

DIRECTIONS FOR THE DEVELOPMENT OF FINANCIAL MANAGEMENT IN THE HIGHER EDUCATION SYSTEM: A CASE STUDY OF UZBEKISTAN

| Mukhtorkhon Tashkhodjaev |

Tashkent State University of Economics | Tashkent, Uzbekistan |



| Received July 31, 2023 | | Accepted August 12, 2023 | | Published August 16, 2023 | | ID Article | Mukhtorkhon-Ref4-2-17ajiras310723 |

Background: This paper examines the factors influencing the financial management trends of higher education institutions, focusing on modern theories and specific aspects. It also explores the financial management experiences of foreign countries, including the analysis of contract fees paid by students and salaries paid to professors. **Objective:** The main objective of this study is to develop scientific suggestions and recommendations that aim to regulate both external and internal factors in the financial management of higher education institutions. **Methods:** To achieve the objective, the researchers conducted an analysis of various factors affecting financial management trends in higher education institutions. They studied modern theories and specific aspects relevant to financial management. Additionally, they examined the financial practices of foreign countries and analyzed elements such as student contract fees and professor salaries. **Results:** Based on the research findings, the paper presents scientific suggestions and recommendations for enhancing the financial management practices of higher education institutions. These suggestions are designed to address external and internal factors, ensuring effective financial independence and sustainability. **Conclusion:** In conclusion, this study highlights the importance of sound financial management in higher education institutions. By considering modern theories, experiences from foreign countries, and specific aspects like student fees and professor salaries, the paper proposes recommendations to improve the overall financial health of such institutions.

Keywords: *higher education institution, financial management, financing, financial independence, education fee, higher education market.*

1. INTRODUCTION

Financial management practices in higher education institutions in our country can be analyzed from two perspectives. Firstly, we aim to explore the trends of development before the attainment of financial independence, and secondly, the changes observed after the grant of financial independence. The integration of financial independence into the governance structure of higher education institutions has led to the emergence of a competitive environment, necessitating a reevaluation of financial management strategies.

As the global economy has embraced free market relations, higher education institutions must now establish themselves as independent entities within this economic landscape. Historically, until the end of the last century, higher education services were considered a part of the social package covered by public finance obligations in many developing countries. This provided a degree of financial stability for universities in the higher education market, with the state playing a dual role in shaping the overall strategy for higher education and monitoring its implementation. The 1980s witnessed the rise of two prominent trends in global social history: the neo-liberal form of policymaking worldwide and the crisis of socialist ideologies in post-Soviet countries [1]. Early neoliberal policies in higher education, exemplified by the introduction of fee-for-service fees in England in 1984 [2], have contributed to the dependence of higher education institutions on state funding. Consequently, some developing countries exhibited a lack of interest in expanding higher education coverage, leading to the establishment of centralized management of higher education services and a "single model" of financial management.

Since gaining independence, Uzbekistan has demonstrated a strong desire to develop its higher education services. During the initial years of independence, numerous state higher education institutions were established, and efforts were made to implement international standards in the higher education system. However, various macroeconomic indicators have highlighted the need for accelerated reforms. These indicators include the high demand for state budget allocation, centralized admission quotas, and insufficient focus on the development of the private higher education market.

To understand the effectiveness of financial management formation in the higher education system, we need to consider both external and internal elements. External factors are influenced by the nature of state education and macroeconomic policies. Meanwhile, internal elements refer to the development and implementation of independent strategies based on existing legislation.

By examining the historical and current trends in financial management within higher education institutions, we can identify opportunities and challenges to foster financial independence and enhance efficiency in this crucial sector. Understanding these factors will be vital in shaping effective policies for sustainable development in higher education.

2. Literature review

The financial management practices of higher education institutions in our country have been influenced by various macroeconomic indicators. This situation has impacted the initiative and decision-making in financial management within these institutions. Rahimov and Yakubov (2022) have examined the migration trends of Uzbek youth in pursuit of higher

education opportunities. They highlight that many young Uzbeks opt to study at universities in Russia, Turkey, and South Korea due to the academic potential and quality education trends offered in these countries [3]. For instance, between 2015 and 2017, more than 20,000 young individuals pursued higher education in Russia, with this number slightly decreasing to 19,000 in 2018. Similarly, the trend related to studying in Turkey saw an average of 1476 young people in 2015-2019, with 1150 in 2017 and 2070 in 2019 [3].

