introduce some structural changes for their implementation, while college academic councils need to obtain authorization from the MoES.

Despite these changes intended to enhance effectiveness of institutional management and accommodate increased participation of social partners in university governance, OECD team found that with respect to both external accountability and internal management, the new law has shifted *back to the most conservative forms of governance historically found in Continental universities* (OECD 2002, p. 245). To

⁸⁷ Another difference between the governance structure of universities and colleges is that the government can establish state college on the advice of the MoES, while state university can only be established by the parliament (*Seimas*) on the advice of the government.

illustrate the point, in difference from the earlier drafts, the final version of the law does not provide for involvement of the university councils in electing rectors. Besides, the fact that the rector is not elected with the concurrence of the term for the President of the Republic makes difficult to insure public accountability and the external check.⁸⁸ Another provision eliminated from the final version was one that enabled any professor with managerial experience to contend for the rector's position. Instead, the new law restricts this role to "a scientist or a distinguished artist possessing the title of professor" (Law on Higher Education 2000).

The additional issues not sufficiently addressed by the new legislation are the link between HE and wider social/economic sectors and co-ordination between HE institutions and the state. The new law does provide external participation at the level of university and college councils, though to a limited degree. The composition and functions of existent co-coordinating bodies are such that it makes external involvement at the level of *Seimas* (parliament), government and MoES nearly impossible. Entities such the Higher Education Council, the Rectors' Conference or the Academy of Sciences excludes representatives from society. Neither do these councils include representatives from private institutions, which considerably limit the latter's involvement and correspondingly their interest representation in the policy-making process. It is noteworthy that the conditions concerning the composition of *the Higher Education Council* is altogether absent from the law.⁸⁹

⁸⁸ Colleges are more restricted in this respect as well, seeing that an external review by the MoES is required for the appointment of college directors.

⁸⁹ The difficulties persist not only with co-ordination between higher education institutions and the state but across different governmental agencies as well. This is especially true for the MoES and the Ministry of Finance that seem to have their own set of policies and priorities rather than common long-term plans.

The members of a *Centre for Quality Assessment in Higher Education*, another major intermediary body, are also drawn from public HE institutions only and the government. Established in 1995, the very centralized system of approval, registration and assessment of academic programs have been underlying to the workings of the Centre. In order to obtain quality reviews, institutions have to present internal quality evaluations (self-study), as well as external assessments by peer-reviewers. When the quality assessment process was first introduced, individual programs rather than broader subject or field-of-study could obtain evaluations. This is to say that positively assessed study fields did not automatically get authorized to develop and open new study programs in a narrower field but rather each program had to obtain permission independently. The regulations provided by the 2000 Law are more flexible in the sense that it decentralizes responsibility for quality assessment at the level of the whole institutions, in contrast to the individual study programme. The law also seeks to provide incentives for improved quality of education by establishing a link between institutional performance and the level of state funding.

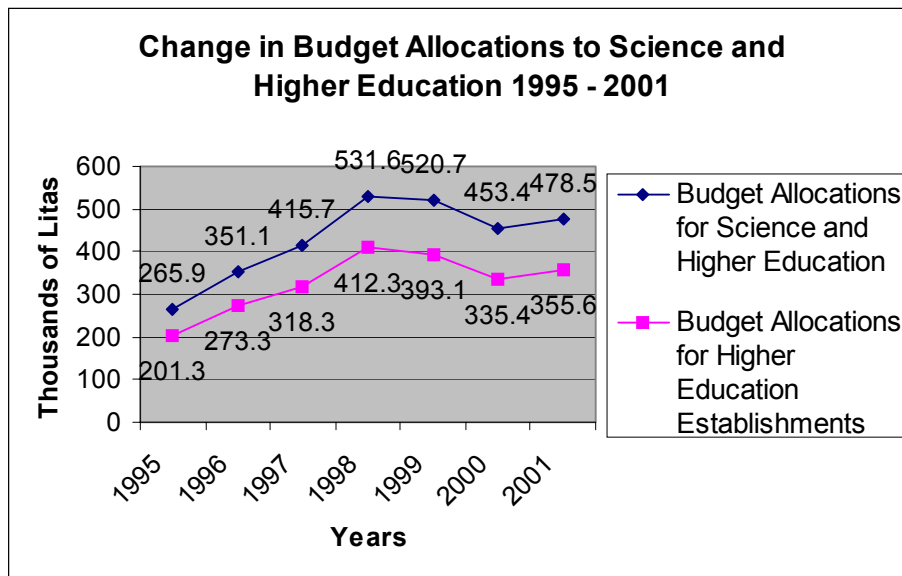
7.3.3 Higher Education Funding Policies

Like elsewhere in the region, HE institutions in Lithuania have witnessed the diversification of its funding source, though this process has been relatively measured here. Until 1999, the level of overall governmental funding to public institutions - still the only existing form of educational organizations - was actually increasing in Lithuania. For the academic year of 1999/2000, the share of state funded students at Lithuania's public universities was about 80 percent, to compare to 42 percent in Latvia and 64 percent in Georgia for the same academic year (Tables 7.1, 6.2 and 5.1).

The major shift in HE funding came in 1999 when, after the steady growth, the governmental financial support to public institutions started to drop sharply. During that academic year, appropriations to higher education was slashed from 148,700 USD to 129,500 USD, while the student numbers grew from 75 000 to 84 000 (Figure 7.1 and Table 7.1). Most obvious and easy way for institutions to deal with the reduced funds available to them was to increase the share of tuition-paying students. Despite the absence of appropriate legislation to support it, the practice of admitting self-financed students has been in place since the early 1990. The number of tuition-paying students, however, was growing comparably slowly until the turning point of 1999. For the next academic year already, the share of students not supported by the state had grown by more than 13 percent (Table 7.1). Clearly, institutions had no such need to supplement governmental funding with tuition fees during the times when public finance was on the rise against the background of decreasing demand on HE. Besides, the resistance to the tendency of shifting burden of paying for HE from

the state to students has been especially marked in Lithuania, where cost-sharing policies have been viewed with suspicion both at the level of policy debate and society at large (interviews with policy-makers). Faced with the new reality of inadequate governmental funding, public institutions started to enroll more and more students paying for their studies as well as to take on other forms of privatization, such as establishing contractual links with industries and businesses. *The Kaunas University of Technology* that generates around 27 percent of its income from non-governmental sources has been a pioneer in this respect (Leisyte 2002).

Figure 7.1 Changes in Budget Allocations to Science and Higher Education in Lithuania, 1995-2001



Source: The Draft Development Plan of Lithuanian Higher Education System (DDPLHES), 2001/05/25 in Leisyte 2002.

Hitherto unregulated issue of student tuition was finally addressed by the 2000 Law on Higher Education, which provides the legal framework regulating student fees by the contract between the MoES and HE institutions. The three-year long contracts

should foresee the maximum number of students admitted on self-financed and state-funded places, the amount of recourses received from the state and also generated through other means. The new law has introduced a number of other changes in the way the budgetary allocations are made in Lithuania. The financial policy based on lump-sum funding mechanism was introduced already by the 1991 Law, but its implementation has been hampered by various factors. First of all, the state budget was developed by the Ministry of Finance with a little consideration of the Ministry of Education proposals, which in turn were based on the reports of HE and research institutions. The allocations were made solely according to the previous year expenditure records, while the considerations such as institutional mission, quality evaluations, the cost of study programs or state priorities for HE had little role to play in determining the level of funding. On the other hand, subjective factors, notably bargaining power of certain institutional leaders, proved to be more decisive in the budget distribution. Moreover, allocated on monthly bases, the institutions were granted with limited flexibility to manage the state funds in the best of their interests. More importantly, the funding mechanism incorporated no incentives for efficient use of available resources. The problems persisted with relation to tuition fee policy as well, seeing that the absence of clear regulatory framework resulted in uneven practices and levels of study fees across institutions.

The 2000 Law was intended to improve the setbacks and multiple flaws in the financial policy. In various respects, it indeed was a step forward towards better planning and coordination of the HE funding. First of all, the law requires that HE institutions develop and sign five year long development plan as well as three year contracts with the MoES, illuminating the future plans and recourses required for

their fulfillment. The decisions about the level of funding are made by the MoES in accordance to these proposals, while also taking into account *the Higher Education Council* recommendations. Broad priorities of the state also have a role to play in making the allocation decisions. The new Law stipulates that governmental funds to the public HE institutions were distributed on lump-sum basis. Allocations for studies, research and other activities not directly related to the study programmes are based on governmentally approved mechanism that takes into account the costs of a particular field, level and mode. As expected, the implementation of the formula funding mechanism has been gradual. In 2002, half of the funding was still allocated in line with the previous year's expenditures and only two-thirds of the other half was determined according to the formula taking into account normative indicators, such as teacher qualifications and the student/teacher ratio, or variables, like the increase in student numbers and demand for research (Leisyte 2002).

As for private institution funding, the Law stipulates that the MoES can initiate a contract if there is a perceived need for specialists in certain fields that could not be trained in the public sector (Article 55). It has been estimated that, annually, this amounts to not more than 0.1 percent of the total state funding to HE and research institutions (Department of Statistics Lithuania, 2001). There is no discussion in the new Law about financial aid to privately owned educational organizations in other forms. Private institutions, once they are established, are free to decide on the level of tuition fees, though these decisions have to be reported to the Ministry on the annual bases. On the other hand, the upper level of public sector tuition is set by the government, which should not exceed four times the minimum standard of living, also determined by the government (Article 59, sub.1, Law on Higher Education,

2000). Besides, compliant with the constitution, the HE Law guarantees “good” students free education. That is, the tuition of the top 50 percent of full-time and 30 percent other students enrolled at the public sector shall be covered from the state funds (Article 60, sub 1 and sub 2).

Both, public and private students who pay for their studies are eligible for study loans, while only those full-time students enrolled at public institutions can receive state scholarship grants, based on their academic achievement and social need (Article 61). Further possibilities for enterprises to award scholarships to students are constrained as such scholarships are treated as payments to students and are subject to income tax. The initial legal framework for introducing the study loans was provided in 1998-99, but the terms for financing students were only clarified with the passing of the Law on Higher Education in 2000. According to it, the assistance is provided for students to cover the costs of tuition, living and studying abroad. Administered by Lithuanian banks, a loan with 5 percent annual interest should be repaid within three times of the period of studies for which the loan was granted (Article 63). *The Lithuanian State Research and Higher Education Fund Loans* – an agency responsible for administrating the loans programme - started granting loans in 2003.

7.3.4 Conclusion

The above examination of the governmental policies that affect private institutions reveals that, despite the fact that after many years of resistance, the government has

modified its policies so as to allow privately provided higher education, the environment in which institutions operate has remained by and large restrictive.

