

## **Economics of Tertiary Education - Challenges and dynamics of the public tertiary education in Albania**

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### **Abstract**

The tertiary education is a critic mechanism for the socio-economic progress, for individuals who aspire a brighter future and it is also considered an important catalyzer of the economic mobility (Department of Treasury and Department of Education, 2012, 2). Based on the positive role and impact that the tertiary education has on the sustainable development, President Obama once stated that it is of damage to treat education as a luxurious public service. In line with the general considerations about the tertiary education in the U.S. the parallel comparison with Albania comes as a direct interpretation of utopia in the education policy-making. As policies are usually drafted based on data and findings, in the case of Albania there is a lack of data on expenses on tertiary education as share of GDP. This stands also for the main limitation of the paper.

**Keywords:** economics, education, Albania, challenge.

### **Introduction**

The domestic corporations or either SME-s are more and more in search of qualified labor force. This is to deal with the rising global competition. On the other hand, the developments of the tertiary education system should rely on the complexity of the public-private labor market comprised by individuals and organizations. To such extent, the challenges, problems, dynamics and reforms of the system, beside the legal term analysis, are examined by a specific and essential discipline of economics named the economics of tertiary education.

Since in many academic publications, Albania is compared with countries within the region in terms of data, in this case, a more robust approach of the analysis provides evidence of countries that have a well-developed education system. That being said, it is crucial to stress their point of success and provide recommendations that would allow our system to undergo major changes. There are several indicators missing related to tertiary education. From those available, we can mention the tertiary education attendance rate by age group and the gross enrollment rate in university or qualification mismatch rate with the labor market. On the follow up, the paper examines the tertiary education problems related to financing options, the curricula, the effectiveness of the Bologna education system, the ICTs and the RDIs.

## Literature review

The economics of tertiary education examines the relationship between the tertiary education and sustainable development seen from the socio-economic and managerial perspective. The tertiary education plays an important and integrative role on the society as a whole in the context of development-related issues. The role of Higher Education Institutions (HEI) regarding development has become today more substantial than ever, but referring to Sutton (1998) and Escrigas (2008) it is also complicated, fluid and dynamic. The HEIs and their decision making can affect directly as well as indirectly the development progress through their ways of public service delivery.

From a socio-economic prospective, development is not a stage of progress that has to be reached or targeted. Contrariwise, it is a continual process of improvement in which research in education and the service delivery affect the individuals. Hence, the tertiary education has to do with empowering and improving life quality helping people to develop and enrich skills.

### The impact of tertiary education on development

The impact analysis bears upon many issues concerning the tertiary education. However, the literature review shortlisted the sub-factors to conduct a more precise and straight to the point analysis. It starts with *human capital and skills development*. On the standard connotation, tertiary education is a specific form of training. It provides rudimentary knowledge, skills, and the necessary training to perform well in specific tasks (Sutton, 1998). Based on the economic aspect, the more qualified human capital is, the more impact this will have on growth. It is worth noting that students' enrollment on universities is a good proxy of the labor factor regarding the Cobb-Douglas production function. Relevantly, capacity building and development are both used terms to describe the utilitarian aspect of education. *Liberal or methodological learning*; The global tendencies of learning are self-paced oriented. In contemporary societies and within a globalized learning environment characterized by a fast change rate, it is important to fit to the new dynamic situations and continually improve and update skills and knowledge (Pyle and Forrant, 2002). This does also relate the conservation of academic values and standards. The liberal trends of education provide innovative curricular programs as well as effective learning opportunities throughout the study period (Yeaxlee, 1929). *Social Values*; Tertiary education can also be seen in the context of social and moral value cultivation. That being said the HEIs play an integrative role in scholars social and cultural transformation (Taylor and Fransman, 2004; Zaglul, 2006). The early basis of this perspective was build by Newman's ideas of building a university. However, nowadays there exists a gamut of design-thinking ideas, not necessarily similar to Newman's. For instance, we can mention the social capital and the civic community idea developed by Robert Putman. His philosophy notes that the civil society engages within the governmental issues and structures constructively and that leads to improving the functionality of institutions. Another critical point is the role of the tertiary education in building and

