

The Impact of State Funding of Higher Education on Employment and Living Standards in Georgia

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ABSTRACT:

State financing of higher education is crucial for promoting innovation and competition, as well as guaranteeing equal opportunities and access to education. This financing facilitates the development of students' potential by providing them with the necessary skills and information to enhance graduation rates and social well-being. Scholarships and grants are implemented to improve student access to education by aligning the financial system with the demands of the job market and educational developments.

The aim of the study is to evaluate the impact of financing higher education in Georgia on employment of graduates and well-being of the population.

The results of the survey of entrants and students reveal that public awareness of state-funded higher education programs in Georgia is quite low (47.2%). A large part of the graduates (47,8%) provided with various types of state funding during their studies are not employed in their specialty. The impact of the increase in the expenditure on education on the increase in the income of the population is quite low (0.23%).

The research concludes that the allocation of public funds for higher education in Georgia does not effectively match the capabilities of graduates with the demands of the labour market. The reason for the mentioned inconsistency is that the requirements of the labor market were not taken into account when determining the directions to be financed. In addition, it is important to note that the demands of the labor market change every year in accordance with the current challenges, therefore the employer also demands relevant skills immediately, which cannot be met by higher education institutions in a short period of time. Despite the above, the involvement of employers in the process of developing educational programs is low and it is mostly formal in nature. When determining the priority educational programs, there is no periodic revision of the directions so that it is adapted to the demands of the labor market. It is necessary to establish partnership relations between employers, higher educational institutions and the state in order to take into account the requirements of the labor market both in the development of educational programs and in the determination of priority educational directions. Enhancing transparency and emphasising practical training in key areas are essential for enhancing the program's efficacy and enhancing the career chances of graduates. These modifications will provide a more favourable return on investment for state education expenditure..

Keywords: higher education, state financing, employment, living standards

1. Introduction

The primary objective of governmental funding for higher education is to create a contemporary and pioneering educational atmosphere inside the nation. In this

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important component of the public good offered by the state to the population, it is necessary to observe such principles as competition and equal opportunities, access to education, promotion of self-realization of students, equipping them with relevant knowledge and skills, which ultimately has a positive effect on the rate of graduates and the well-being of the population.

Public funding helps increase student access to higher education. Forms of funding such as scholarships and grants help low-income students who cannot afford tuition. This promotes social equality and ensures protection of the right to education, which, in addition to international agreements, is also declared by Article 27 of the Constitution of Georgia, according to which everyone has the right to receive education and choose its form, citizens have the right to receive professional and higher education with state funding (Parliament of Georgia, 1995). In addition, the financing model of higher education should take into account the requirements of the labor market and the modern trends of the development of the education system. We have evaluated the effectiveness of state funding of higher education by analyzing the employment of graduates as well as by studying the impact of education expenditure on the increase in the level of life of the population.

State funding programs for higher education in Georgia are included in the budget programs, it includes various directions, however, it has not been studied whether the funding goals correspond to the requirements of the labor market and the challenges facing the country. The reform of the Higher Education System in Georgia began in 2004, which fundamentally changed it both institutional and in content. Since 2013, priority educational programs have been introduced that are fully funded by the state. At the same time, it is important to note that the priority areas have not changed substantially over the last decade. Therefore, the skills of graduates of state-funded educational programs do not correspond to the requirements of the labor market, and often they are not employed according to the profession. Thus, the evaluation of the effectiveness of the existing financing model is very relevant.

The budget programs in Georgia encompass state funding programs for higher education, which cover a range of areas. However, it remains unclear if the funding objectives align with the demands of the labour market and the country's current challenges. Simultaneously, it is crucial to acknowledge that the priority areas have been rather consistent over the past decade. Therefore, assessing the efficacy of the current finance strategy is quite pertinent.