Research conducted by Abdulloev et al., (2020) and others highlights that host countries with low qualifications and high wages attract citizens from other countries, leading to reduced interest in pursuing higher education in their home country. Consequently, young individuals seek opportunities abroad for work and study, resulting in a potential loss of investment in human capital in Central Asian countries, including Kyrgyzstan, Tajikistan, and Uzbekistan [4]. Studies by Akhunov et al., (2015) show that transfers from abroad in Uzbekistan are primarily directed towards essentials like food and medical services, rather than investments in education and housing [5]. The financing of education costs varies globally, with nearly 30 percent of education expenses or 1.9 percent of GDP financed by families in nearly 150 countries. In low-income countries, 35 percent of education costs are covered by families [12]. Tuition fee trends worldwide exhibit varying characteristics: around 1/3 of countries do not charge tuition fees at public higher education institutions, another 1/3 have fees below \$2600 USD, and the rest have fees ranging from \$3000 to \$9000 USD. Notably, tuition fees for foreign students tend to be higher in most developed countries compared to local students [13].

In the context of Uzbekistan, the introduction of payment contracts during the first decade of independence aimed to alleviate the financial burden on the state budget for financing higher education services. This approach differed from experiences in other countries where scholarships were offered to all students. In Uzbekistan, 60 to 90 percent of the tuition fees were returned to students in the form of scholarships [14]. This practice has implications: firstly, students' scholarship payments are dependent on their academic performance, potentially affecting the institutions' financial position due to high-ranking students; secondly, the significance of education fee-contract value in the scholarship determination; thirdly, the state's indirect privatization of social protection institutes by providing social financial support to students while still funding higher education from the state budget.

Research by Smolentseva focuses on trends in the introduction of payment-contract contributions and market relations in post-Soviet countries. Among 15 countries studied, Uzbekistan stands out as the government continues to determine the value of payment contracts. In Tajikistan, universities obtain government approval, and in Georgia, the state sets a maximum limit. Other countries base decisions on higher education institutions independently. Admission of students based on state grants is independently carried out by universities, and in Georgia, funding ranging from 100 to 50 percent of the fee is determined by individual universities depending on results and needs. Conversely, in Uzbekistan, the government determines the number of payment contract places [15].

Overall, the role of the state in implementing private payments in the higher education market is increasing, with a shift from commercial to social considerations. The decision of the Cabinet of Ministers of the Republic of Uzbekistan No. 318 of July 26, 2001, which granted educational loans for study in higher educational institutions on a fee-contract basis, remains relevant, highlighting the importance of modern reforms aimed at strengthening the role of the state budget in the higher education sector. Understanding these trends is essential for developing effective policies to address the evolving financial landscape of higher education institutions.

3. RESULTS AND DISCUSSION

To conduct our research, it is pertinent to begin by analyzing the trends that have laid the groundwork for the formation of external factors in Uzbekistan's higher education system. Between 2008 and 2016, the number of higher education institutions in the country followed a stable pattern. During this period, only state-run higher education institutions were operational. Although the total number of institutions increased from 65 to 70, this growth was primarily due to the establishment of branches of foreign higher education institutions (see Figure 1). Notably, the academic year 2008/2009 witnessed a decline in overall student enrollment. In recent years, numerous academic programs within higher education institutions have experienced reductions, leading to a decrease in the number of professors and teachers. Consequently, the coverage rate of higher education remained below 10 percent. Until the academic year 2017-2018, there were minimal fluctuations in student enrollment. This lack of change did not necessitate an increase in the number of higher education institutions (see Figure 1).

The emergence of the global financial and economic crisis in 2008-2009 resulted in reduced trends of financing higher education services from the state budget in Uzbekistan. However, many countries attempted to maintain higher education coverage during this challenging situation. As a consequence, there was an increase in the value of the educational payment contract.

