



# **The Private Sector in Higher Education in the Baltic States and Belarus: Permanent Feature or Transition Phenomenon?\***

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## 1 Introduction

Although the state remains the major provider of higher education in all post-communist countries, in most of them a private higher education sector has emerged since the start of transition, but to differing degrees. Thus in Poland in 2002-3 the share of the private sector in total student enrolment was nearly 30% whereas in the Czech Republic it was only 3.2%. In this paper we examine the experience of the Baltic states and Belarus which we believe provide an interesting experiment. All four countries are former Soviet republics and hence previously shared the same Soviet state education system. However, in both Latvia and Estonia a rather strong private sector has emerged with 2002-3 private sector enrolments representing, in Latvia nearly 23% of total student numbers, and in Estonia just over 20%. By contrast, in Lithuania the private sector share in 2002-3 was only 4.5%, but perhaps surprisingly, in Belarus it was more than 17%.

With the exception of Kraft and Vodopivec (2003), to date there has been rather little serious investigation of the emergence of private institutions in the higher education sector of former communist countries. For example, the web-site of the Program For Research on Private Higher Education (PROPHE), ([www.albany.edu/~prophe/](http://www.albany.edu/~prophe/)), in its database of private higher education institutions covers just two transition countries – Russia and Bulgaria. Or, in the OECD *Review of National Policies for Education in Latvia* (OECD 2001), the section on higher education devotes just a couple of paragraphs to the private sector in Latvia. An exception to the general lack of literature on the topic is the volume on *Education and Privatisation in Eastern Europe and the Baltics* edited by Beresford-Hill (1998), which offers a somewhat philosophical account of private sector educational developments in the region and contains a chapter on each of the three Baltic countries.

In their study, Kraft and Vodopivec focus on the provision of business education in 15 transition countries whereas here we consider all private higher education in just four countries<sup>1</sup>. However, we regard the four as interesting comparators – they are all neighbours as well as all being former Soviet republics, Estonia is regarded as a classic

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<sup>1</sup> As it turns out business education and other ‘commercial’ subjects dominate the curricula of the private sector as indeed is also the case in the public sector.

example of a liberal market economy while Belarus is regarded as not a proper market economy. The comparison is of interest because despite a common starting point in the Soviet Union the higher education private sector has emerged rather differently across the four countries. Moreover, the private higher education institutions also represent a rather interesting development of a *de novo* private sector in the new Baltic market economies.

The aim of this paper is to examine:

- why the higher education private sector emerged in these countries
- why the private sector has grown
- what are the characteristics of the private sector in each country
- why the private sector has developed differently in the four countries
- how does the private sector compete with the public sector
- what are the future prospects of the private sector

It is interesting to note that the first private sector institutions emerged very quickly in all four countries – in Estonia, Belarus and Lithuania even before the break-up of the Soviet Union in August 1991 and before there was a proper legal basis for private education institutions. In Latvia the law that made it possible to open private higher education institutions legally was adopted on 19 June 1991 which was before *de facto* independence later in the year. In Estonia, Latvia and Belarus most private sector institutions were established by or before 1995<sup>2</sup>.

Thus education entrepreneurs in both the Baltics and Belarus were rather quick to get off the mark in anticipation of the imminent emergence of a market economy in their countries. They correctly anticipated that state higher education institutions would be slow to adapt their programmes to the needs of a market economy and stepped in to fill the gaps left by the state sector.

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<sup>2</sup> Indeed except for one institution established in Belarus in 1995 all the early institutions were established by 1994.

The gaps, which we believe are the proximate causes of the emergence, persistence and growth of the private sector, include the following:

- A quality gap at the top end of the quality spectrum, thereby creating an incentive for the emergence of elite institutions.
- Human capital gaps that may exacerbate the quality gap.
- Physical capital gaps that affect quality: study facilities, libraries, and computers.
- A quantity gap at the bottom end of the spectrum. Constraints on the funding of public institutions may limit access to higher education in the face of growing demand, in this instance creating an incentive to offer ‘demand-absorbing’ institutions and programmes for students who are unable to gain access to mainstream institutions.
- Gaps in public sector opportunities for particular ethnic or religious groups. This may be especially important in the Baltics with respect to the large Russian-speaking minorities in Latvia and Estonia.
- Adaptability gaps: for some highly marketable skills, eg information technologies, the private sector may be faster to adapt and offer suitable programmes.