Georgia's higher education funding model relies on the state's provisions, tuition fees, and private contributions. It is important to mention that a significant portion of financing is allocated based on performance measures, with schools aiming to improve their graduation rates and employment statistics. Notable characteristics comprise:

- Performance-Based Funding: Their funding is determined by the proportions of students who graduate, as well as the number of students who secure employment or any other data that they consider important.

- Limited Tuition Subsidies: Currently, there is a greater abundance of scholarship and financial assistance options available. However, the issue lies in the continuous increase of tuition rates, which forces many students to resort to taking out loans in order to finance their education.

- Public vs. Private Universities: Government-funded universities receive a greater allocation of funding compared to private universities, resulting in a notable disparity in equipment and facilities.

In the United States, the main sources of funding for educational institutions are a combination of government money and tuition fees paid by students. Therefore, augmenting student assistance, such as loans and grants, provided by the federal and state governments, contributes to the diversification of the funding sources. Universities and other organisations are expected to possess substantial endowments as a result of financial contributions from private individuals.

Consequently, the matters with student debt and tuition fees have sparked debates regarding reforms, however the allocation of state financing for education remains disorganised among different states.

Public universities in Germany typically do not charge tuition or any other fees for domestic and EU students. These expenses are primarily covered by state governments. This paradigm enhances the fertility rate and encourages greater involvement of persons in tertiary institutions. In contrast to Georgia, government funding in this location is allocated directly to public institutions based on specific predetermined criteria. As a result, the influence of performance-based financing seems to be less pronounced here.

Australia employs an income contingent loan system, where students cover their costs through a deferred payment system based on unit pricing, which is implemented after they graduate.

Australia has similarly implemented criteria to assess institutional performance, although the impact on financing appears to be less significant compared to Georgia.

Higher education institutions must vigorously compete for both students and financing while fully embracing market principles.

While Georgia and the U.S. primarily prioritise tuition fees as potential obstacles for students, nations such as Germany and Sweden offer either tuition-free education or substantial financial assistance. In Germany and Sweden, the emphasis is on centralisation of financing, where institutions allocate funds based on non-selective criteria. This is in contrast to Georgia's performance-based funding approach, which encourages competition among institutions. Australia's loan structure differs from that of Georgia in terms of its focus on income-based affordability and loan repayment. In contrast, the tuition payment system in Georgia does not face the same level of scrutiny.

The funding model of higher education in Georgia benefits from incentives that aim to improve the quality of education, yet it still faces challenges related to access and the expense of education. An in-depth comparison review of the provided model with those in the United States, Germany, Sweden, and Australia uncovers significant disparities in the funding ways that influence the accessibility, fairness, and academic achievement of students. Familiarity with these similarities will assist scholars and policymakers in Georgia in forecasting future changes and adapting the country's higher education landscape.

The purpose of the study is to evaluate the impact of state financing of higher education in Georgia on employment of graduates and well-being of the population, for which we have the following tasks:

- Examination of the organisational framework for funding higher education;

- Evaluating the extent of public knowledge of the funding mechanism;
- Examination of the employment market for individuals who have completed higher education institutions;
- Comparing the increase in the proportion of funding allocated to higher education in the overall budget with the increase in the level of living.

2. Literature review

The growing importance of government-funded higher education in enhancing employment opportunities and facilitating entry into the job market has been the subject of extensive research in the fields of educational policy and economics. In the case of Georgia, where there have been substantial changes in higher education funding and accessibility in recent times, comprehending these effects is crucial.

Salmi argues that public funding facilitates the realization of inclusivity and fairness in higher education institutions, as demonstrated by Salmi (2003) and subsequently by Salmi & D'Addio (2021). Salmi's previous work, which has been completed and published in the Higher Education Policy, explores the potential of improving higher education institutions in poor nations through strategic objectives. Hence, the comparison of the given sources reveals that the study conducted by Salmi & D'Addio (2021) and published in Policy Reviews in Higher Education is more enlightening in terms of the targets of inclusion policies. It emphasizes that this process should be based on a comprehensive framework that addresses concerns about affordability and ensures equal access to more beneficial opportunities.