First of all, the requirements institutions need to comply with for their establishment and gaining official state recognition prove to be decidedly hard to accomplish. The most challenging of all conditions has been these related to securing appropriate level of financial resources required by the legislation. This can only be achieved by institutions with solid financial assistance from religious or international donors, as the government plays almost no role in private institution funding. The absence of direct state funding to private institutions or student aid grants for those attending private universities is not uncommon in the region. However, to compare to other post-communist countries that have student loan policies in place, the level of overall spending on study loans for tuition-paying students is somewhat low in Lithuania (Table 7.3). Because of the significantly higher level of tuition, this has more unfavorable implications for private institutions than for their public counterparts. The governmental approach that sets the level of public sector tuition low, represents an additional policy that, according to the literature, adversely affects private sector development.

Table 7.3: Distribution of Total Public Expenditure on Higher Education by type of Transaction for 2002

Country	Direct public expenditure to educational institutions	Indirect public expenditure on education					
		Financial aid to students				Transfers to non-profit organizations and enterprises	Total
		Scholarships and other grants to households		Students Loans	Total		
Total	Of which attributable for HEIs						
Estonia	82.5	7.8	-	-	7.8	9.8	17.5
Latvia	80.1	12.2	n/a	7.7	19.9	0.0	19.9
Lithuania	88.1	10.1	n/a	1.5	11.7	0.2	11.9
Hungary	77.6	13.2	-	9.1	22.4	0.0	22.4

Source: Eurostat, Education statistics in Schmidt *Statistics in Focus: Education and Training*, 2005

Looking into policies that influence private institutions in more indirect ways reveals equally unfavorable governmental approach. For example, the Lithuanian government authorized the first private university in the same year when it also allowed the establishment of college type institutions and their integration into higher education system. The public sector enrollments have grown by more than twofold since then (Table 7.1). This is hardly surprising since, unlike other post-communist countries where the beginning of 1990s witnessed a sharp increase in private as well as public HE providers, both processes were contained in Lithuania. It is true that the demand on higher education fell initially in Lithuania, but it soon started to rise which was not matched by the increase in higher education providers. Thus, the need for non-university type institutions had been marked for many years. However, the governmental choice to authorize colleges and private institutions at the same time has naturally affected the latter's competitiveness. Bringing together what was said, we can state that the policy stance embraced by the Lithuanian government towards private higher education most closely fits regulatory policy model.

7.4 Determinants of Governmental Policies towards Higher Education

7.4.1 Economic Development

In average, Lithuania spends around 35 percent of its GDP per capita per HE student, which is slightly under the EU average of around 37 percent and much lower than Japan and the U. S which spend 43 and 58 percents respectively (Schmidt 2005). The level of public expenditure on education as the share of GDP, on the other hand, is comparable to EU average of 5 percent (Table 7.4). Despite this, resources available to education institutions are constrained by low level of the GDP itself.

Table 7.4: Public Expenditure on Education in Lithuania (percent of GDP)

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
---	4.5	---	---	4.6	5.6	5.6	5.4	5.8	6.4	6.5

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001 based on Mokeine, Klepacieme and Jackunas.

During the years immediately following the regime change, Lithuania's economy has suffered with the same setbacks as other satellite countries that were previously dependent on the Russian economy heavily. It is generally considered that the economic transition of Lithuania was slower than that of Estonia and Latvia (Lane 2002). Opting for policies of slower liberalization, Lithuania experienced one of the greatest declines in output and standard of living. Although inflation, which was the highest among the Baltic States, was finally brought down by effective monetary policy and a national currency put in place in 1993, its introduction was somewhat

delayed to compare to its two Baltic neighbors. As the result, Lithuania's economic recovery was more prolonged. Between 1989 and 1993, GNP fell as low as 43 percent of its 1989 level, which was one of the lowest in the region. A number of factors help explaining Lithuania's lagging behind other Baltic countries, among which are high bureaucratic and administrative barriers, widespread suspicion of foreign owners and restrictions on land ownership for foreigners, vague and inconsistent legislation, high inflation and underdeveloped and un-regulated banking system (Lane 2005).

As Tables 7.5 and 7.6 reflect, the economic recovery started from around 1994, when the output begun to grow while inflation was on the decline, but after overcoming the initial downturn, the economy showed some signs of decline again in 1999 (for comparison with the rest examined countries see tables in Appendix 9). Although the dependency on Russia was much less by then, the Lithuanian economy was nonetheless affected by the Russian crisis to some degree.

Table 7.5: Economic Indicators, Lithuania 1989-2000

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Real GDP Growth ^a	100.0	95.0	89.6	70.5	59.1	53.3	55.1	57.6	61.8	65.0	62.3	63.6
Annual change in GDP (%) ^b	1.5	-5.0	-5.7	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-4.2	2.2
Annual inflation rate ^c	n/a	8.4	224.7	1,020.5	410.4	72.1	39.6	24.6	8.9	5.1	0.8	1.0
Real Wages ^d	100.0	108.8	75.3	46.6	28.4	32.5	33.5	34.8	39.5	44.6	47.8	n/a

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001. ^a Based on EBRD, 2000. ^b EBRD, 2000. 1999: estimate. 2000: projection. ^c Based on EBRD, 2000. ^d Based on EBRD, 2000. 1999: estimate. 2000: projection.

Table 7.6: GDP per capita (constant 2000 USD) and Employment Ratio (number of employed as percentage of population aged 15-59) in Lithuania

	GDP per capita	Empl. Ratio
1989	-	83.9
1990	4,354	81.7
1995	2,571	74.1
1996	2,711	74.4
1997	2,921	72.5
1998	3,156	69.3
1999	3,124	68.1
2000	3,275	65.6
2001	3,505	63.5
2002	3,754	65.9
2003	4,166	67.3
2004	4,481	67.0
2005	4,838	68.6

Source: TransMONEE 2007 features: data and analysis on the lives of children in CEE/CIS and Baltic States. Based on World Development Indicators database, 2007. Employment Ratio (number of employed as a percentage of population aged 15-59) Data since 1995 based on labor force survey. Data for 2005 taken from website of country statistical office

It is hard to document whether this drop in the economic output has served as the main reason for lessened governmental appropriations for the higher education sector, but the fact remains that it was in 1999 when, the first time since the regime change, the decrease in available resources was strongly felt by public universities. Certainly, the steady increase in student demand on higher education coupled with the decline in international assistance (especially from the neighboring Scandinavian countries) that was available for the higher education sector during the first years of the transformation have contributed to the dearth of existing resources.

On the other hand, the correlation between the level of funding to higher education and the changes both at the institutional and governmental levels has been more manifest. There is no debate about the fact that institutions started to re-orientate towards market-oriented practices, including taking in more self-paying students, in their attempt to cope with the decreased level of public budget (Leisyte 2003, as well

as interviews with experts on HE). At the governmental level too, it is no coincidence that the major moves towards cost-sharing policies have been made against the background of rising demand on higher education, coupled with sharply declining public financing for the sector. To be precise, the year of 1999 saw the passing the legislation to allow integration of colleges into higher education sector, the creation of a legal framework for regulating tuition-paying practices and the establishment of a first private institution. It must not be forgotten that although vague, the legislation did not explicitly proscribe the existence of privately provided HE. To repeat, there were training establishments in operation, seeking official state recognition, but their appeals were denied on various grounds. Likewise, it did not take a passing of special legislation when the decision to authorize a first private institution was finally made. As the leaders of International School of Management have pointed out, the year of 1999 simply proved to be the “right” moment to finally obtain such permission (interviews with ISM’s Alfredas Chmieliuskas,).

7.4.2 Political Parties and Ideology

The Lithuanian politics of 1990s have been characterized by wide disagreements between the major political groupings on different issues, but as this study has found by examining different sources, HE policies played no role in these confrontations. Unlike security and foreign policy issues on which there has been a wide consensus, issues of HE simply were not significant enough as to invite debates between the Lithuania’s left and right. This was true even for economic policies, which did generate some conflicts, but mostly on the level of rhetoric. If there were the

differences, it mostly concerned the emphasis and details of economic policy, and more particularly the pace and nuances of privatization policy. Notwithstanding these differences, a wide involvement of the external agencies in the Lithuania's transition process ensured that no government had much leeway for maneuver (Lane 2005). Neither was there much difference in the approach of parties on the left and right towards the issues of social welfare. After the policies pursued by *Sajudis* (Movement) government, which were widely perceived to have devastating effect on the economy, the electorate seemed to want modification of these policies. Thus, the main pledge of the Lithuanian Democratic Labor Party (LDDP – the former communists under the leadership of Algirdas Brazauskas) in the election campaign in 1992 turned on increasing social programs, raising the minimum level of wages, and providing support and subsidies to depressed industries and agriculture. Four years later, the same rhetoric (and criticism towards policies pursued by LDDP government) was adopted by the Homeland Union (reformed *Sajudis* which after electoral defeat in 1992 had dropped radical nationalist stance and drifted towards right-of-center). At the heart of their program was the dual promise of increasing governmental spending on social programs in order to improve living conditions of the less advantaged and cutting taxes down (Lane 2005). In other words, the issues of social welfare did not form the party divide in Lithuania, as every major political grouping seeking election advocated social protectionist policies to some extent, while the pressure from international agencies insured continuation of the market-liberal economic policies.

This is not to say that the electoral outcome had no influence on HE and other policy choices. The constant restructuring of the agencies responsible for overseeing the

sector reflects the bearing of the changes in the political arena on HE developments. But this had less to do with a ruling party ideology than with the leadership, personal or other factors having overriding influence on policy formation. Table 7.7 below presents the major developments in the HE field in relation with the changes in the electoral outcome. Most important steps towards lessening the state profile in HE funding and provision were taken during right-leaning coalition government in office. However, the examination of written sources and interviews undertaken with former government officials revealed no support to our initial supposition that the party ideology played the key role in bringing about these changes. Empirical evidence provides stronger support to the supposition that it was the decrease in the level of higher education funding that gave rise to cost-sharing policies, rather than ideological beliefs of the Lithuania's government.

Table 7.7: Higher Education Policy Choices in Light of Electoral Outcome in Lithuania

<i>Electoral Outcome</i>	1990-1992: Parliamentary majority of Sajudis (right to the center)	1992-06: Parliamentary majority of LDDP (former communists) 1993: Elected president – Algirdas Brazauskas -	1996-2000: Coalition government of Homeland People’s Union Christian Democrats and Centre Union (right to center) 1997: Elected president - Valdas Adamkus	2000-2004 : Coalition government of LDDP and New Union (Social Liberals) Since June 2001 2002 : Elected president - Rolandas Paksas –
<i>Changes the Higher Education Policy</i>	1991: Law on Higher Education 1992-1993: three level degree programs introduced at HEIs.	1993: public institutions start charging tuition fees 1994: establishment of MoES as a separate unit 1995: establishment of CQAHE	1997: establishment of the Department of HE and Research 1998-99: initial legal framework for study loans 1999: Authorization of the First private university 2000: Law on Higher Education	2003: Study loan system put in operation

7.4.3 The Mode of Interest Intermediation

With respect to the mode of interest intermediation, Lithuania is quite similar to other post-communist countries where interest representation takes place through informal channels between interest groups and the government. Commonly associated with corruption and bribery, the term “lobbying” in fact has an overly negative connotation in the Lithuanian context (Spurga 2005). Following the amendments of the Statute of Seimas (parliament) of the Republic of Lithuania introduced in 2000, the interest groups became eligible to formally take part in the meetings of Seimas committees

and voice their interest openly. Until then, the interest representation was mainly achieved through communication at informal level.