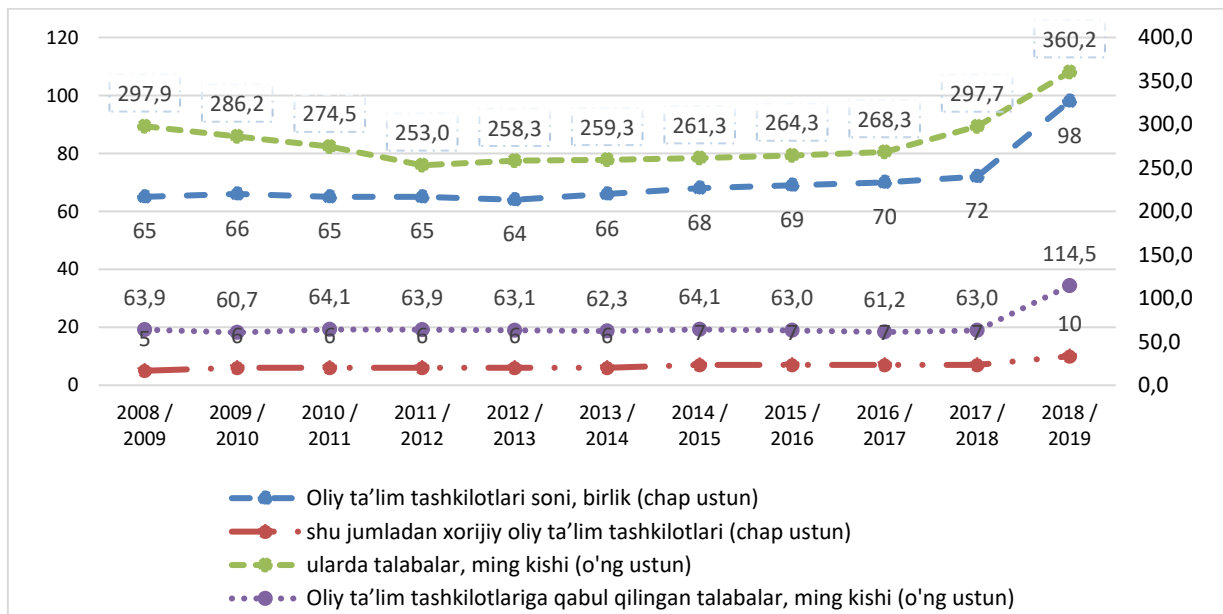


Figure 1: Higher education institutions and the number of students in them [7].

For instance, since 2008, several US states experienced tuition increases and academic-related job cuts to offset reductions in state funding or declining enrollment. Notably, Alabama, Arizona, and Florida witnessed a 60% increase in the value of the educational contract, while Louisiana's value doubled [8].

In 2008-2009, the coverage of higher education experienced a decline in response to the global financial and economic crisis. Additionally, the centralized implementation of admission quotas did not foster a competitive environment among higher education institutions, contributing to the prevalence of the "one model" form of financial management across the country. This financial management approach led to a trend of sustainable development in education imports, thereby impacting the negative trends in the current operations of the state balance of payments.

Since 2009, the number of applicants expressing interest in higher education has significantly grown. In 2011, there were 424,000 applicants, which translated to 14.3 percent of them becoming students, and by 2016, the number of applicants rose to 673,000, with a student ratio of 9 percent (calculated based on the data in Figures 1 and 2). This situation illustrates that admission quotas did not keep pace with the growth in aggregate demand in the higher education market, leading to the active development of education imports.

Trends in international payments for education in the current operations of the balance of payments between 2009 and 2018 indicate that the country actively imported education. The volume of education imports in 2009 amounted to 0.02 million US dollars, reaching its peak in 2013 at 7.15 millions US dollars. On average, from 2010 to 2017, payments for education imports averaged 4.0 million US dollars. The emergence of a negative balance during these years was influenced by the decline in the coverage index in the higher education market, impacting the state balance of payments. However, after 2018, the trends shifted, and the services of education began to develop with a positive balance, with an average net export volume exceeding 5.2 million US dollars between 2018 and 2022 (see Figure 2).