The authors Teixeira, Rocha, and Biscaia (2017) examine the relationship between state spending and the quality of higher education in the European Journal of Education. It is believed that finances play a role in acquiring human, material, and financial resources in the fields of education, government, and management. Huang (2018) examines the issues related to the funding of higher education in Japan, taking into account specific conditions and trends. In the International Journal of Educational Development, Huang presents an article that offers a critical perspective on the concept of state funding for Higher Education Institutions (HEIs) and explores the additional difficulties in identifying long-term sources of funding.

Recent evidence suggests that the amount of money provided by the government to support higher education can have a significant impact on the career prospects of graduates. An example is a study conducted by Smith et al. (2019) in the "Journal of Higher Education Policy and Management" which emphasises that there is a positive relationship between increasing state spending and higher employment rates among graduates. This relationship is particularly evident in countries that have comparable demographic characteristics to Georgia.

In addition, Johnson and Lee (2021) performed a thorough examination of the influence of public funding on the accessibility of the labour market in Eastern Europe. They discovered that investments made by the government in higher education have a direct effect on improving the employability of graduates by facilitating the acquisition of skills and providing networking opportunities.

Ivanova et al. (2020) conducted a comprehensive regional study published in "Higher Education Research & Development" that investigates the job opportunities for graduates in post-Soviet countries, including Georgia. Their research indicates that individuals who have completed their education at state-funded institutions enjoy enhanced opportunities to enter the job market, thanks to specialised educational programs that are designed to meet the specific demands of the local industries.

Davis (2022) conducted a study to examine the social and economic effects of higher education. The study aimed to test the idea that state-funded higher education leads to increased social mobility by providing better job prospects. The research highlighted the significance of educational accessibility, specifically in economically challenged areas of Georgia, in enhancing employment opportunities for families with lower incomes.

The graduation rate and quality of education are crucial factors for achieving success in the labour market. A study conducted by Zhang et al. (2023) and published in the journal "Research in Higher Education" demonstrates that an increased proportion of state funding is associated with enhancements in academic excellence, which in turn has a direct impact on the preparedness of graduates for the job market.

Nevertheless, it might be argued that there are still certain sections in the literature that present issues, despite the significant progress that has been made. The issue of state financing has not been adequately explained, particularly on how the regulations around state finance impact students in terms of advancing their careers and moving up in the social hierarchy. Furthermore, it is important to note that while there is a significant amount of literature dedicated to studying the impact of state funding for development in industrialized nations, there is a lack of research specifically focused on the South Caucasus region. Moreover, the integration of state funding with contemporary technology in the education sector, such as distant learning or the use of social media, together with other factors, should be considered as areas that necessitate additional examination. Therefore, it is crucial to understand how state funding might facilitate the accomplishment of the desired objective of using technology to enhance the provision of higher education in the current trends.

The studied literature consistently shows that state-supported higher education in Georgia has a significant impact on job outcomes and entry into the labour market. This review specifically consolidates the findings from research indexed in Scopus/WoS to illustrate the significance of ongoing public investment in higher education. It highlights that such investment is crucial as it enhances socioeconomic mobility and coincides with the evolving employment markets.

3. Methodology

In the research process, the survey method was used to determine the level of public knowledge about the state financing of higher education. In order to correctly determine whether the public good reaches the population, it is important to understand whether they have sufficient information about it. The most optimal method to understand this is the survey of the target group. For this purpose, we compiled an electronic questionnaire using the Google platform, which was sent to applicants and

students throughout Georgia. Representatives of all regions of Georgia participated in the survey. In this case, we defined a high level of awareness as a criterion of at least 90%.

The methods of analysis and comparison are used for the purpose of analyzing the labor market in order to determine whether the financing directions of higher education are in accordance with the requirements of the labor market or not. In this case, an electronic questionnaire was compiled, which was also sent to graduates across Georgia. Representatives of all regions took part in the survey in this case as well. As a result of the processing of the received data, the employment rate by specialty was determined. In this case, we set a target of at least 80%.