As regards to the nature of interest representation of the academic community, Lithuania has inherited strong traditions of close bond between the HE and political elites from the communist times. The most influential of all professional associations of academics has been the Lithuanian Rectors' Conference, founded in 1992. Its advisory role in providing expert opinion to *the Science Council of Lithuania* and *the Lithuanian Center for Quality Assessment in Higher Education* was legitimized by the Law on Higher Education in 2000. But as recognized by interviewees, the power that the Conference possesses for exerting the influence on HE policy formation is manifested not only through the intermediary bodies but also through direct connections with the president and other high level officials. The examination of written sources (Mockeine 2001, Leysite 2002) and the majority of interviewed policy-makers have emphasized the crucial role that the Rector's Conference has played in preventing the recognition of private HE establishments. In trying to rationalize the remarkable success of the Conference, interviewees pointed at unfailing ability of its members to find and unite around the common cause, in spite of their often diverging interests. According to Mockiene, by exploiting the issue of quality assurance, conservative forces of academia have managed to preserve their monopoly over HE provision for a long time (Mockiene 2001). Discussing the challenges encountered during the Lithuanian Christian College's struggle for governmental recognition, its President Jim Mininger has pointed out that the Rector's Conference used every lever they possessed to avert their establishment (in

Leisyte 2002). Founded in 1991, the College finally obtained the permission to grant state recognized degrees in 2000.

7.4.4 Demographic, Ethno-Linguistic and Religious Factors

Ethnic factor played an important role in the transformation process of all three Baltic States, and it also served as the key factor around which most differences in their transitional paths evolved (Henderson and Robinson 1997, Lane 2002). Among the three Baltic States, Lithuania was ethnically most homogenous, having almost 80 percent natives and only 9 percent Russians by 1989. In contrast, native Estonians constituted around 60 percent and Russians around 30 percent in Estonia. In Latvia, ethnic Latvians were barely in the majority (52 percent), and the Russian population was about 34 percent (Lieven (1994) and Raun (1994b) in Henderson and Robinson (1997)). It is not surprising therefore that the question of citizenship and minorities became a major issue in Estonia and Latvia, while it played less important role for the Lithuanian politics. As generally was the case with first elected governments across post-communist countries, many members of the Sajudis government supported a policy of ethnic nationalism. Their strong nationalist sentiments manifested themselves in the refusal to restore local self-government in the ethnically Polish region of southeast Lithuania. On the whole, however, the citizenship law, as well as the legislation protecting human and minority rights that emerged during the first government was very liberal. Hence, in difference from Latvia and Estonia that excluded post-war immigrants from the political process, Lithuania adopted an inclusive policy, offering citizenship for all country's residents (Lane 2002).

Notwithstanding the liberal nature of policies which Lithuania adopted towards its ethnic minorities, nationalist instincts seem to have prevailed in deciding on HE policy choices. During the Soviet times, around 15 percent of all HE students studied in Russian (OECD 2002). Soon after the changes of 1989, Lithuania, like Estonia and Latvia, adopted state language law prohibiting HE provision at public institutions in other than the national language. The language law, which in effect was in contradiction to the law on ethnic minorities, remained a sensitive issue for Lithuania's Polish and Russian minorities. There was a widely shared belief between politicians and the society alike that without such a law, non-Lithuanian speaking minorities would have no incentive to learn the national language. As expected, among those seeking to obtain an authorization for private HE establishment during the first years of the regime change also were minority language providers. In the beginning of the 1990s, at least three foreign language educational establishments - Russian Institute Rutenia, Polish University and Lithuanian Christian College (LCC) – sought the official state recognition. Designed after the American liberal arts model, the Lithuanian Christian College is the only educational organization out of the above mentioned three institutions that finally got authorized to grant state-recognized BA degrees in 2000.⁹⁰

It is hard to speculate whether the early legalization of private institutions was resisted because of the predominance of foreign language providers among those seeking authorization. The first minister of education was known for his strong nationalist sentiments, so the personal factor might have played the role in adopting the restrictive governmental stance towards privately provided HE (Interviews with

⁹⁰ It is notable that the establishment of LCC was met with the resistance from local Catholics as well.

Ligija Kaminskiene, LCC). What can be said with more certainty, however, is that the ethnically less heterogeneous Lithuania had no such a pressing need to create educational opportunities outside the public sector for its minorities. By contrast, Latvia and Estonia, where native populations barely constituted the majority, permitted the private sector to serve the emerging needs of the countries' minorities excluded from mainstream academia, as it would have been hard to justify preventing almost half of the population who did not speak the state language from participating in HE altogether. To emphasize again, this proved to be the case despite the fact that both countries' overall policies towards their ethnic minorities were more exclusivist than that of Lithuania's.

Not only ethnically, but also with respect to religious composition of the population, Lithuania is the most homogenous of all Baltic States. According to census results conducted in 2001, 79 percent of Lithuanians were Roman Catholic while Russian Orthodox Christians - the second largest group of believers - constituted only four percent. Protestantism (including Lutheran and Evangelical Christian Baptist) that represents the predominant religion in both Latvia and Estonia is practiced by two percent of Lithuanians only (Appendix 16). The study has revealed that, by exercising supply-side influence, the religious groups have played the key role in swaying governmental policies towards allowing other than publicly provided education. *Vilnius Saint Joseph Seminary* – Lithuania's first private institution - was founded at the proposal of Vilnius Archdiocese in 1999. Out of four private universities that were opened in the following two years, three were established by religious organizations (Higher Education in Lithuania 2001).

Finally, regarding the influence of demographic change on HE policies, Lithuania has been experiencing a sharp demographic challenge since 1989 (Table 9). But the drop in the rate of higher education participation by some 7 percent that Lithuania witnessed during the years immediately following the collapse of communism cannot be yet attributed to the demographic decline. The undertaken examination has revealed the fall in the shares of HE enrollments was neither a result of the decrease in the public sector capacity but it rather ensued from the change in attitudes among the youth. Interviewed policy-makers have employed the term *Bazaar Era* in relation to this period when it became popular among young people to earn their income through engaging in so called “bazaar commerce.” This attitude, however, did not last for long and the demand on HE, especially on evening and part-time programs, has been rising visibly since the mid 1990s.

Table 7.8: Higher Education Enrollments (percent of 19-24 population) and Demographic Change in Lithuania

	1980	1989	1991	1993	1995	1999	2000
Higher education enrollments	n/a	27.8	22.8	20.7	22.8	39.2	n/a
Rate of natural population increase	4.7	4.8	4.1	0.4	-1.1	-1.0	n/a
Population age 0-17 (beginning of year, thousands)	n/a	1,000	100,3	994	971	914	896

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001 based on EBRD (2000), 1999 estimate, 2000 projection

7.4.5 Conclusion

In summary of our evaluation of the relative influence of broad level factors on governmental stance towards HE can be said that it was the nexus of the different factors that determined the restrictive stance of the Lithuanian government towards private institutions. First of all, unlike most countries in the region, Lithuania did not have a large pent-up demand on HE in the wake of the regime change. With almost 28 percent of the youth age cohort enrolled at HE institutions by 1989, the level of HE participation in Lithuania had been one of the highest in the region. What is more, the demand on HE did actually drop during the first years of the transformation. Furthermore, despite the economic decline characteristic of the first years of the political-economic transition, the Lithuanian HE sector did not suffer from the same slash in available resources as did the most post-communist countries. In other words, there was no left-over demand on HE that could not be satisfied by the governmental provision. Secondly, neither was there a vast “differentiated” demand on other than publicly provided education. Lithuania did have the ethno-linguistic minorities who, not being able to speak the state language, were left out the mainstream academia. But unlike Estonia and Latvia, these groups were not as large so as to compel the government to create the educational opportunities outside the public sector. Perhaps, the widely shared belief among the Lithuanians that the language law was indispensable for the non-native population to learn Lithuanian and thus integrate into the society was reflected in HE policies, which were much more exclusivist than the citizenship and other laws towards the country’s minorities, adopted during the first decade of the transformation. Thirdly, there were well-organized associations of the academic elite that, in protecting their institutional

interests, managed to exert the influence upon HE policy choices. It is revealing that the eventual liberalization of the governmental policies took place against the background of declining HE funding coupled with the rising demand on HE. For this shift in the governmental approach, the influence of the religious group interests on the supply-side also became perceptible.

CHAPTER 8: SUMMARY OF FINDINGS

8.1 Introduction

The underlying difficulty in examining private higher education growth patterns in a comparative setting is a multiplicity of variables. As this investigation has convincingly suggested, a study of privately provided education cannot be separated from a study of government production and for that reason, analyzing the policies towards private education - from the public policy analysis. The array of factors that ostensibly influence the scope and nature of privately provided education includes legislative and regulatory framework in which institutions operate, governmental financial policies, such as tax policies, student grants and loans and direct appropriation to institutions, policies towards spending on public sector capacity and quality, and towards inclusion of private institution representatives in policy-making process. Conceivably, to this we could add other sociological, subjective and country specific factors such as heterogeneity of preferences, intensity of demand, perception of quality, size of urban and rural area and willingness to pay for desired services. The set of explanatory variables that help understanding empirically manifest differences in governmental approach towards private higher education is equally wide, consisting of the wealth of a country, ideological underpinnings of a ruling party, the power and influence of professional associations, the mode of interest intermediation, demography and heterogeneity of population with regard to religion, language, and ethnicity. The set of variables that are thought to shape governmental

policies could further be extended to include the history of a country and not least the size and influence of private sector itself.

Given this multiplicity of variables, carrying out a study of private higher education sectors across countries inevitably involved selecting only few, what was thought to be, prominent variables for testing. This is to say that many factors that bring to bear on private sector development possibly were left unexamined. The choice to conduct four country case studies also entailed sacrificing the depth for the breadth of analysis to a certain extent, because of the limitations of time, space and resources. Testing additional variables or more in depth probing of each country case might have yielded more robust results. Nevertheless, several important points, discussed in what follows, emerge strongly even from this undertaking.

8.2 Governmental Policies and Private Higher Education Growth Patterns

The empirical results obtained from the in-depth examination of the four country cases suggest important conclusions related to the link between governmental policy dispositions and private higher education growth patterns. But before analyzing how governmental policy choices shape the scope and nature of privately provided education, the following section briefly sums up the obtained results on each examined variable. The section after moves to consider what characterizes the countries with the identified policy disposition.