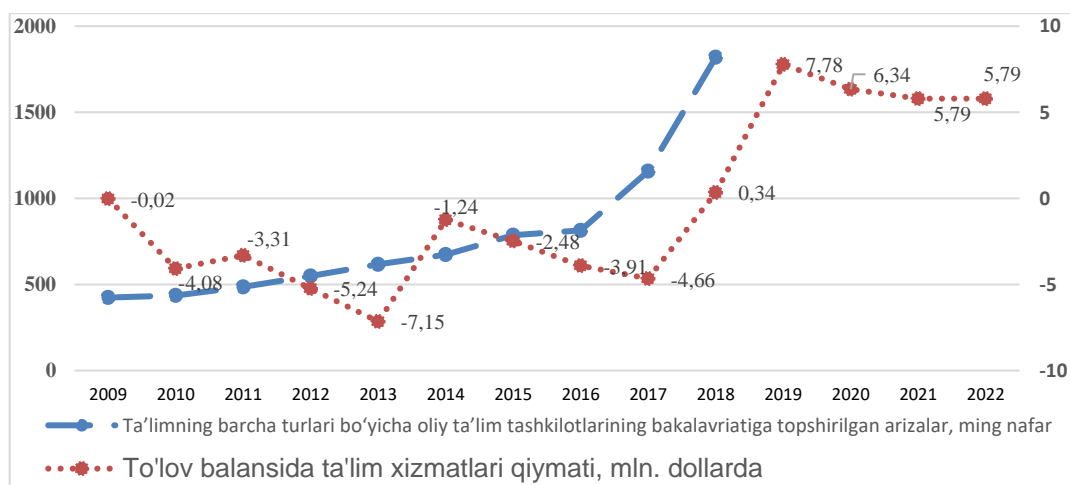


Figure 2: The number of applicants and the development of educational imports in 2009-2022 [9].

Among the external factors influencing the financial management of higher education institutions, the number of such institutions itself holds significance. Until the academic year 2017, the number of higher education institutions followed a stable trend. However, starting from the 2018-2019 academic year, there was an increase in the number of non-state

institutions. By the beginning of the 2022/2023 academic year, the total number of higher education institutions reached 191, with approximately 22 percent of these institutions being privately owned. This expansion of privately owned institutions has played a crucial role in enhancing higher education coverage (see Figure 3).



Figure 3: Number of higher education institutions (unit) [10].

On October 8, 2019, the decree of the President of the Republic of Uzbekistan No. PF-5847 "On approval of the concept of development of the higher education system of the Republic of Uzbekistan until 2030" was issued to promote the development of non-state (private) higher education institutions. The concept aims to achieve a 50% coverage rate by 2030. The trends observed after 2018 demonstrate positive developments in non-state higher education institutions, contributing to an increase in the overall coverage rate, which has now surpassed 30 percent. The adoption of the decree led to a notable growth in the number of non-state higher education institutions. In 2020, due to the pandemic, their number was limited to 5, but from the subsequent academic year, significant growth trends were observed, and by the beginning of the 2022/2023 academic year, there were 41 non-state institutions [10]. Figure 4 illustrates the significant impact of these trends on the higher education system's coverage rate. During the academic year 2022/2023, non-state and foreign higher education institutions collectively admitted approximately 25% of students. Notably, the growth rate of admission quotas for non-state higher education institutions compared to 2018 was 45 times higher (Figure 4).



Figure 4: Number of students admitted to higher education institutions [10] (per academic year, thousand people).

An increase in the planned admission of students in non-state (private) higher education institutions can potentially impact the future plans of state institutions, necessitating improvements in financial management due to external factors. Notably, admission to state higher education institutions traditionally takes place in August, while many foreign and private higher education institutions have already completed or are in the midst of their admission processes by this time.

In March 2023, several private higher education institutions announced admissions for the academic year 2023-2024. Advertisements on social networks such as <https://t.me/khushnudbek/18602>, <https://t.me/khushnudbek/18592>, <https://t.me/khushnudbek/18572> indicate that the admission process for these private institutions has commenced. Taking into account the time difference between March and August, state higher education institutions strive to attract relatively well-prepared students. Initiating the admission process earlier provides a competitive advantage in the educational market and allows these institutions to secure students in advance. This highlights the necessity for state higher institutions to make independent decisions to ensure their competitive edge.

Furthermore, trends in the financial management of higher education institutions reveal differences in the determination of payment contract amounts between state and non-state institutions. For state higher education institutions, the payment contract amount is determined centrally, while for non-state institutions, it is based on their financial plans. Resolution No. 393 of the Cabinet of Ministers of the Republic of Uzbekistan dated June 20, 2017, "On the approval of regulations on the procedure for admission to higher education institutions, transfer, restoration, and expulsion of students," governs the admission process to state higher education institutions through a payment contract.

This document also regulates additional admission practices. It allows for additional admission based on an increased payment contract amount, depending on the applicant's score relative to the acceptance quotas as follows: 1.5 times for applicants falling short of the limit by less than 1 point, 2.0 times for applicants with 1.1 to 2 points below the limit, 2.5

times for applicants with 2.1 to 3 points below the limit, and 3.0 times for applicants with 3.1 to 4 points below the limit. Implementing this methodology creates a competitive environment among higher education institutions and showcases a centralized influence on financial management.