Empirical and correlation-regression analysis methods are used to study the impact of the increase in education costs on one of the important directions of the country's socio-economic development - on the increase in the standard of living of the population. For this purpose, the National Statistics Agency's website has obtained official information on the growth rate of population revenue in Georgia in 2006-2021 and the share of the share of education in GDP. Dick-Fuller and Granger tests and dispreasal analysis method were used to analyze the data.

4. Discussion and Results.

In accordance with the Law of Georgia "On Higher Education", the sources of financing of higher educational institutions include the state educational grant (which covers tuition fees), grants and donations, scientific-research grants, program funding allocated by the ministries, funding allocated from the republican budget of the Autonomous Republic, others permitted by the legislation of Georgia, including income from economic activity.

One of the important components of the state financing of higher education in Georgia is the granting of educational grants based on the scores obtained on the unified national exams. Therefore, the state provides funding based on the number of students who pass the unified national exams.

The annual volume of financing with the state educational grant and the state educational master's grant and the amount of the grant are determined annually based on the submission of the Ministry of Education and Science of Georgia by the resolution of the Government of Georgia.

State funding programs for higher education are included annually in the allocations of the state budget, autonomous republic and local budgets.

The programs provided for by the state budget include: the state educational grant, the social program for financing studies, educational programs fully funded by the state.

It is noteworthy that the maximum amount of the state educational aid has remained unchanged at 750 EUR from the 2009-2010 academic year to the present. Furthermore, during the afore mentioned time frame up until the present, there has been a notable increase in the overall sum of the state training grant disbursed on the grounds of unified national exams. Specifically, the amount has risen from 3,577,000 (three million five hundred seventy seven thousand) EUR to a mere 4,200,000 (four million two hundred thousand) EUR, reflecting a growth of 17.42%.

The corresponding program of the budget of the Autonomous Republic of Adjara envisages the financing of higher education, which implies its availability for socially

vulnerable, orphans, beneficiaries of large families and high mountain regions, persons with disabilities, persons who or whose parents have been granted the status of a single parent, for the territorial integrity of Georgia, freedom and Independence for a moderately/severely/significantly disabled Veteran or his/her child with Autism Spectrum Disorder. Also, scientific conferences, scientific events, seasonal schools, translation/printing of foreign scientific literature, study abroad are financed, which means providing funding to students studying in EU member states, the United Kingdom, the United States of America, Canada, Australia, Japan, Switzerland and Norway. in a second/third level higher education program at a higher education institution, as well as persons enrolling in a post-baccalaureate/post-graduate arts program.

The budget of the Autonomous Republic of Abkhazia envisages the financing and granting of scholarships to students of higher educational institutions (undergraduates, masters), residents of medical/dental institutions displaced from Abkhazia.

Financing programs for higher education are included in local budgets as well. Let's consider some of them according to the municipalities of Adjara.

The budget of the municipality of Batumi provides funding for student internships abroad, scholarships for successful students.

The budget of Kobuleti Municipality provides for scholarships for successful students, awards for 100 percent grant applicants, one-time financial assistance for students enrolled in foreign higher bachelor's, master's and doctoral schools.

The budget of Khelvachauri municipality provides for the financing of high academic performance students living in Khelvachauri municipality with scholarships.

The budget of the Keda municipality provides for the encouragement of those students with a one-time scholarship, who studied in the public school of the Keda municipality for the last two years and obtained a state grant (50%, 70%, 100%) in the unified national exams and enrolled in the first academic higher education in the authorized higher educational institutions on the territory of Georgia level higher educational programs.

State financing of higher education in Georgia is carried out in different directions. Based on the above, we considered it important to determine the level of awareness of those wishing to enroll in higher educational institutions in relation to state-funded educational programs, to determine which we conducted a survey of entrants and students through an electronic (online) survey.

