

# Funding Higher Education: Student Demand and Realities

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Although the closure of educational institutions due to the coronavirus pandemic has excluded many students from education, the universities' demand for tuition fees has led to student dissatisfaction and sparked discussion about the funding mechanisms for institutions of higher education. Although the government's [support package](#) to mitigate the pandemic's impact on the economy provides tuition fees for students from socially vulnerable families, only 16,500 students are eligible for the support, which is only about 15% of tuition-paying students. Universities' sources of income are limited, which makes tuition fees a deciding factor in their funding, particularly the higher, undiscounted fees. Over the past 5 years, 7,000 students have been deprived of higher education because they could not afford tuition fees, which demonstrates the seriousness of the issue.

## **How are institutions of higher education funded in Azerbaijan?**

Universities in Azerbaijan are financed by funds allocated for state institutions and tuition fees paid by students. The Ministry of Education's [decision](#) on the abolition of the "Minimum standards for construction, logistics, human resources and structure of institutions of higher education" states that institutions of higher education can now conduct their financial and economic activities using budgetary and extra-budgetary funds from state orders and paid training, as well as other sources not prohibited by law, and are free to determine how these funds should be spent.

Over the past few years, Azerbaijan University of Languages, Azerbaijan State University of Economics, Baku State University and Baku Engineering University have been granted the status of "Public Legal Entity" and have the authority to

engage independently in activities such as opening courses, offering consulting services, and implementing scientific projects. However, it should be noted that non-tuition income accounts for, at best, about 10% of the income of these universities with public legal entity status. In order to carry out such activities, other institutions of higher education must coordinate them with the Ministry of Education and the Cabinet of Ministers.

One of the factors influencing tuition fees for various academic disciplines in Azerbaijan is the number of places allocated for each discipline. According to the State Examination Center's statistical [analysis](#) of the results of entrance examinations, based on the state order for the 2018/2019 academic year, 260 places were allocated for the Mathematics Teaching major, 187 for Economics, and 90 for Finance. [Appendix No. 1](#) on "The amount of educational costs per student at the basic educational level for a bachelor's or a medical education at institutions of higher education by state order for various disciplines," approved by decision of the Cabinet of Ministers, shows that the educational costs per student for a bachelor's at institutions of higher education by state order for those same disciplines in that same year was equal to 1,320 AZN. On the other hand, in the same year, 5 places were allocated for the Musical Composition major, 12 for Decorative Arts, and 8 for Graphic Art, and the amount of educational costs per student in these areas was estimated at 5,000-6,820 AZN. In other words, the estimated costs for the disciplines with more allocated places is distributed among more students, but in the disciplines with fewer allocated places, those costs are distributed among fewer students, creating higher tuition fees for disciplines with fewer allocated places. A [survey](#) of universities on how tuition fees for paid admissions should be determined found that one of the main factors influencing the value of a discipline is need for that discipline in the labor market and the demand for the discipline. In some universities, the tuition fees of the

departments in the areas in which the university specializes are higher than the cost of the same disciplines in another university.

Another interesting point regarding the funding of higher education in Azerbaijan is that, of all the levels of education, higher education receives the least funding, despite the fact that the number of students in higher education is higher than the number of students in specialized secondary and vocational education. The [law](#) on the state budget for 2020 allocates 323 million AZN for preschool education, 1.7 billion AZN for general education, 54 million AZN for vocational education, 74 million AZN for specialized secondary education, and only 49 million AZN for higher education, or 1.5% of overall education expenditures. In my opinion, the main reason for this is that more than 60% of students at institutions of higher education study pay tuition.

### **Tuition discounts and loans**

In order to reduce the negative impact of the coronavirus pandemic on Azerbaijan's economy, a [decision](#) of the Cabinet of Ministers covers the tuition fees for students belonging to certain social groups at the public's expense. However, the scope of the decision is very limited. The only people who can take advantage of this assistance are recipients of targeted state social assistance, students whose both parents (or the sole parent in a single-parent household) or legal representatives have disabilities of I and II degrees, those who are registered as unemployed, or who receive an old-age pension or social benefits.

Deputy Minister of Education Idris Isayev said in a [statement](#) that 16,500 university students will be able to take advantage of this discount. In his statement, he also noted that there are 262,000 students in Azerbaijan, including students studying in specialized secondary and vocational education

institutions, and more than 50% of them pay tuition. The tuition fees of 17,000 of these students were already being paid by the state prior to this decision. Of those students, 74% are IDPs, and the rest are family members of people killed in military service, students deprived of parental care, students with disabilities of the 1st and 2nd groups, and students with health problems. The average annual tuition fee in institutions of higher education in Azerbaijan is 2,290 AZN, in specialized secondary education institutions about 600 AZN, and in vocational education institutions 500 AZN.