cultivating democratic values (Task Force, 2000; Dewey, 1916). The common sense among these arguments stands for the social responsibility as an impact factor created by the tertiary education system. It implies that the graduates should be able to govern and lead a country or community towards welfare and successful governance. *Research and development (R&D) and academic contribution*; The scientific innovations as a result of R&Ds are a substantial component of orienting growth issues and policies as well as broadening a fundamental base of knowledge about growth and development. Calestous Juma<sup>1</sup> developed a theory that stresses innovation in using biotechnologies to help rural development and maintain practical interventions at sustained levels (Zaglul dhe Juma 2006). On the other hand, the R&Ds can foster new innovations in social research areas. While the evolution of theory is important and influencing for development in different contexts, there is limited understanding in the context of R&Ds. Usually it is comprised by the formulation of problem solving related to specific social, political and juridical issues. The academic research plays a substantial role in development. Such a consideration derives from the fact that research does not only create and widen the level of knowledge or sophisticates the understanding ways, but also employs political decisions. As such, research is important for independent development of governmental institutions and the policies they undergo. The distribution of knowledge and research indicates that the transformation of research, ideas and knowledge is fundamental. The exploitation of local data and information resources is rudimentary. Hence, generating and analyzing local data is a good approach to define and understand the local community concerns and problems. This is often seen as a targeted objective of development (Teasdale, 2000). *Community services and extension*; The HEIs are considered a core actor of the development process. This is due to the research they conduct and the findings they present. Regarding community services, it is needed a better understanding of the social role the tertiary education plays on development. The recommendation in this case targets universities to develop programs and join projects aiming at increasing the quality of local community services.

### **Financing the public tertiary education**

The tendency to have higher contribution from the private sector to finance the public tertiary education is based on the belief that the market is the place where the economic production becomes more effective. Nevertheless, the market is not the perfect representative in the case of the public tertiary education and this does not only relate financing options (Blaug, 1970). Thereupon, public universities are mostly financed by the government worldwide.

The political contribution in financing the public tertiary education is based on effectiveness and equality (Juma, 2006). Very much so, we face the next controversial issue. Equality and effectiveness of a public good are highly debatable terms. The public or private tertiary education is pricy and there are uncertainties about financial benefits as students might abandon school or might face difficulties in finding a job after graduation. With the public support missing, students would borrow money to

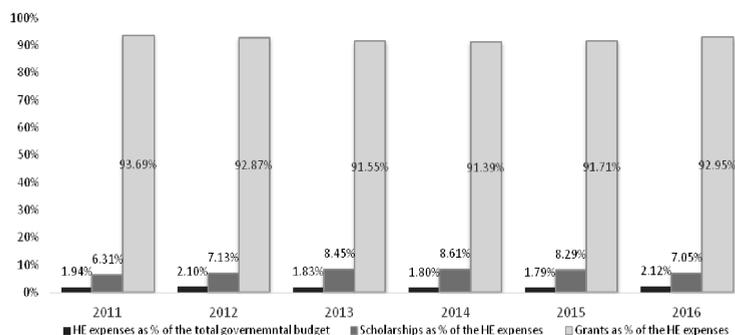
<sup>1</sup> Harvard Professor of International Development.

finance their studies. Hence, the public financing is still an ongoing process as markets cannot decide on the optimal university quotas due to the lack of externalities.

The tertiary education, in the context of a public good, must be reachable for everyone aiming qualification despite the financial status. This is to increase fairness in the society. The government should implement policies that give the chance to everyone to pursue a degree in any fields they aim to. There are two main mechanisms that allow the state to do so: to lower the tuition fees and to offer grants for exceptional or under necessity students or offer student loans. The first policy stands for a subvention for all students regardless their family annual income and the second targets all students with special needs (Hoti, 2014, 41).

Public funds' distribution for HEIs is done by the National Financing Agency<sup>2</sup>. There are four principals under which the agency's work is based: free competition (free choice for students), equal chances (regardless students' family income), excellence in education and scientific work and national development priorities. The goal of the agency is to distribute funds based on the four principals mentioned above. The *Core Fund* goes to the national institution engaged with monitoring the functionality of the public HEIs and the *Grant for Support* targets exceptional students, low-income students, students that attend priority scholar programs and the research work.