159 entrants took part in the research using the questionnaire survey method. Within the framework of the research, our goal was to find out:

- What led to the selection of the educational program chosen by them;
- Did they have information about various forms of state funding of their chosen specialty?

58.6% of the entrants participating in the study chose the educational program because of their interest in it, 29.5% - because of the perspective of the specialty, 5.7% - because of the opportunity to study for free (the program is fully funded by the state), 3.1% - because of the influence of family or relatives and Because of the recommendation, the remaining 3.1% chose the educational direction for other reasons (see figure 1).

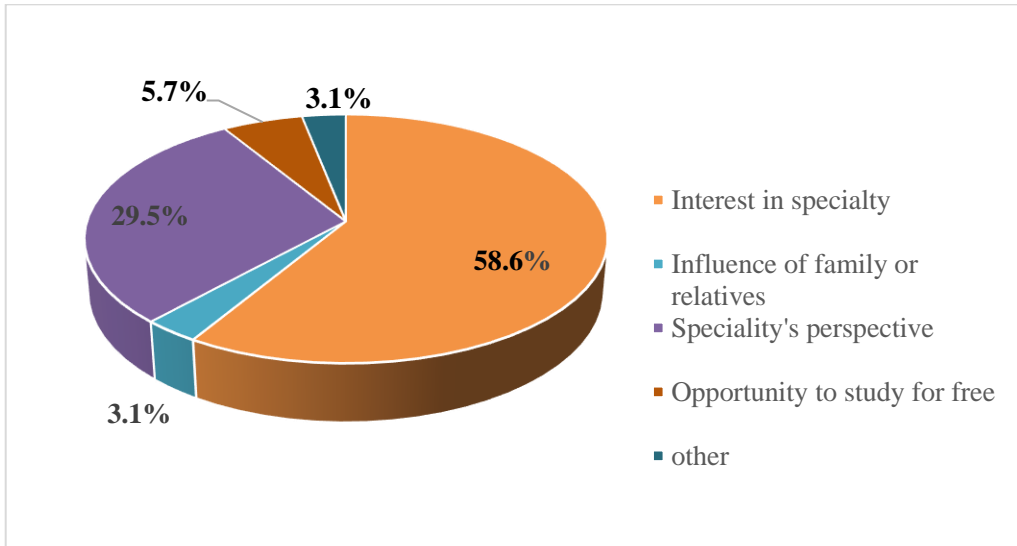


Figure 1. Factors influencing the selection of an academic program, 2023

The selection of a higher educational program under the influence of family members and other social factors has a negative impact on the formation of a student as a professional staff and on his career growth. In this case, the education received is mostly formal in nature, and the graduate chooses another field of employment, where he does not need the skills acquired during his studies. Accordingly, the expenditure incurred by the state to finance higher education in this case is non-targeted and cannot produce the appropriate results.

As a result of the analysis of the answers given by the respondents to the second question, it was found that 47.2% of the entrants have complete information about the funded specialties, 48.4% have incomplete information, and the remaining 4.4% have no information at all regarding the mentioned issue (see figure 2). In the conditions of low awareness, the goals defined by the state programs will not be fully achieved.