The main tool used to financially support students in Azerbaijan is student scholarships. According to the latest figures released by the State Statistics Committee, 44% of full-time students in full-time departments at public universities receive scholarships. This figure is likely to be even lower if we include those studying at private universities. The size of the scholarships is currently in the range of 75-130 AZN per month for a bachelor's student and 80-145 AZN for a master's student. If we consider that the living wage set by the state for 2020 is 201 AZN per month, we can conclude that these scholarships are quite small. As a positive step taken in recent years in regard to student scholarships, we can note that students who are already admitted to the university on a paid basis also have the opportunity to receive scholarships. In previous years, only students admitted to university by state order could receive scholarships, but since this change, which students receive scholarships is determined on the basis of academic performance, which can be considered successful in terms of creating a competitive environment and motivation among students.

Although most foreign countries offer discounts for students in many areas, starting with public transport, Azerbaijani students cannot be considered lucky in this regard. Another issue that is widespread in the practice of foreign countries is loans for higher education. Although the Maarifchi Student

Loan Foundation was established in Azerbaijan in 2015 on the initiative of the Ministry of Education and ten universities, the activities of the foundation have not expanded much over the years. The foundation said in a press release last year that it has so far signed 247 student loan agreements, a very small proportion of tuition-paying students.

However, in the experience of foreign countries, not only tuition fees, but also students' monthly expenses are sometimes financed by these loan foundations. For example, in Turkey, students with an excellent academic record and poor economic conditions can apply for state scholarships and student housing, while others can apply for student loans. The scholarship, in the form of this loan, is given to the student every month during the period of study. At the current exchange rate, the loan amount is about 80 USD for bachelor's students, 160 USD for master's students, and 230 USD for doctoral students. Students begin repaying their loans two years after graduation. The loan repayment period is equal to half of the loan period. Although no interest is charged on student loans, inflation is added to the principal amount at the official rate between the start and end dates of the loan. Azerbaijan offers significant discounts for students on public transport and in university cafeterias, and even provides tax breaks to parents while their children are students.

### **What needs to change?**

An important factor in reducing the dependence of universities on tuition fees and increasing their ability to fund their activities through their earnings is the expansion of their sources of income, i.e. the commercialization of universities. To facilitate commercialization, universities must develop more innovative products, obtain more patents, and increase their economic potential through consulting and research services. The amount of funding allocated to research and development is an important factor in achieving these goals. In developed countries, the ratio of expenditures in this area

to GDP is 3-4%. In Azerbaijan, 193.7 million AZN has been allocated for academia in the state budget for 2020. Of this figure, the amount of funds allocated for the management of organizations engaged in fundamental research and for support for fundamental research carried out by governmental and non-governmental research organizations is only 12.3 million AZN. In other words, the amount funds allocated in Azerbaijan not only for research and development issues, but for all academia, is 0.2% of GDP. In this regard, it is very important to increase spending on academia from the state budget for higher quality research in universities.

The other issue is the general economic environment and institutional factors in Azerbaijan. If the economy does not have the potential to produce science-intensive products, and the vast majority of exports are natural resources, in the absence of a free competitive environment, it is difficult for universities to operate innovatively. On the other hand, qualified personnel also play an important role in the productive activity of universities. The training of these personnel is not just a matter of higher education and requires a comprehensive approach to all levels of education. To ensure universities' effective operation it is also important to ensure their administrative and financial autonomy, as well as academic freedoms.

Along with increasing the capacity of universities, it is important to develop a mechanism for funding students. As mentioned above, in international practice, students are provided with some support by both public and private institutions through various means. These include scholarships, student loans for tuition and living expenses, financial support for accommodation, transportation and food, and subsidized services. Given that the money spent on students is a significant part of the family budget, it is possible to support the financing of education by applying certain tax benefits to parents' income. On the other hand, sometimes students themselves are self-employed and finance

their own expenses. In some cases, this type of activity is carried out unofficially. For this reason, it is possible to help protect students' labor rights and finance their education expenses by applying certain tax or other exemptions to the enterprises where students work. Another practice in use internationally is that private institutions receive certain benefits in exchange for providing students with scholarships, which can be used to encourage private institutions to sponsor students.

The modern economy is based on value-added products. One of the first conditions for the production of science- and technology-intensive, value-added products is to train people who have the potential to create that product. For this reason alone, education is an integral part of the economy. If the main components of the "old" model based on industrial production were natural resources, agriculture and geopolitical position, the new economic model is based on qualified personnel, i.e. educated individuals. This model is also called the "knowledge economy" because it is an economy created by people who have free access to information, who are able to approach that information critically, and who can develop new approaches based on it. Only 16.5% of the economically active population in Azerbaijan has a [higher education](#). The number of citizens with higher education per 1,000 people aged 15 and over is currently 131. This is almost twice lower than the regional average as well as the world average. The "State Strategy for the Development of Education in the Republic of Azerbaijan" also [states](#) that the composition of the graduates of institutions of higher education does not meet the needs of the economy. 67% of professionals between the ages of 25 and 34 with higher education are concentrated in the public sector, and there is a shortage of skilled labor in the private sector. For this reason, the number of university students per 1,000 people in the Republic of Azerbaijan should be significantly increased. Access to higher education in particular should be expanded

among the various strata of the population and the regions. Taking all this into account, we can conclude that there is a serious need for the state to increase spending on academia and education in Azerbaijan, to create the conditions for business to allocate funds in this area, as well as to improve the quality of education and academic freedoms at all levels.

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