8.2.1 Legislative and Regulatory Framework

With respect to the most fundamental policy of legislative framework, Lithuania stands out the most, as the first private institution gained official state recognition only in 1999, while the other three countries have legalized privately provided education in the beginning of the 1990s. However, the differences in legislative framework for higher education go well beyond these initial differences. As we have noted, many policy changes that the countries have witnessed during the early years of the transformation were initiated at the institutional level. Only later did legislations in respective countries sanction practices already in operation. The most extreme case in this respect is Georgia, where the state started to assume some role in policy-making from the mid 1990s, while it became an active player only after the political changes of 2003. In fact, the Law on Education – the first legal document for education sector – was enacted in 1997 and the first Law on Higher Education – only in 2004. Although the other three countries have passed their laws in the beginning of the 1990s, there exists a wide variation with respect to the number of actors involved and the influence they have brought to bear on policy outcomes. Institutional forces were especially strong in Hungary, playing crucial role in preparation of both, the Law on Education of 1990 and the Law on Higher Education of 1993, but the role of the state as well as its legitimacy in general was never discredited in Hungary the way it was in many post-communist countries, including Lithuania. As we have seen, in Lithuania, the first Law on Higher Education Institutions of 1991 was drafted almost exclusively by the public institutional leadership. The Ministry of Education as a separate unit capable of representing and upholding the interests of the state was only formed in 1994. In stark contrast to this, the Ministry of Education was the key actor in higher education policy-making scene

in Latvia from the very start, playing active part in crafting the legislative framework for higher education.

In general, governments of all CEE countries started to assume greater regulatory role in higher education governance from the mid 1990s. In addition to devising and implementing institutional accountability mechanisms, establishing quality control procedures became one of the main tools in hands of governments for curtailing vast institutional autonomy that universities had acquired during the years immediately following the regime change. Another goal that governments sought to achieve through creating and implementing quality assurance mechanism was to control easy and rapid growth of private institutions. In this respect, Georgia is an outlier case, meriting a separate treatment, as these processes were delayed by at least a decade. The developments in Hungary, Latvia and Lithuania, on the other hand, bear significant parallels. Quality assurance procedures established in all three countries in the mid 1990s set the high academic standards as well as stringent requirements for material base and personnel. That the standards universities need to comply with for obtaining official recognition do not differentiate between the two sectors in higher education constitutes the further characteristic that the procedures in the three countries share. More nuanced examination of the country cases, however, reveals a process for establishing new institutions to be considerably challenging and cumbersome in Hungary and Lithuania. The discrepancy is all the more startling between the neighboring Latvia and Lithuania, as quality assurance policies were the result of the extensive collaboration among the Baltic States.

Indeed, these contrasting approaches have been having direct and profound implications for the scope and nature of the private growth. Less obvious but nonetheless important factor to consider when trying understanding disproportional growth of private institutions across highly comparable country cases is the very timing of the introduction of quality assurance policies. To be precise, the establishment of quality control procedure had preceded the legalization of privately provided higher education in Lithuania, while the bulk of institutions were already in operation when Latvia implemented these practices. This is not to say that there were no cases of the Latvian authorities shutting down institutions not complying with the newly-established standards, but rather to stress that, by and large, obtaining necessary resources for setting up a new university has proven to be decidedly harder than meeting quality requirements for extant organizations. This could be one explanation for why much of the growth in private enrollments has taken place in the wake of the regime change in most post-communist countries, including Hungary. Irrespective of whether private institutions started to evolve in an anarchic setting or their development was more controlled from the outset, more recent tendency is marked by a retarded growth or even the decline in private sector shares. Latvia, where the growth in private enrollments was experienced as a steady and gradual process, increasing in each succeeding year, is a notable exception not only among our sample countries but in the region in general, which will be accounted for in the following sections.

A further point to discuss in connection to governmental regulatory efforts that influence private sector development is governmental approach towards public sector regulation and public enrollment growth, which have indirect but not less profound

implications for the sector. Like their private counterparts, public institutions in Georgia have largely escaped governmental control for a significant period of time. This has led to a spectacular and easy growth in the public sector enrollments that gradually took its toll on the equally easily-proliferated private enrollments. The Georgian case most vividly illustrates how market forces serve to shape inter-sectoral dynamics in the absence of governmental regulations. The public sector has expanded even further in Hungary but the reasons enabling that increase could not be more remote from the governmental inaction in Georgia. Namely, it was the Hungarian government's resolute attempt to expand access to previously highly elitist higher education, resulting in almost quadruple increase in the public sector enrollments since the beginning of the 1990s.

It is true that, inheriting quantitatively elitist systems, almost all CEE and the FSU nations witnessed some expansion in the public sector size. A number of new public institutions have opened in Latvia too, where the pre-transition level of higher education participation used to be one of the highest among communist nations. However, as it was shown, the Latvian government has not shunned from closing down redundant programs even in the most prestigious of all universities, at the same time as it has allowed the labor market demand to play considerable role in shaping public sector dynamics. This stands in stark contrast to largely supply-driven character of Hungarian public sector, which largely reflects training program capacity rather than student demand or the labor market projections. Governmental financial and tax policies discussed in the subsequent section bring out the differences in the governmental approach across the selected cases even more visibly.

8.2.2 Higher Education Funding Policies

The uniqueness of Hungary with respect to the funding and tax policies towards private institutions has been emphasized repeatedly. Not just among our selected countries, but also in the entire region Hungary stands nearly alone in providing direct financial assistance to its non-state institutions. In fact, funding is the dimension on which least variation is observed across the countries of otherwise vastly different policy leanings. Until recently, private institutions in Latvia, Lithuania and Georgia were almost exclusively tuition-dependent, as neither direct funding nor tax exemptions and deductions were available to them.⁹¹ From the end of 1990s, the governments started extending student aid policies to these attending the private sectors, but mostly in the form of loans rather than grants. Georgia, which started providing study grants on competitive basis to students enrolled at both sectors from 2005, is notable exception to this generalization. On the other hand, student loan policies, also having significant implications for private sector development, are already in operation in all four countries under examination. As we have seen, not only is Latvia the first post-communist country to have introduced student loan scheme in 1997, it also has most flexible and well-developed system of student lending to balance the vigorous privatization of its higher education. After around ten years of being on the policy agenda, student loan practices were implemented in Hungary in 2001, while the study loans are available for all tuition-paying students in

⁹¹ There is only one institution in Latvia - *Higher School of Social Work and Social Pedagogies "Attistiba"* - receiving substantial direct financing from the government. Possible rationalization of this exception is provided in the Case of Latvia.

Lithuania since 2003. Georgia was the last to develop the study loan scheme in cooperation with commercial banks, which is in operation from 2006.

As it was noted, governmental policies towards public sector financing should also be counted among important influences on the private sector growth patterns. In this respect, two clear patterns emerge from the undertaken study. The Hungarian and Lithuanian governments have kept somewhat strong profile in the public institution funding, while the role of the state in public university financing has lessened considerably in Georgia and Latvia. It must be emphasized that the sharp increase in tuition-paying student numbers in Georgia before the changes of 2003 was the result of self-surviving strategies adopted by public universities in the face of exceedingly scarce public resources and only later it became an integral part of the deliberate governmental policy stance. Policies such as the introduction of voucher-based funding mechanism that encourage student choice, and the provision of study grants for private institution students that is aimed at fostering inter-sectoral competition further reflect the market-liberal thrust of the Georgian government. Equally remarkable is the Latvian government's approach towards public sector funding, which has witnessed most spectacular influx of private resources. With nearly 70 percent public university students paying for their studies, Latvia has one of the highest shares of tuition-paying public university students in the entire region. Most striking example epitomizing the Latvian government's market-oriented approach comes from *the Banking School of Business and Finance* where all students pay for their education. This newly opened public higher education institution has no single state-financed study place owing to the high student demand on programs that it

provides. The same labor market demand has been the key factor for determining the number of tuition-paying students and level of tuition in public universities in Latvia.

Although a strong correlation among different governmental policy choices towards higher education so as to form coherent policy postures was not anticipated to be found, the above summary of the main findings does suggest a logical link of some sort among policies put in place in each country. To be precise, stringent quality assurance procedure that serves to restrict private sector growth and distinctiveness, stronger governmental role in public sector funding as well as in its steering characterizes Hungary and Lithuania. This makes the governmental approach in the two countries closer to regulatory policy model, with major difference being that Hungary provides financial assistance to private sector, while such incentives are lacking in Lithuania. On the other hand, the policies that involve adaptation of market-type practices and lessening financial dependence of institutions on the state budget has been underlying to the governmental stance in Latvia and the post-2003 Georgia. The increasing tendency of shifting costs of higher education from government to students and their parents observed in the two countries have been balanced by carefully designed student aid policies. The Latvian governmental stance is further distinguished by its willingness to include the private sector in higher education planning process and, in general, by its evenhanded approach to two sectors in higher education. All this suggest the Latvian and Georgian governmental approach to be closer to market-competitive policy posture. Finally, Georgia before the changes in 2003 is a clear example of governmental laissez-faire policy mode, where private institutions opened and closed without any interference from the state authorities and where governmental regulatory role was limited to basic licensing.

8.2.3 Governmental Policy Dispositions and Private Higher Education Growth Patterns across the Selected Country Cases

By and large, the scope and nature of private higher education growth in the countries under examination bear out the predicted relationship between the governmental policy disposition and private sector growth patterns. Private sectors that are restricted in size and that serve distinctive mission so as to justify their existence characterize Lithuania and Hungary. Subject to strict regulatory and quality assurance regime, the quality of education provided by newly-emerged institutions has not been a concern to the extent it has in many post-communist countries. What is more, in Lithuania, where the status held by public institutions has become somewhat discredited, the private sector enjoys surprisingly high standing and prestige.

The Georgian example once again highlights that, in the face of a lax regulatory regime and limited governmental supply, private institutions will grow rapidly at first but they will struggle to survive without supportive governmental policies. Besides, the growth will be mostly in small, vocationally oriented demand-absorbing institutions, with low prestige and political influence. The detailed examination of the Georgia's private sector dynamics has offered ample evidence that the sharp drop in the private enrollments was mainly a result of institutions' inability to survive the competition created by extensive public sector privatization. Both, the rapid increase and ensuing fall in the share of private enrollments took place against the backdrop of

a fairly unchanged regulatory regime and broad political-economic picture characteristic of the first decade of Georgia's political-economic transformation. This is not to say that erosion of quality was not a serious concern in the public sector. But rather, as it seems, in the absence of quality and other control mechanisms, well-established and still more legitimate public institutions provided students with better assurance than newly-emerged, undifferentiated private institutions.

An entirely different picture is observed in Latvia where the governmental approach to the private growth has been more attentive from the outset. Private institutions grew there not as rapidly, but Latvia's private sector now accommodates almost one-third of all student enrollments and is one of the largest in the region. Revealingly, it is larger than that of Georgia, Estonia and Romania, countries that experienced the most spectacular initial expansion.⁹² Perhaps the laissez-faire initial approach in Georgia led to the proliferating institutions of dubious quality – and therefore more vulnerable to survive delayed regulation and increased public sector competition. On the other hand, as evidenced by recent developments, Latvia's private institutions have managed to emerge as tangible competitors to their public counterparts (at least in fee-paying departments).⁹³ In other words, governmental involvement and support to institutions in a form that does not infringe on their autonomy only enhances the ability of institutions to better fulfill their mission.