In the global experience, the introduction of fee-contract values reflects the use of neoliberal policies, but determining these fees through a central authority also means that higher education institutions are exempt from financial intricacies. However, this centralized determination of payment contract amounts may complicate the development of an institution's independent financial policy. Moreover, the fact that higher education institutions do not determine the value of the payment contract based on their material and technical resources and scientific potential may not encourage the selection of students based on academic merit.

We believe that this trend could potentially lead to applicants seeking admission to higher education institutions without sufficient preparation for high competition in the labor market. The reason for this lies in the centralization of admission processes and the determination of payment contract amounts based on the nature of the program rather than the specific qualities of the institutions.

5. Analysis: modern trends

In both public and private higher education institutions, the number of students per teacher used to determine the cost of the contract may create inconsistencies in competition between them. For instance, the order of the Minister of Higher and Secondary Special Education of the Republic of Uzbekistan dated December 30, 2021, No. 53-2021, "On approval of the norms of the ratio of the number of students per one teacher in the fields of education (educational areas) in higher education institutions," sets the number of students based on the nature of educational areas.

According to the decision of the Cabinet of Ministers of the Republic of Uzbekistan No. 80 dated February 21, 2022, "On approval of the unified regulation on the procedure for licensing certain types of activities through a special electronic system," the number of students per teacher in non-state higher education institutions is set at 12-16. However, it should be noted that there are cases in the above order where the number of students per teacher is less than 12, and the requirements of this order differ somewhat from the requirements of Cabinet of Ministers Resolution 80. This situation can lead to external effects of legal norms on competition between higher education institutions and may result in imbalances in financial management.

Several positive trends have been observed as a result of practical reforms in the higher education system. Notably, the range of students' choices has expanded, and the import of education has decreased. In general, the system of higher education exhibits the following approaches in determining the value of the payment contract and its characteristics:

- A centralized approach in public higher education institutions.
- An independent approach in the joint education program in public higher education institutions.
- A unified approach with a separate official document in the implementation of financial independence.
- The approach of foreign higher education branches.
- A commercial approach in private higher education institutions.

The persistence of a centralized approach in state higher education institutions indicates the need for a movement to maintain their position in the higher education market. However, this practice may not fully attract talented and educated young applicants, leading to delays in training modern specialists that meet labor market requirements. Research by Sh. Valiev highlights the need to align the value of the payment contract with the financial interests of the institution. He notes that several factors affect the growth of higher education costs, including the need for highly skilled labor, the introduction of new technologies, and the use of high technology to improve quality.

In our opinion, the negative consequences of external influences on the financial management policy of the higher education system can lead to several instabilities:

- The preservation of financial management practices in the "single model" in the higher education system, maintaining a uniform form of financial management in higher education institutions.
- The implementation of a centralized financial policy in the higher education system may hinder the emergence of initiative in the financial management of higher education institutions.
- The decrease in educational coverage could result in education imports and decreased investment in human capital or education in the country.
- Centralized determination of tuition fees may create conditions where state higher education institutions are exempt from financial problems, potentially affecting their competitiveness in an inverse manner.

6. CONCLUSION

The new stage of reforms that began in 2016 can be attributed to the decisions of the President of the Republic of Uzbekistan, No. PQ-60 and PQ-61, issued on December 24, 2022. These decisions marked the full implementation of academic and financial independence in higher education institutions and paved the way for competition among them.

As a result of these decisions, 35 state higher education institutions gained an element of independence in making academic and financial decisions. This introduction aimed to foster competition between non-state and foreign higher education institutions. Further improvements through these decisions have laid the groundwork for the development of internal factors influencing financial management in the higher education system.

Firstly, the phase-out of the basic higher education category was introduced. Previously, educational directions in state higher education institutions followed a uniform curriculum, leading to a lack of competition between institutions with similar educational orientations. Now, with academic independence, universities can develop distinct curricula for the same field of study and compete in the educational market based on their offerings and tuition fees.

Secondly, the introduction of the individual nature of setting education fees was implemented, considering the material, technical, and scientific potential of the institution. This ensures a more tailored approach to determining tuition fees, reflecting the specific resources and quality of education offered by each institution.