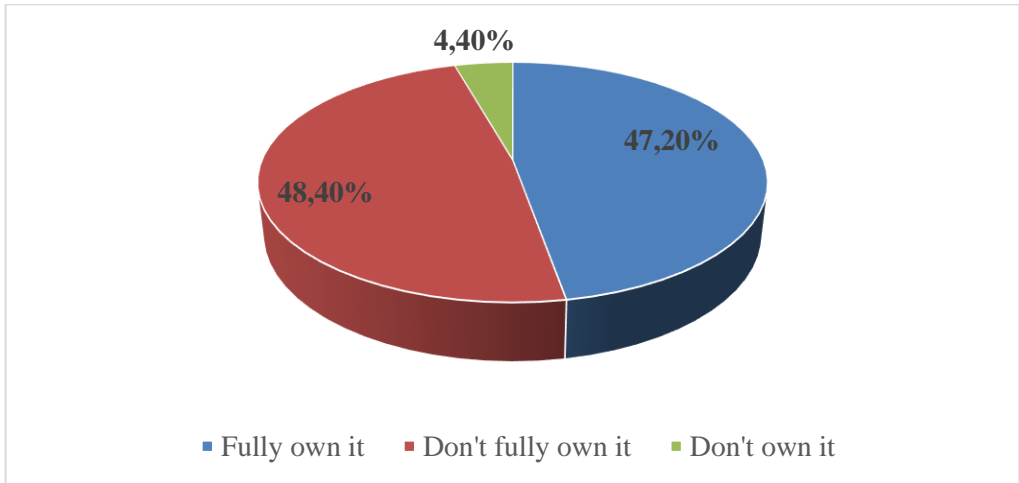


Figure 2. Awareness of various programs by applicants to finance educational programs, 2023

Only 52.2% of the 367 graduates surveyed within the analysis of the labor market of higher education institutions are employed in their specialty, while 46.3% benefited from various types of funding during their studies (within the framework of the educational program fully funded by the state, state grant, municipal funding, etc.). Only 59.7% of respondents had selected an educational program due to their interest in the specialty. In this case, 53.7% of the respondents did not benefit from any state funding for higher education, however, despite the financial expenses incurred by the family, in the case of 40.3%, the educational program was chosen not because of interest in it, but because of perspective, the influence of family and relatives, and other reasons.

One of the important indicators of the country's development is the level of education. Therefore, investment in education is most used by states as a tool for achieving economic growth and development. It stimulates scientific research and technological development. In this way, the living standard of the population is improved, incomes increase. In addition to the mentioned, the expenses incurred by the state on education affect the indicators of socio-economic development of the country, such as the level of employment and unemployment, the level of poverty, economic growth. In order to improve socio-economic results, it is important to adapt the curriculum of educational programs to the demands and challenges of the labor market, as well as to diversify and periodically analyze funding directions.

To examine the correlation between education expenditure and the improvement of the populace's standard of living, statistical information pertaining to the period from 2006 to 2021 was acquired. This information included the increase of the share of expenditures in GDP allocated to education and the rate of growth income of the population (see table 1).

Table 1. the increase of the share of expenditures in GDP allocated to education and the rate of growth income of the population

Years	Rate of growth income of the population INCOME (%)	Increase of share of expenditures in GDP ACCOUNT (%)
2006	10,5	43,3
2007	13,1	10,7
2008	27,2	20,8
2009	6,4	4,6
2010	12,9	5,5
2011	8,1	7,3
2012	11,5	15,4
2013	12,4	8,9
2014	10,9	13,1
2015	4,3	15,1
2016	4,3	19,9
2017	4,9	13,1
2018	0,4	7,7
2019	5,4	21,2
2020	-4,6	-0,5
2021	13,9	15,1

Source: National Statistics Agency, processed by the author

For the empirical analysis, the growth rate of the population's income was taken as a dependent variable and the growth of education expenditure in the GDP as an independent variable.

$$Y = \alpha_0 + \alpha X \quad (1)$$

When checking both variables with the Dickey Fuller test, it was found that the time series maintain stationarity.

The Granger test was used to determine the cause-and-effect relationship between the variables, as a result of which it was found that the null hypothesis - expenses do not lead to an increase in the welfare of the population - is rejected. Therefore, an increase in the expenditure on education leads to an increase in the income of the population.

Table 2. Granger test results

Pairwise Granger Causality Tests			
Date: 05/25/23 Time: 17:39			
Sample: 2006 2021			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
ACCAUNT does not Granger Cause INCOME	14	9.14821	0.0068
INCOME does not Granger Cause ACCAUNT		0.24003	0.7915

Source: author's calculations Eviews Software

To ascertain the impact of educational expenditures on the populace's income, the depression analysis was implemented.