⁹² In the three countries the market share of private enrollments shrunk from roughly 30 to around 20 percent, while in Georgia the drop in the private enrollments was experienced in absolute terms as well (Table 1.1)

⁹³ To illustrate, since 2000/01, the annual enrollment increase in Latvia's private higher education institutions has exceeded the increase of fee-paying places in public institutions (Ministry of Education and Science 2003).

8.3 Governmental Policy Determinants

8.3.1 Economic Development

The in-depth investigation of the four country cases has provided ample evidence that the level of economic development is a potent factor that helps to understand empirically manifest differences and similarities in higher education policy outcomes across the countries in question as well as policy changes within each country. To start with, the economic factor accounts for the fundamental divide between the nature of education policies pursued in Georgia and the other three countries. On the whole, one apparent explanation for the manifest differences in the level of spending on higher education across the countries lies in the fact that even though economies of the Baltic and CEE countries have experienced a steady decline during the years immediately following the regime change, the scale of deterioration could not in any way be compared to what it had reached in most former Soviet countries, not least in Georgia. The study of Georgia has repeatedly stressed that in the absence of the state regulation, the economic factor has gained overriding importance in shaping inter-sectoral dynamics. The largely demand-absorbing nature of Georgia's private sector mostly fits developing country pattern where institutions grow rapidly to meet social demand on higher education that could not be satisfied by the government production. This stands in contrast to Latvia, Lithuania and Estonia, where differentiated demand has been one of the main moving forces behind the private sector growth. Somewhat aberrant nature of the Georgia's public sector undertaking a kind of internal diversification, that is ethnic, religious and pragmatically oriented, normally associated with the private sector is also to be attributed to overriding weight of the economic factor.

The economic variable not only accounts for the cross-national variation but also for observed similarities in governmental policy choices. That is to say that the sharp economic downturn characteristic of the initial period of the political-economic transformation helps understanding the apparent convergence on funding and tax policies towards private institutions in the countries that have adopted markedly different approaches for facilitating newly-emerged institutional forms. Hence, the absence of direct subsidies to privately owned institutions or accommodating legal tax framework characteristic of the selected countries (except for Hungary) and the region in general should be attributed to a severe slowdown, and in some cases even collapse, in economic output, which has resulted in drastic decrease in the resources available to public institutions, to begin with. This is why the processes taking place within public universities, which involve emulation of private forms of organization in adopting business-like practices, bear significant parallels across the nations. In each examined country case, for instance, we witness most public institutions, even those with technical and natural science focus, extending their course-offerings to highly demanded social science programs and business studies, in their attempt to attract fee-paying students. Of course, the extent of these processes varies from country to country, but that variation too is consistent with the level of funding available to the public sector to a certain extent. Not unexpectedly, the public sectors in Hungary and Lithuania have proven to be most impervious to marketization tendencies. To recall, the resources available for the Lithuania's public sector were growing until 1999, whereas in Hungary the state support to higher education was increasing in real terms, while it stayed roughly the same as the share of GDP until 1996. This has naturally rendered public institutions in the two countries less reliant

on private contributions. For one thing, institutions neither in Hungary nor Lithuania were granted with the liberty to add business-oriented programs and open branch campuses for running them like those in Georgia, but a part of the explanation is still to be sought in the economic factor.

The same argument can be extended to the private sector dynamics. Unlike many post-communist countries where collapsed economies compelled governments to delegate some of the responsibilities for higher education provision to private sectors, there has been less pressing need for the Hungarian and Lithuanian governments to do so. However, it is no coincidence that authorizing of the first private institution in Lithuania as well as the growth in the fee-paying student shares at public universities took place against the background of the rising social demand on higher education and reduced governmental appropriations to the sector. For public institutions, one obvious way to deal with the new reality of inadequate governmental funding was to enroll more and more fee-paying students. What influence did that decrease have on the governmental decision to legalize privately provided higher education is harder to document, but the fact remains that cost-sharing policies were first introduced in Lithuania when the slash in the public funding to the higher education sector was firstly felt after the regime change. The examples of the significant policy shift in line with the fluctuations in the level of existing funding are offered by the Hungarian case as well. Among the changes that the slash in the governmental appropriations following the Bokros austerity policy prompted were the reducing of the number of employees, cutting salaries of the faculty, introducing tuition fees for all students and authorizing state institutions to allow self-financed students.

It is true that the link between the main economic indicators and the level of spending on higher education has not always been neat, which is explained by intervening factors such as availability of funding independent from governmental appropriations (such as the World Bank loan for Hungary), drop in enrollments due to decreased social demand (like in Lithuania during the first years of the regime change) or political factors - the latter discussed in the section to follow. However, the correlation between the levels of public funding for higher education and policies put in place emerges somewhat strong from this comparative undertaking. Thus, as anticipated, the wealth of a country proves to be powerful determinant of the education policy choices made by the governments in each country and the one with considerable explanatory power for cross-country variation.

8.3.2 Political Parties and Ideology

The most salient example highlighting the significance of ruling party ideology for determining the nature of higher education policy output is offered by Georgia. The shift in the policy environment that involves moving to voucher funding, directed at fostering inter and intra-sectoral competition, cutting down the staff at public universities considerably, setting centralized entrance exam procedure, aimed at curbing widespread corruption, establishing control over unruly processes and introducing quality assurance standards that are challenging to meet for even well-established public universities, is powerful and have no precedent in the Georgian context. The undertaken study has shown that this remarkable change from the complete inattention to the deliberate market-liberal policy stance reflects the political

change and its corollary major shift in the governmental ideology towards higher education. It must be added, however, that the study offers almost no examples of the documented relationship between party ideology and higher education policies pursued before the changes of 2003, except for instances when a license was denied for different religious groups seeking opening up a private university. It seems that the excessive exclusivist-nationalistic policies characteristic of Georgia during the early years of the regime change have prevented the establishment of other than Orthodox Christian institutions. *The Sulkhani-Saba Orbeliani Institute of Theology, Culture and History* – the first non-Orthodox Christian (Catholic) institution - was established in 1997 after several years of failed efforts, whereas attempts to create a Islamic private institution was altogether thwarted by exclusivist policies adopted by the Georgian government.

Hungary further provides a good opportunity to observe the bearing of ruling elite ideology on policy outcomes, because the country has witnessed the change in government of contrasting ideological underpinnings after every election, and also because that change has been accompanied by a significant shift in the higher education policy choices. It must be noted, however, that in the wake of the transformation, there was a wide consensus among all political parties and society at large about the leading role of the state in expanding the access to higher education. The stance taken by different political parties and stakeholders toward the state involvement in higher education became a great deal more varied shortly after, though not in the predicted direction. That is, the left-leaning parties have endorsed more market-liberal policy approach and have implemented changes such as imposition of tuition fees upon all students, allowing institutions to admit self-

financed students and to charge higher supplementary fees, whereas the stance taken by the parties that position themselves right to the center has been largely social-protectionist, advocating for maintaining a strong state profile in the provision and funding of higher education. As discussed, the reason for this seemingly blatant contradiction resides in the fact that social-cultural orientation more than economic issues structure the political party-divide in Hungary. Taking into consideration how party spectrum is structured in Hungary, political ideology gains a strong predicting power for the governmental policy choices in the country.

Unlike Hungary, the Latvian case does not enable us to fully grasp the implications of the change in governing party beliefs for higher education policy outcomes, because of the lack of variance on both factors. In general, one of the most salient features of the Latvia's party system is the relatively weak representation of left-leaning parties. Since gaining independence, for example, right-leaning political groupings have dominated every election held in Latvia. However, the fact that there has been such continuation in higher education policies does suggest a clear link between governing party ideology and the nature of policies pursued. The undertaken investigation has shown that the same market-liberal philosophy driving Latvia's economic restructuring has been underlining much of the changes that higher education system has witnessed. The link is further highlighted by Latvia's comparison with the neighboring Lithuania, which has chosen relatively slow liberalization policies. Broadly speaking, higher education policies pursued in Latvia and Lithuania do reflect the scope and nature of economic restructuring efforts and pace of privatization, embarked upon by the two Baltic nations. Documenting the impact of party ideology on the governmental stance towards higher education in Lithuania, on

the other hand, proves somewhat difficult, despite the change in left and right-leaning parties in power. There is no evidence that the move towards cost-sharing policies that marked the major shift in the path of the higher education development in the end of the 1990s stemmed from the change in thinking about higher education. As our examination has revealed, issues related to higher education have played little role in debates among political parties, otherwise divided on multiple issues, or in their election programs; while a close scrutiny of the changes in the higher education policy output in light of the electoral outcome suggested no correlation between the two variables.

The reasons for a weak explanatory power of political party disposition for Lithuania that can be extended to other post-communist countries, especially those of the FSU, are several. First of all, there remains to be a little diversity at the level of political programs and ideology despite the impressive multiplicity of political parties in many countries. This applies less to Hungary that has one of the most developed party systems in the region. Even when the diversity at the program level is marked, it is commonly centered upon more overriding issues (in Latvia, Lithuania and Georgia, these have been independence from and relation with Russia and ethnic issues). Other consideration, already discussed in the previous section, has to do with the economic factor, which has proven to be of overriding influence for the region, especially in the early years of the regime change. To come to conclusion, while Georgia offers a vivid illustration of the remarkable change in the higher education policy output ensuing from the political change, the correlation between the two has been the strongest and most consistent in Hungary. Ideological disposition of ruling party accounts for the overall differences between the two Baltic nations, though its

explanatory power in each country case has proven to be somewhat limited. All in all, even it is only qualified and difficult to document, political party ideology is a fairly good predictor of the nature of higher education policies.

8.3.3 The Mode of Interest Intermediation

The comparative examination of the four country cases has exposed group interests to be another potent determinant of the governmental stance towards higher education. Among the examined issues that have helped to crystallize the strength of academic community in each country include establishing unified control over higher education system, re-integrating research and teaching activities, cost-sharing policies in general and governmental attitude towards privately provided higher education in particular. With all these respects, the power of professional associations for influencing governmental policies has proven to be most significant in Hungary and Lithuania. Institutional interests aimed at preserving monopoly over the provision of higher education was identified as one of the main factors for existing constraints on the private sector growth in these countries. In Georgia and Latvia, on the other hand, opposition hailed from the public sector leadership to the private sector growth has been less perceptible. What is more, among the first founders of private institutions in Georgia, many were public university professors seeking additional employment opportunities and supplementary earnings. Even when we see such resistance coming from academic groups in Latvia and Georgia, their ability to exert the influence on governmental policy outcomes seems limited.