Thirdly, two distinct forms for educational and scientific activities were introduced in contracts with professors and teachers. This distinction allows for clear expectations and incentives for educators based on their contributions to both teaching and research. Professors and teachers are now evaluated based on educational activities and scientific publications in indexed international scientific databases.

Fourthly, the introduction of university grant/scholarship programs has increased the attractiveness of student recruitment. By enhancing competitiveness in the higher education market and attracting high-potential young individuals to institutions, these programs emphasize transparency and fairness in the selection process.

In conclusion, the improvements in financial management practices in higher education institutions, driven by both external and internal factors, have contributed to enhancing their competitiveness. These changes have also encouraged investments in human capital and led to a decrease in the import of education in the country. The pursuit of academic and financial independence, coupled with the emphasis on competition and merit-based scholarship programs, has set the stage for the continued development of higher education in Uzbekistan.

5. REFERENCES

- Bandelj N. On postsocialist capitalism. *Theor Soc.* 2016;45:89-106. <https://doi.org/10.1007/s11186-016-9265-z>
- Williams P. Britain's Full-Cost Policy for Overseas Students. *Comp Educ Rev.* 1984;28(2):258-278.
- Rakhimov M, Yakubov F. Uzbekistan external migration: key trends and directions. *Eurasian research journal, ERJ.* 2022;4(1):27-47.
- Abdulloev I, Epstein G, Gang I. Migration and Forsaken Schooling in Kyrgyzstan, Tajikistan, and Uzbekistan. *IZA Journal of Development and Migration.* 2020;11(1):- . <https://doi.org/10.2478/izajodm-2020-0004>
- Ahunov M, Kakhkharov J, Parpiev Z, Wolfson I. Socio-Economic Consequences of Labor Migration in Uzbekistan. Discussion Papers in Economics Economics. 2015:201507. Griffith University, Department of Accounting, Finance, and Economics.
- Wang D, Hagedorn A, Chi G. Remittances and Household Spending Strategies: Evidence from the Life in Kyrgyzstan Study, 2011-2013. *J Ethnic Migration Studies.* 2019:1-22.
- Information from the Statistical Agency under the President of the Republic of Uzbekistan. <https://stat.uz/uz/rasmiy-statistika/social-protection-2>
- Mitchell M, Leachman M, Saenz M. State Higher Education Funding Cuts Have Pushed Costs to Students, Worsened Inequality. Center on Budget and policy priorities. October 24, 2019. https://tacc.org/sites/default/files/documents/2019-11/state_he_funding_cuts.pdf
- It was prepared based on the information of the Statistical Agency under the President of the Republic of Uzbekistan and the Central Bank.
- Information from the Statistical Agency under the President of the Republic of Uzbekistan.
- Valiev Sh. Cost analysis, approaches, and theories in the financing of higher education institutions. *Economics and Innovative Technologies. Scientific Electronic Journal. T., 2022; No. 4 (00060):43-55.*
- UNESCO Institute for Statistics. Total initial financing for education as a percentage of GDP by financing unit. TCG 9 Working Group on Finance 22 November 2022.
- Education at a Glance 2019: OECD Indicators. Indicator C5. How much do tertiary students pay and what public support do they receive?
- Rakhmanov D, Pulatov A, Vietsma E. Improving the financing of higher education institutions in Uzbekistan based on best practices. *Electronic scientific journal of finance and banking. T., BMA.* January 2017; (6):52-67.
- Smolentseva A. Marketisation of higher education and dual-track tuition fee system in post-Soviet countries. *International Journal of Educational Development.* 2020;78:102265. DOI:10.1016/j.ijedudev.2020.102265.



How to cite this article: Mukhtorkhon Tashkhodjaev. DIRECTIONS FOR THE DEVELOPMENT OF FINANCIAL MANAGEMENT IN THE HIGHER EDUCATION SYSTEM: A CASE STUDY OF UZBEKISTAN. *Am. J. innov. res. appl. sci.* 2023; 17(2): 139-144.

This is an Open Access article distributed in accordance with the Creative Commons Attribution Non-Commercial (CC BY-NC 4.0) license, which permits others to distribute, remix, adapt, build upon this work non-commercially, and license their derivative works on different terms, provided the original work is properly cited and the use is non-commercial. See: <http://creativecommons.org/licenses/by-nc/4.0/>