Presently, the assistance program of the governmental budget targets 126,000 public university students and has placed a fund of 38 million Euros for financial support. In addition, there are 20 million Euros as secondary income from the public universities' budget that allocated for students' scholarships or grants. Thus, the average fund allocated per student is 460 Euros, while countries like Romania and Bulgaria offer 2700-2900 Euros/student. The fund for students studying in developed countries such as the UK, Switzerland, France, Sweden, U.S, etc., varies from 10,000 (UK) – 22,000 Euros/student (U.S). Further comparison is not possible for the moment as there is data missing on public education expenses as share of GDP, GDP/capita or



**Graph 3. Statistics of HE public financing in Albania (2011 - 2016)**

*Source: Ministry of Education and Sports (2016)*

governmental expenses. Nevertheless, the main growing problem is not the size of the fund but its distribution based on several factors characterizing a public good. The Graph 3 indicates the governmental expenses for higher education (HE) as % of

<sup>2</sup> [http://www.arsimi.gov.al/files/userfiles/reformaalksh/Raport\\_Final\\_Ministria\\_Arsimit.pdf](http://www.arsimi.gov.al/files/userfiles/reformaalksh/Raport_Final_Ministria_Arsimit.pdf)

the total budget and grants and scholarships as % of HE expenses.

It is obvious that there are not significant fluctuations in the HE expenses. At contrary, if in 2011 the HE expenses covered 1.94 percent of the total budget, in 2016 there is a slight increase of 0.18 percentage points. Regarding grants and scholarships, there is a big difference in the distribution of HE expenses. Most of the expenses for universities are delivered as grants rather than scholarships. For instance, in 2016, 93 percent of the HE expenses were grants and only 7 percent were scholarships. The same trend is seen throughout the period 2011-2016. This is an explanation of equal distribution rather than fairness and merit. Regarding distribution efficiency, it is given below the U.S. model of students' grant distribution.

### Students' grant distribution in the U.S: A mathematical model

Grants are funds given for study purpose and are not paid off after graduation. In the U.S., the greatest federal grant program is called "Means-tested Pell grant". The Pell scholarships are defined by the EFC (Expected Family Contribution) and the tuition fee. The formula of defining the EFC indicator is based on the financial assistance allocation. Hereupon, the grant size does not depend on the available amount that the government can contribute, but it depends on the partial tuition fee that the families cannot afford. In other words, the grant size equals the total costs of attending a university program minus the EFC (Department for Education, 2012).

Unlike then Pell scholarships where every student is awarded the scholarship individually, the U.S government allocates funds to every university and based on merit, the university distributes the fund to certain groups of students (Smole, 2005). There are two stages of the governmental fund allocation: the first stage relates the history of fund absorption or historical allocation and the second one is based on distribution fairness. The base guarantee is defined by the historical allocation which is an advantageous factor for all institutions that have received before funds from the government. Hence, in the period  $t$  these institutions absorb funds proportionally with the governmental partnership period  $t-1$ , where  $g_t$  is the grant size,  $t-1$  is the initial allocation time and  $\alpha$  is the grant growth coefficient.

The second stage, "fair share" is estimated following the equation (1):

$$fair_i = \frac{need_i}{\sum need} * approp \quad (1)$$

where  $need_i$  is the institutional need which equals the tuition fee,  $need$  is the student need calculated as the part of tuition fee not covered by the EFC and  $approp$  is the fund absorbed by the university. In case that the institutional need overcomes the base guarantee, then we may say that the university has a shortfall and additional financing takes place following equation (2):

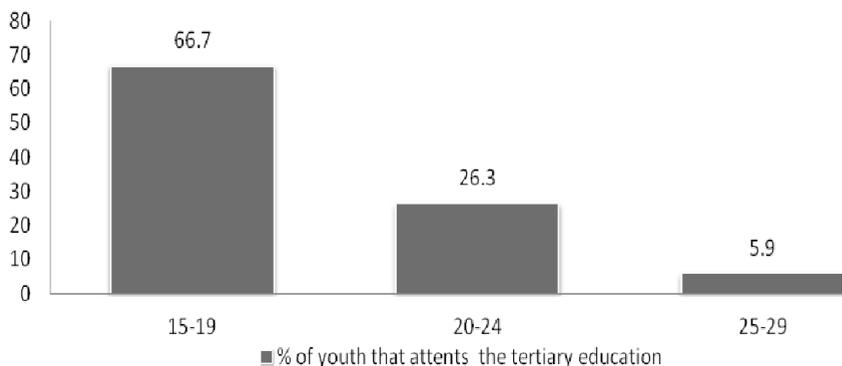
$$alloc_i = base_i + \frac{fare_i - base_i}{\sum (fair - base)} * [approp - \sum base] \quad (2)$$

All universities that do not use the state appropriation are requested to return back the residual to the Department of Education, and if they don't, there is a penalization for the following year absorption. Adapting the model for the Albanian HEIs, there are two main limitations: the calculation of the EFC is biased due to

informality issues and the high level of poverty;