As this study has shown, the reasons for the comparative success of institutional forces in Hungary and Lithuania reside with the strength of interest associations and privileged access they have to policy formation, their formal organization and the particular mode of interest intermediation that permits effective translation of their partial interests into higher educational policy choices. In contrast, even when senior academics in Georgia have tried to defend their institutional interests by exerting the influence on the governmental policies, these attempts have failed because they either lacked the necessary capacity for organized intermediation of their vested interests or an opposing party, also having a broad access to policy-making, has succeeded in wielding countervailing influence on the course of higher education developments. The reason why the public institution leadership has not been able to exercise their influence to the detriment of private sector growth in Latvia has also to do with their strength and the mode of interest intermediation. This is because private institution representatives too have access to higher education planning in Latvia to the extent that is almost unparalleled in the region. Having equal representation in the Rector's Council, which is the main channel through which institutional interests find their expression into education policies, implies that policy choices to some extent reflect the interests of the private sector. It must be added here that the powers of the Rector's Council in Latvia have been relatively limited to start with, especially when compared to its neighboring Lithuania, where the Rector's Conference has played crucial role in drafting all key legal documents and where no policy proposal gets implemented without their prior consent. By contrast, the Latvian Rectors' Council played no role in the preparation of the first law on education and although it did take part in drafting the 1995 law, the Ministry of Education remained the principle actor.

What was said above is consistent with the conjectured link between the strength of interest associations and the mode of interest intermediation in a given country on the one hand and the governmental stance towards private higher education on the other. But the question why private institutions were viewed as competitors for age cohorts from the start in Hungary and Lithuania, while the competition between the two sectors became more manifest only later in Latvia and Georgia still remains. Indisputably, the availability of public funding for non-state institutions in Hungary has strongly contributed to fostering inter-sectoral competition. In difference from the rest of the region, the Hungary's two sectors compete not only for student cohorts but also for scarce governmental resources. The fact that Hungary has been facing a sharp demographic challenge already since the beginning of the 1980s has obviously made the competition for university age population more heightened and well-pronounced from the start. Demographic decline is only noticeable in Lithuania from the beginning of the 1990s, but a considerable fall in the demand on higher education that characterized the country during the first years of the regime change has certainly served to reinforce the fears of competition. To recall, unleashed pent-up student demand, which could not be satisfied by the communist production, has constituted one of the main driving forces behind a spectacular increase in private providers of higher education in much of the region.

A final consideration with respect to interest group power relates to religious groups acting as interest associations for influencing public policy. The in-depth examination of the Lithuanian case has shown that it was not unleashed student demand that played a decisive role in swaying governmental policies towards allowing other than publicly provided education, but the interests of religious groups

on the supply-side. A first private university to gain official recognition was *the Vilnius Saint Joseph Seminary*, established at the proposal of Vilnius Archdiocese. The founders of three out of four private universities opened in the following two years were also religious organizations. The Hungarian case has provided with ample evidence of religious groups shaping non-state sector growth patterns in various ways. One is the influence they bring to bear on the governmental policies for securing state subsidies for Church owned and operated institutions, which are almost exclusively financed from the public budget. Interestingly enough, the power the religious groups possess for influencing the public policy has sometimes been used to the detriment of private (non-religious) institutions, which are regarded as tangible competitors for already shrinking age cohorts. However, the role the religious associations play in determining the private sector growth patterns does not only manifest itself through influencing governmental policies, but the availability of Church institutions directly shapes the relative size and nature of the private sector. Indeed, overwhelming number of religious providers and a sheer lack of indication for demand for theological training highlight the supply-driven character of the Hungary's non-state higher education sector.

To come to conclusion, our investigation bears out a strong positive relationship between the power and influence of organized interest associations, including religious groups, and governmental policies towards private higher education, and respectively the size and nature of the sector growth.

8.3.4 Demographic, Ethno-Linguistic and Religious Factors

As it was just discussed, the religious factor has been one of the main moving forces behind the private sector growth in Hungary and Lithuania. Ethnic factor, on the other hand, has served as a potent determinant of the governmental policies toward privately provided higher education, and respectively the size and nature of the sector, in ethno-linguistically highly heterogeneous Latvia. The enactment of the Language Law that abolished higher education provision in Russian at public universities created a sizeable demand as well as supply for the Russian language instruction. In fact, the sheer size of that demand has served as one of the principle rationales behind legalizing private institutions in Latvia. Thus, Latvia, where native populations barely constituted the majority, permitted the establishment of private educational organizations, thus allowing the sector to serve the emerging needs of the countries' minorities excluded from academia, for it would have been hard to justify preventing almost half of the population, who did not speak an official language, from participating in higher education altogether.

Our examination has shown that only in Georgia, the nature of private sector growth does not reflect the ethno-linguistic and religious heterogeneity of the country's population. Several reasons explain this apparent contradiction. First of all, in Georgia, where unsatisfied demand for higher education had driven the private growth, suitable conditions existed for demand-absorbing private institutions to survive and grow. This is consistent with the extant literature that predicts left-over demand to be the main factor in the private growth in developing countries, where government cannot meet all the demand on higher education. On the other hand, ethnic, linguistic, religious and other culturally oriented goals are thought to account

for the private growth in developed countries, where niches are left for private institutions to serve those minorities who demand higher education types that are different from what the state can offer. The divide between Georgia and the other three countries with respect to undertaken organizational goals, once again draws attention to the overriding significance of the economic factor in shaping the private sector dynamics.

A further explanation already discussed in the section dealing with the impact of political ideology relates to the role played by the state ideology in limiting pluralism that private institutions can provide. As we have seen, the environmental niche for the private sector has been restricted by the excessive exclusivist-nationalistic policies, underlying Georgia's politics during the first phase of the transformation, which have made the existence of other than Orthodox Christian institutions hardly possible. Finally, the mission private institutions pursue in Georgia have further been constrained by the public sector undertaking a kind of internal diversification, that is ethnic and religious, normally associated with the private sector. The fact that religious studies are commonly offered at the public sector can be seen as a reaction against communist atheism and reflects the absence of clear separation between the state and religion. However, a wide availability of theological studies at public universities or the instruction in ethnic minority languages obviates the need for their private provision to a certain extent. That the Georgian case defies certain private sector patterns characteristic elsewhere, thus, is explained by the economic factor. The severe drop in state funding has compelled public universities to undertake roles, such as catering for ethnic and religious diversity of the population, usually hallmark

of privately provided education, which has restricted organizational niches available for their private counterparts.

Another factor to be discussed in connection to the governmental policy influences is a demographic change. All three countries - Latvia, Lithuania and Georgia – have been experiencing a fall in the rate of population growth of a varying degree but only since the beginning of the 1990s. Therefore, the expected consequences of the demographic decline on the higher education enrollment rates becomes considerable mostly from the academic year 2006/07, when the part of the population born after 1990 reaches university age, which is beyond the timeline set for this study. A significant drop in the rate of university age population has already been taking its toll on higher education enrollments in Hungary, which has been facing a sharp demographic challenge already from the beginning of the 1980s. Without doubt, a part of explanation for highly protective strategies pursued by the public university leadership observed in Hungary resides with the demographic decline, which has made intra and inter-sectoral competition more strongly felt from the start.

A final point to note in connection to governmental policy determinants is the very size and influence of the private sector. The relative weight of this viable was not expected to be high because of a short history of private sector existence in the region. The study nevertheless set off to consider whether the private sector's size and influence was a contributing factor for favorably disposed governmental policies in the selected countries. Not unexpectedly, the only examined country where the link between the two factors has verified is Hungary. The influence that religious institutions and their owners bring to bear on the governmental policy was discussed

in the preceding section. However, the availability of the state funding for private (non-religious) institutions in Hungary, which is unparalleled in the entire region, perhaps also has to do with the long-existence of religious institutions, historically funded from the public budget. For one thing, the governmental funding policies would not discriminate between the two types of non-state institutions too greatly.

8.4 Concluding Remarks

The powerful and all-encompassing changes taking place within higher education fields internationally that are related to higher education massification have been described in revolutionary rather than evolutionary terms. The creation and growth of private higher education institutions – a crucial aspect of the massification process - is a global and rapidly increasing phenomenon. However, in no other region we witness this process to be as concentrated in time and involving so many countries, as it has been in CEE and the FSU nations. Given that the scope and nature of the private growth has been highly disproportional across the countries of comparable legacies provided us with a unique opportunity to study the causes of such diversity in private sector growth patterns on the one hand and in governmental policy choices, intended to facilitate the increase in new forms of educational organizations, on the other. The results obtained from the in-depth examination of the carefully selected country cases are fundamentally consistent with the predictions made by the extant literature. However, given the magnitude and pace of these developments, the comparative analysis of the countries matching on multiple variables both at the higher education and national levels, permitted grasping what determines public

policies towards higher education and how these policies in turn shape the scope and nature of privately provided education, in the way that would otherwise be hard to grasp. The findings are of significance not only to the region that is characterized by a relative lack of comparative analysis of new forms of organizations both at the policy and academic levels, but also beyond, as the post-communist developments largely echo processes taking place globally.

A clear divide between Georgia on the one hand and Hungary, Latvia and Lithuania on the other that this comparative undertaking has emphasized repeatedly strongly suggests the ascendancy of the economic factor in determining governmental stance towards higher education. The level of public finance available to higher education sectors in more comparable Hungary, Latvia and Lithuania has proven to be of further help in understanding empirically manifest differences in the governmental approach. However, the economic factor alone cannot account for an observed variation in governmental policies aimed at accommodating private institutions and widely divergent patterns of private sector growth that these contrasting approaches have produced.

The most illuminating example of how national forces shape governmental policies is offered by the Baltic neighbors. In numerous respects, Latvia and Lithuania were more comparable cases among all Soviet republics. Their exit from communism and the political-economic transformation paths that the countries followed afterwards also bear significant parallels. It is remarkable that the two countries present most unlikely picture of the private sector development, as well as the governmental approach towards privately provided education. The comparison of the two Baltic

States enabled us detect how differences in ruling party ideology, the mode of interest intermediation, and ethno-linguistic and religious heterogeneity of the population find their expression at the higher education level. Our understanding of what determines public policy is further enhanced by the comparison of Hungary and Lithuania on the one hand and Georgia and Latvia on the other. The two pairs of the countries are less comparable on background variables but match on the governmental policy mode towards private higher education, seeing that the governments in Latvia and Georgia (after the changes of 2003) have chosen market-liberal approach, while those in Hungary and Lithuania have taken more regulatory policy stance towards the private growth.