Table 3. Dispersive Analysis

ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	1	76,337	76,337	2,58403	0,228765			
Residual	14	674,682	48,191					
Total	15	751,02						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	5,7199	3,032	1,886	0,08	-0,78445	12,224	-0,7844	12,224
X Variable 1	0,226	0,179	1,258	0,028	-0,15942	0,6122	-0,1594	0,6122

Source: author's calculations Eviews Software

The variance analysis of the 20-year result shows that $F_{calcul.} > F_{critic.}$ 2,58 > 2,43, which means that expenses affect revenues slightly.

The regression equation takes the form: $Y = \alpha_0 + 0,226X$

That is, if the cost of education increases by 1%, it should lead to an increase in the income of the population by 0.23%.

5. Conclusions

State financing of higher education provides an opportunity to define priority directions (specialties) in accordance with market requirements, which ultimately also positively affects the employment of graduates. The mentioned approach is an opportunity to encourage and strengthen the employment of professionals in the target sectors and the fields corresponding to the state strategy.

The strategy, structure, institutional aspect and its results of higher education financing by the state require constant monitoring and study in order to effectively allocate state resources to properly selected priority educational programs. The financing model for higher education should be flexible, which should take into account market requirements and world trends in the development of the education system.

In using the state funding of higher education as a public good, possession of appropriate information by the beneficiaries of the good is crucial. The results obtained within the scope of the research carried out to determine the above-mentioned reveal that the level of awareness is quite low. Therefore, the measures to be implemented by the responsible agencies should be improved in the mentioned direction.

However, the majority of applicants are not attracted to the educational program only because the study is free, that is, the program is fully funded by the state. Entrants' interest in priority areas should be accompanied by a real prospect of receiving a complete education and professional employment, which will be guaranteed by the state. An interested student should have the feeling that the profession he has chosen is really important for the development of the country, which will increase his motivation in the aspiration to become a professional staff.

A large number of those wishing to receive higher education in Georgia do not have a great interest in the future specialty and it has only a formal character. In addition, there are frequent cases when sons use it to avoid mandatory military service, and after completing one specialty of the bachelor's degree, they try to enroll in a higher education institution, in this case, for the most part, in a priority or fully funded educational program by the state.

Based on the findings of the audit of the effectiveness of higher education programs and the labor market compatibility conducted by the State Audit Service in 2019, the audit report presents the conclusion that due to the lack of a systematic approach, the connection between educational programs and the needs of the labor market is weak, which is why the rate of employment of graduates of priority educational programs in their own profession is low. . Due to the absence of a monitoring system, the responsible agency does not evaluate the achieved results and the effectiveness of the program. Therefore, there is no adjustment of the funding rules and the priority directions fully financed by the state in accordance with the labor market requirements.

One of the important indicators of socio-economic development of the country is the increase in income of the population. Empirical analysis carried out to study the impact of spending on education on the growth of the population's well-being in Georgia found that the increase in spending on education leads to an increase in the income of the population. Based on the dispersion analysis, the result is as follows - a 1% increase in the

expenditure on education leads to an increase in the income of the population by 0.23%, or quite a bit.

In order to increase the effectiveness of the state funding of higher education, it is very important to establish partnership relations between employers and educational institutions. Employers must become the real buyers of educational programs so that the skills of graduates match the demands of the labor market. Mutual readiness for cooperation and its support by the state are crucial in this process. By strengthening the mentioned connection, the results of state financing of higher education will be significantly improved and will have a positive impact on the socio-economic development of the country.

It is clear that the current model of state financing of higher education in Georgia is ineffective and does not match the challenges facing the country. In addition, it is important to increase the popularization of the professions needed by the country and to determine the practical training of the graduates of such specialties in foreign countries and to ensure their employment as a component of the financing of priority educational programs. Revision of approaches and implementation of changes in the mentioned direction is an inevitable process in order to increase the effectiveness of budget expenditures and achieve the national goals of higher education. Thus, by using correctly selected indicators and criteria, the effectiveness of the budget expenditures incurred on the state financing of higher education will increase significantly.

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