### Public tertiary education market and labor market dynamics

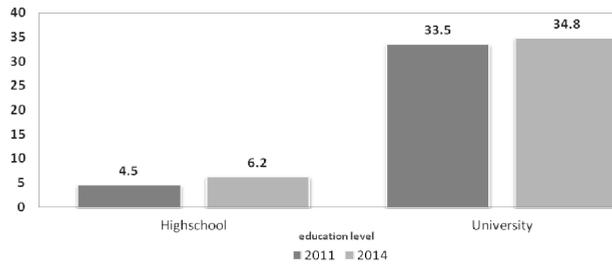
The public tertiary education in Albania offers a variety of free of choice programs. The program entry is based on annual enrolments, the university quotas and students' state matura results. Even-though there are quite changes as the new project-law of the tertiary education was finalized there is still lack of efficiency on students' distribution to university programs. Another area that frequently generates heated debate is the increasing tuition fees. Based on the project-law, there is a controversial issue whether the governing structures and units of the academy, college and vocational schools should be regulated by law or not as there are quite a lot of them that cannot be applicable as university structures. On the other side, the choice between Master of Science, Professional Master and Executive Master seems to be all of a confusion. This may relate to the next confusion of the integrated degree of the first and the second level, adding up the delays in equivalence. All in all, these problems being present disorient the saturation and oversaturation phenomena in the tertiary education market.



**Graph 4.1. Percentage of youth that attends the tertiary education by group age (2011)**

*Source: INSTAT (2015)*

While the majority of students, roughly 68 percent of those aged from 15-19 years old are still attending the tertiary education, only 26 percent of the 20-24-year-old students do so. This figure remains at 6 percent for students aged from 25-29 years old. The year 2011 stands for the last census conducted all over Albania.

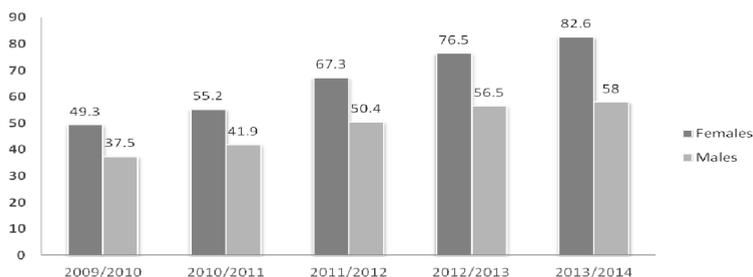


**Graph 4.2. The mismatch rate of qualifications and those who have successfully completed at least upper secondary education**

Source: INSTAT (2015)

Graph 4.2 indicates that those who have completed the secondary education have a low mismatch rate of qualifications, concretely only 4.5 percent in 2011 and 6.2 percent in 2014. On the other hand, the mismatch rate for unexperienced university graduates climbed from 33.5 percent in 2011 to 34.8 percent in 2014. Counting that this is the most educated group, the high mismatch level means that the employees are over-qualified for their respective job position. Moreover, the high mismatch rates for both periods can be a good explanation of high unemployment markets.

Despite the inefficiency in the national curricula, qualifications and the financial management of funds, from Graph 4.3 it is clear that the gross enrollment rate in universities follows an upward trend. The increase is an explanation of many factors, mainly demographic and social factors. Youth registration in universities climbs from 122,000 enrollments in 2009-2010 to 174,000 in 2013-2014 (INSTAT, 2014). From the graph, the gross enrolment rate (GER) is higher for females compared to males throughout the observation period. The most noticeable difference is deducted during 2013-2014 where female enrolments are 24 percentage points higher than male enrollments.



**Graph 4.3. The gross enrollment rate by gender in percentage (2009-2014)**

Source: INSTAT (2015)

## Conclusions

Regarding the most evident problems and challenges of the public tertiary education in Albania the general conclusion is that data play no role if the quality and efficiency of the national curricula, the infrastructure, research and the university quotas remain at low levels. The transition from university to the labor market is difficult as the mismatch rate of qualifications and job requirements remains at high levels. On the other hand, expenses for higher education peaked at 2.12 percent of the total budget in 2016 but this is not a big deal. Most of the public financing are distributed as grants and only 7-8 percent as scholarships.

With reference to the final project-law draft of the tertiary education in Albania there are several recommendations following up. For instance, the professional master should be subject of Academy-Colleges. Despite the fact that presently the Bologna system of education is well settled in Albania, it should be taken into consideration the reevaluation of the American education system. Furthermore, it is still confusing the existence of the Executive Master and afterwards the transition to doctoral studies. It sounds more simple the transition from Bachelor, to Scientific Master and then to doctoral studies.

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