The close analysis of the relationship between governmental policy stance and the patterns in the private enrollment rise yield to equally important results, which may be of interest not just for researchers but policy-makers as well. The Lithuanian and Hungarian cases once again verify that, although governmental regulation insures some quality of the services provided, extensive state involvement in private sector planning and management impedes organizational growth and limits the sector's distinctiveness. However, most instructive are the points emerging from the comparison of private sectors in Georgia and Latvia. As we have seen, the governmental neglect has led to the easy and rapid expansion of private institutions of dubious quality and importance in Georgia, which could not survive the competition posed by the vigorous public sector privatization. In stark contrast to this, the increase in the private enrollments has been slow but steady in Latvia, where academic standards of a certain degree were set from the outset. Capturing almost one-third of the total student enrollments, the private sector dynamics characteristic of

Latvia challenges those found not only in Georgia but in many other countries, where reactive governmental regulatory action has resulted in significant decline in the private enrollment shares. The Latvian example highlights that the governmental approach that is evenhanded and supportive, that insures the quality of education, yet abstains from the excessive regulation, only enhances the ability of private institutions to fulfill their function and provide students with viable choice with less financial involvement of governments. For this, recognition of the role that private institutions can play in meeting increasing social demand for higher education and in providing students with the choice that no government alone can provide is a necessary precondition.

Appendices

Appendix 1:

Table: Higher Education Enrollments (gross rates, percent of 19-24 population) in Post-communist Countries

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Czech Rep.	16.6	17.2	16.0	16.6	17.5	18.6	19.8	21.1	22.1	23.7	26.0
Slovakia	13.4	14.3	14.1	14.6	15.4	17.1	18.3	19.5	20.3	21.5	22.5
Poland	16.0	17.0	17.1	18.6	21.2	24.0	27.2	30.8	34.8	39.2	42.8
Hungary	12.2	12.1	12.3	12.9	14.1	15.8	18.0	19.7	25.2	27.5	28.9
Slovenia	23.1	22.9	25.5	26.1	18.2	30.1	31.3	34.4	44.0	51.0	---
Croatia	17.4	18.1	18.1	20.1	21.2	21.2	22.2	23.5	24.2	25.1	26.1
Macedonia	19.3	17.6	16.0	16.2	15.7	16.3	17.1	17.0	17.5	17.0	19.7
Yugoslavia	22.2	20.6	17.6	18.7	18.4	18.4	20.2	21.6	23.6	23.6	27.1
Albania	6.9	7.8	8.8	11.0	10.2	9.7	10.2	11.5	11.8	12.5	12.7
Bulgaria	22.0	26.2	25.7	27.0	28.1	30.3	33.7	34.9	34.1	35.2	34.7
Romania	7.2	9.2	11.3	12.8	13.5	13.5	17.5	18.6	19.1	21.3	23.4
Estonia	36.1	34.4	32.2	29.1	28.2	28.9	31.7	34.9	38.3	42.5	45.5
Latvia	20.5	20.5	20.8	19.1	17.9	18.3	21.6	31.1	35.9	42.0	46.5
Lithuania	27.8	26.5	22.8	21.3	20.7	21.1	22.8	25.9	30.5	34.4	39.2
Belarus	22.9	23.0	22.5	22.7	21.8	21.9	22.7	23.9	25.6	28.4	30.0
Moldova	16.2	15.7	14.9	13.2	12.7	12.9	13.7	14.2	18.3	19.9	20.8
Russia	24.8	24.6	23.9	22.5	21.8	21.6	22.4	23.5	25.6	28.0	31.4
Ukraine	22.3	21.7	21.1	20.1	19.2	20.3	20.8	22.2	25.5	28.0	29.7
Armenia	19.3	20.1	19.5	16.9	13.5	16.6	15.2	15.0	15.3	16.0	16.0
Azerbaijan	11.9	12.6	13.1	12.3	12.0	11.5	12.7	13.3	12.8	13.4	14.5
Georgia	19.1	21.7	23.8	26.2	19.4	28.6	26.1	27.0	26.2	26.0	29.0
Kazakhstan	18.1	18.7	17.7	17.7	16.9	16.9	16.6	16.2	18.7	20.4	23.3
Kyrgyzstan	13.2	12.9	11.5	11.5	10.7	11.2	12.9	15.3	19.0	24.8	29.8
Tajikistan	11.5	11.9	11.6	11.6	11.2	11.9	11.8	12.1	11.9	11.3	11.5
Turkmenistan	10.2	9.9	8.6	8.6	8.1	7.8	6.4	5.7	5.0	4.4	3.9
Uzbekistan	15.0	15.2	13.4	13.4	11.3	9.4	7.6	6.6	6.1	6.0	6.2

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001

Appendix 2:

Non-State Higher Education Institutions in Hungary

Source: Ministry of Education and Culture at <http://www.okm.gov.hu/main.php?folderID=181&articleID=4265&ctag=articlelist&id=1>

Non-State Universities

1. Andrásy Gyula University, Budapest
2. Debrecen University of Reformed Theology
3. Evangelical-Lutheran Theological University, Budapest
4. Károli Gáspár University of the Reformed Church, Budapest
5. Central European University, Budapest
6. Jewish Theological Seminary - University of Jewish Studies, Budapest
7. Pázmány Péter Catholic University, Budapest

Non-state Colleges:

1. "The Gate of the Teaching" Buddhist College, Budapest
2. Adventist Theological College, Pécel
3. Budapest College of Management
4. Apor Vilmos Catholic College, Vác
5. Baptist Theological Seminary, Budapest
6. Bhaktivedanta College Budapest
7. Budapest School of Communication
8. Theological College of Eger
9. Theological College of Esztergom
10. Gábor Dénes College, Budapest
11. Theological College of Szeged
12. Theological College of Győr
13. Harsányi János College, Budapest
14. Heller Farkas College of Economics and Tourism, Budapest
15. International Business School, Budapest
16. Kodolányi János University College, Székesfehérvár
17. Kölcsey Ferenc Reformed Teacher Training College, Debrecen
18. College of Modern Business Studies, Tatabánya
19. International Peto" András Institute of Conductive Education for the Motor Disabled and Conductor-Teacher Training College, Budapest
20. Pápa Theological Academy of the Reformed Church
21. Pentecostal Theological College, Budapest
22. Sapientia School of Theology, Budapest
23. Sárospatak Theological Academy of the Reformed Church
24. Sola Scriptura College of Theology, Budapest
25. Szent Atanáz Greek Catholic Theological Institute, Nyíregyháza
26. Szent Bernát Theological College, Zirc

27. Szent Pál Academy, Budapest
28. Tomori Pál College, Kalocsa
29. Archbishopal Theological College of Veszprém
30. Business College, Budapest
31. John Wesley Theological College, Budapest
32. King Sigismund College, Budapest

Appendix 3:

List of Interviewees in Hungary:

Andras Rona-Tas (Higher Education Council)

Laszlo Dinya (previously Hungarian Rector's Conference; currently, Deputy State Secretary, Vice-President of the EURASHE and University of Agricultural Sciences Godollo).

Andras Semjen (previously the World Bank, currently Institute of Economics and the Hungarian Academy of Science)

Gereby Gyorgy (previously the Ministry of Education and Culture, currently CEU, and SzDSz)

Janos Setenyi (Expanzio Consulting Ltd. Management Consulting Industry).

Laszlo Frenyo (Chair of the Strategic Committee of Higher Education and Research Council for the MoE).

Eva Berede (Department of Macroeconomics, Corvinus University of Budapest).

As well as multiple discussions with Balázs Váradi (previously CEU and senior adviser at Office of the Prime Minister, Hungary; currently *Eötvös Loránd University* and *Budapest Institute for Policy Analysis*)

Appendix 4:

Ethno-linguistic and Religious Groups in Hungary

Source: CIA World Factbook. Retrieved March 2009

Ethnic groups: Hungarian 92.3%, Roma 1.9%, other or unknown 5.8%

Religious groups: Roman Catholic 51.9%, Calvinist 15.9%, Lutheran 3%, Greek Catholic 2.6%, other Christian 1%, other or unspecified 11.1%, unaffiliated 14.5% (2001 census)

Language groups: Hungarian 93.6%, other or unspecified 6.4% (2001 census)

Appendix 5:

Table: Rate of Natural Population Increase in the Selected Countries

	1980	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Latvia	1.3	2.4	1.2	0.0	-1.5	-4.8	-6.9	-6.9	-5.8	-6.0	-6.4	-5.5
Lithuania	4.7	4.8	4.6	4.1	3.3	0.4	-1.1	-1.1	-1.0	-0.9	-1.0	-1.0
Hungary	0.3	-2.0	-1.9	-1.7	2.6	-3.2	-3.0	-3.3	-3.7	-3.8	-4.3	-4.8
Georgia	9.1	8.1	8.7	7.9	4.8	-	2.9	3.4	3.6	2.7	1.4	0.1

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001.

Appendix 6:

Private Higher Education Institutions in Georgia

Source: <http://www.enic-naric.net/documents/Georgia-hei-2006.pdf>

Private Institutions Accredited in 2006

1. Gori Divers-Profile Less Academy LTD
2. Kutaisi Medical Institute “KUTAISI” LTD
3. National Institute “RVALI” LTD
4. Tbilisi D. Agmashenebeli University LTD
5. Grigol Robaqidze University LTD
6. International Black Sea University LTD
7. Tbilisi Petre Shotadze Medical Academy LTD
8. Tbilisi Medical Institute “HYPOCRATE” LTD
9. Tbilisi Institute of Asia and Africa LTD
10. Higher Medical School “AIETI” LTD
11. Tbilisi National University “METEKHI” LTD
12. Georgian-French Joint Higher Educational Institution - ESM LTD
13. Georgian-British Institute of International Law and Management LTD
14. SDASU – Georgian Davit Agmashenebeli University LTD
15. Zugdidi Independent University LTD
16. Tbilisi University LTD
17. The Kutaisi University of Law and Economics LTD

Private Institutions Accredited with Condition for 2007/08

1. The Sukhumi Akaki Chkhartishvili Economic-Humanitarian University LTD
2. Pharmaceutical Institute “INTERPHARMI +” LTD
3. Batumi Institute of Free-Lance and Science LTD
4. University of Customs–Taxation LTD

Licensed in 2005 and 2006 Universities Equate with Accredited Institutions for Five Years

1. Tbilisi Aviation University LTD
2. University of Social Sciences LTD
3. Caucasian University LTD
4. Branch of American Humanitarian University in Georgia (Hawaii Branch) LTD
5. Stomatological University LTD
6. Georgian-American University LTD
7. University of Law and Economics LTD

Non-Accredited Higher Education Institutions since 2007-2008

1. European University LTD
2. Tbilisi Pedagogical Two-Stage Institute of Musical Art LTD
3. Secular Institute "ORIENTIRI" LTD
4. Tbilisi Educational Institute of Further Training of Specialists of Agriculture, Winemaking,
5. Fruit and Vegetable Growing Technologies LTD
6. Georgian Aleksandre Kuchukhidze Humanitarian-Economic University LTD
7. Batumi Independent University LTD
8. Kutaisi Ioane Petritsi University LTD
9. Scientific-Educational Institute of Labor and Production Organization LTD
10. Georgian Medical Institute "DASTAKARI" LTD
11. Shida Kartli Secular University LTD
12. Georgian Motor-Road Institute LTD
13. "Marji" Zhiuli Shartava Tbilisi Humanitarian-Economic Institute LTD
14. University "Sakartvelo" LTD
15. Rustavi Independent Institute LTD
16. Georgian International Scientific-Cultural Educational Union "Society Tsodna" - Akhaltsikhe I. Chavchavadze International University "Tsodna" LTD
17. Ozurgeti Educational Institute of Natural Resources Utilization LTD
18. Rustavi Shota Rustaveli Secular University LTD

Appendix 7:

List of Interviewees in Georgia:

Marine Chitashvili – TSU professor, the Orthodox Academy, OSGF, local expert;

Lika Glonti – TSU professor and local expert;

Bela Gomelauri- Local expert, professor at the Pedagogical Institute;

Arnold Hoch – Executive Director of the Sulkhan-Saba Orbeliani Institute of Philosophy, Theology, Culture and History;

Iago Kachkachishvili – Head of the Sociology Department at TSU;

Vasil Maglapheridze – MP, head of the Parliamentary Education Committee;

Irakli Machabeli – The Ministry of Education;

Giorgi Margvelashvili – The Rector of the Georgian Institute of Public Affairs (GIPA);

Roin Metreveli – Then the Rector of the Tbilisi State University (TSU);

Archil Samadashvili – The Georgian Technical University, local expert;

Giorgi Sharvashidze – President of International Institute for Education Policy, Management and Study.

Gigi Tevzadze – The Rector of the Chavchavadze University;

Guram Tevzadze – The Academy of Science and TSU;

Giorgi Zviadadze (Father Giorgi) – Vice-Rector of the Orthodox Academy;

Informally: Sandro Didebulidze (the Dep. Minister of Education), Alexander Lomaia (the Minister of Education 2003-2008), Akaki Minashvili – TSU student union, KMARA (enough) activist (currently MP), Irina Kurdadze (former MP and professor at TSU).

Appendix 8:

Ethno-linguistic and Religious Groups in Georgia

Source: CIA World Factbook. Retrieved April 2009

Ethnic Groups: Georgian 83.8%, Azeri 6.5%, Armenian 5.7%, Russian 1.5%, other 2.5%

Religions: Orthodox Christian 83.9%, Muslim 9.9%, Armenian-Gregorian 3.9%, Catholic 0.8%, other 0.8%, none 0.7% (2002 census)

Languages: Georgian 71% (official), Russian 9%, Armenian 7%, Azeri 6%, other 7%
note: Abkhaz is the official language in Abkhazia

Appendix 9:

Table A: GDP per capita (constant 2000 USD) in the Selected Countries

	Latvia	Lithuania	Hungary	Georgia
1989	4,217	-	4,307	1,749
1990	3,901	4,354	4,166	1,493
1995	2,364	2,571	3,713	459
1996	2,477	2,711	3,768	517
1997	2,727	2,921	3,948	579
1998	2,904	3,156	4,150	604
1999	3,024	3,124	4,334	629
2000	3,302	3,275	4,606	648
2001	3,588	3,505	4,817	687
2002	3,854	3,754	5,015	733
2003	4,154	4,166	5,200	823
2004	4,533	4,481	5,454	880
2005	5,023	4,838	5,691	971

Table: Public Expenditure on Education in the Selected Countries (percent of GDP)

Table B: Annual Change in GDP (percent) in the Selected Countries

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Latvia	6.8	2.9	-10.4	-34.9	-14.9	0.6	-0.8	3.3	8.6	3.9	0.1	4.5
Lithuania	1.5	-5.0	-5.7	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-4.2	2.2
Hungary	0.7	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	4.5	4.9	6.0
Georgia	-4.8	-12.4	-20.6	-44.8	-25.4	-11.4	2.4	10.5	10.8	2.9	3.0	3.0

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre.

Table C: Real GDP Growth ^a in the Selected Countries

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Latvia	100.0	102.9	92.2	60.0	51.1	51.5	51.0	52.7	57.3	59.5	59.6	62.2
Lithuania	100.0	95.0	89.6	70.5	59.1	53.3	55.1	57.6	61.8	65.0	62.3	63.6
Hungary	100.0	96.5	85.0	82.4	81.9	84.3	85.5	86.6	90.6	95.1	99.3	105.3
Georgia	100.0	87.6	69.9	38.4	28.6	25.4	26.0	28.7	31.8	32.7	33.7	34.7

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre. ^a Based on EBRD (2000), 1999 estimate, 2000 projection

Table D: Annual Inflation Rate (annual average percent change in consumer prices) in the Selected Countries

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Latvia	10.5	172.0	951.2	109.2	35.9	25.0	17.6	8.4	4.7	2.4	2.9
Lithuania	8.4	224.7	1,020.5	410.4	72.1	39.6	24.6	8.9	5.1	0.8	1.0
Hungary	28.9	35.0	23.0	22.5	18.8	28.2	23.6	18.3	14.3	10.1	9.5
Georgia	4.2	70.0	887.4	3,125.4	15,606.5	162.7	39.4	7.1	3.6	19.3	4.4

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001 based on EBRD (2000), 1999 estimate, 2000 projection

Appendix 10:

Table: Public Expenditure on Education in Selected Countries (percent of GDP)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Latvia	5.8	4.8	4.2	4.6	6.1	6.1	6.9	5.5	5.8	6.5	7.2
Lithuania	---	4.5	---	---	4.6	5.6	5.6	5.4	5.8	6.4	6.5
Hungary	5.7	5.8	6.3	6.6	6.5	6.4	5.5	4.9	4.3	4.8	5.1
Georgia	---	6.1	6.4	4.0	0.6	0.5	0.9	1.2	1.3	2.2	---

Source: A Decade of Transition: the MONEE Project, CEE/CES/Baltics, UNICEF Innocenti Research Centre, 2001 based on Mokeine, Klepacieme and Jackunas.

Appendix 11:

Private Higher Education Institutions Operating by 2008/09 in Latvia

Source: Higher Education Quality Evaluation Centre (NEQEC), at <http://www.aiknc.lv/en/list.php>

Private Higher Education Institutions:

1. Baltic International Academy
2. Business Institute "RIMPAK Livonia"
3. Higher School of Economic and Culture
4. Information Systems Management Institute
5. Latvian Christian Academy
6. Latvian Evangelic Lutheran Christian Academy
7. Riga Institute of Aero-navigation
8. Riga International School of Economics and Business Administration
9. School of Business Administration Turiba, Ltd
10. Higher School of Social Work and Social Pedagogics "Attistiba"
11. Higher School of Social Technologies
12. International Higher School of Practical Psychology
13. Institute of Transport and Telecommunications
14. the Christian Academy of the Latvian Evangelical Lutheran Church

Private Colleges:

1. Alberta College
2. College of Accounting and Finance
3. Laws College
4. Kristīgās vadības koledža (not translated)
5. Latvian Business College
6. Business Administration College
7. SIA "Karjeras izaugsmes koledža" (not translated)
8. Cosmetology College

Appendix 12:

List of Interviewees in Latvia:

Aldis Baumanis – Deputy Chair of the School of Business Administration “Turība”;

Dainuvite Bluma – professor at the University of Latvia;

Janis Cakste – Director of the Department of HE at MoES;

Juris Dzelme – Head of HEQEC. Formerly, head of the Department of HE and Research, created in the Ministry of ED in 1992-1993;

J. Elkmanis – President of the Latvian Academy of Sciences;

Irena Freimane – Director of Education Development Centre at Soros Foundation and Providus;

Vladimir Gurov - Professor at Baltic Russian Institute;

Dace Jonsone – Head of Political Science Department at Vidzemen University;

Ivars Knets – Rector of the Riga Technical University;

Anatolijs Malnis – Deputy Director of the Department of HE at MoES;

Janis Stonis – Director of Administration of University of Latvia;

Andrejs Rauhvangers – Secretary General of Latvian Rector’s Council;

Janis Vaivads – the Minister of Education in 1993-95;

Appendix 13:

Ethno-linguistic and Religious Groups in Latvia

Source: CIA World Factbook. Retrieved November 2009

Ethnic Groups: Latvian 57.7%, Russian 29.6%, Belarusian 4.1%, Ukrainian 2.7%, Polish 2.5%, Lithuanian 1.4%, other 2% (2002)

Religions: Lutheran 19.6%, Orthodox 15.3%, other Christian 1%, other 0.4%, unspecified 63.7% (2006)

Languages: Latvian (official) 58.2%, Russian 37.5%, Lithuanian and other 4.3% (2000 census)

Appendix 14:

Private Higher Educational Institutions Operating by 2006/07 in Lithuania

Source: Ministry of Education and Science at <http://www.smm.lt/en/smt/institutions.htm>

Private Universities

1. ISM University of Management and Economics, JSC
2. Bishop Vincentas Borisevicius Seminary of Telsai
3. Bussines Law Academy of Vilnius, Public Institution
4. European Humanities University, Public Institution
5. International Business School at Vilnius University, Public Institution
6. Lithuanian Christian College (LCC) International University.
7. Vilnius St. Joseph's Seminary

Private Colleges

1. V. A. Graiciunas Management School
2. College of Social Sciences, Public Institution
3. Klaipeda Business College, Public Institution
4. Koping College, Public Institution
5. College of Management, Law and Languages of Siauliai Region
6. North Lithuania College, Public Institution
7. West Lithuania Business College, Public Institution
8. Vilnius Law and Business College, Public Institution
9. Vilnius Business College, Public Institution
10. Vilnius Design College, Public Institution
11. Vilnius Co-operative College, Public Institution
12. Vilnius Management School, Public Institution

Appendix 15:

List of Interviewees in Lithuania:

Rimantas Zelvys - Vilnius Pedagogic University. HE expert;

Saulius Vengris – Secretary of the MoES;

Aurelija Valeikine – Deputy Director of Centre for Quality Assessment in HE;

Afredas Chmieliauskas – Vice Dean of ISM University of Management and Economics;

Edgaras Leichteris – Deputy Director of Knowledge Economy Forum;

Albertas Zalys – Director of Department of Science and Higher Education at MoES;

Alfonsas Daniūnas - Vice Rector of Vilnius Technical University;

Juozas Antanavicius - Vice-rector of the Lithuanian Academy of Music and Theatre and President of the Lithuanian Rectors Conference in 1996-2003;

Ligija Kaminskiene – Formerly professor and one of the founders of Lithuanian Christian College (LCC) International University, HE expert;

Danguole Kizniene – Independent Expert, British Council;

Raimonda Markeviciene – Head of International Programmes and Relations Office at Vilnius University;

Appendix 16:

Ethno-linguistic and Religious Groups in Lithuania

Ethnic Groups: Lithuanian 83.4%, Polish 6.7%, Russian 6.3%, other or unspecified 3.6% (2001 census)

Religions: Roman Catholic 79%, Russian Orthodox 4.1%, Protestant (including Lutheran and Evangelical Christian Baptist) 1.9%, other or unspecified 5.5%, none 9.5% (2001 census)

Languages: Lithuanian (official) 82%, Russian 8%, Polish 5.6%, other and unspecified 4.4% (2001 census)

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