It is likely that all the above-mentioned factors have been at work in the Baltic states and Belarus. However, our strong *a priori* belief was that the stereotype of the Baltic states as a common socio-economic entity may be very wrong in this context. Thus in Estonia our prior was that the creation of an elite niche would be especially important, whereas in Latvia the prior is that provision of Russian language higher education in the face of a much diminished state provision would be important factor. In Lithuania both the number of private institutions and the share of student enrolment in them is significantly smaller than in Estonia or Latvia and this too is a phenomenon we regarded as worth investigating.

There is not much economic theory of co-existing private/public markets in higher education (or of education in general). However, we have found very helpful De Fraja (2001) who offers an informative survey of models of co-existing public and private education sectors which is very much the case in the countries we chose to examine. De

Fraja brings out rather clearly that the economic analysis of education is complicated by the fact that price is not the only mechanism for matching places and demand even when the institution is motivated by profit. There is an incentive for institutions to ration places to the best students. In a public/private context this gives rise to a model in which there may be two equilibria, one of which has the private sector setting lower fees than the public. This looks much like the outcome in Belarus.

The paper is organized as follows: section 2 describes the research design and implementation of the project; section 3 offers a sketch of the higher education system in the Baltic states and Belarus and the place of the private sector within it; then follows section 4 with a discussion of the results of our interviews with selected private higher education institutions in the three countries; finally we offer some brief conclusions.

## **2 Research design and methodology**

The project consisted of two phases: the aim of the first phase was to create a database of private higher education institutions in the Baltic states and Belarus in order to get an overall picture of the private sector – the size of institutions, the nature of their programmes, the languages of tuition etc. This was implemented using a variety of secondary sources such as the internet as well as publications from the various ministries of education. Our database contains information as far as possible on all private higher education institutions in each country on items such as when the institution started operating, when (if) it has received accreditation, language(s) of instruction, type(s) of funding, numbers of full-time and part-time staff, numbers of programmes at the BA level, MA level and PhD level as well as a breakdown on academic programmes and professional programmes. In addition, where this data is available numbers of students in the various categories of programmes are recorded.

The information gathered in the first phase provided the basis for phase two of the project where the aim was to undertake a deeper investigation of the private sector in an attempt to reveal what could be inferred about our hypotheses concerning the emergence of the private sector, its current situation and future prospects. This was to be implemented by interviewing representatives of selected private sector institutions in each country. To this

end we first designed an interview template which contained a mix of qualitative and quantitative questions. Thus, some of the questions sought direct opinions on issues such as:

- why an institution emerged
- whether there were certain gaps to be filled
- the future outlook of the sector
- the attitude of government to the private sector
- the quality of the service offered by the private sector, and so on.

Other questions were more factual ones related to size and quality of faculty, characteristics of the student body, facilities, and the number of programmes offered.

We also asked institutions to assess on a scale of 1 (low/nothing) to 7 (very high) how they perceive competition in general in the educational sector, how they perceive competition with the public sector and with the private sector, respectively, how important they find the private sector in their country, the degree of collaboration with institutions in their country and abroad and the size of their fees compared to other private institutions and to the public sector, respectively.

In each country 5 or 6 institutions were chosen for interviews. Institutions were selected loosely on the following criteria: Big, in terms of student body and diverse, in terms of programmes, ie not just a selection of various business schools. For Lithuania, institutions from the three major cities, Vilnius, Kaunas and Klaipeda were chosen since this country, in contrast to Estonia and Latvia, does not exhibit a massive concentration in the capital (Vilnius). For Belarus, the capital, Minsk, is home to by far most of the institutions but to choose eg one institution from another city was simply impractical. The interviews were conducted in the autumn of 2004 and the spring of 2005, typically with the rector or vice-rector of the institution and often in the presence of more staff. Interviews typically lasted 1 – 1½ hours.

Finally, an interview with a government representative for each of the four ministries of education was planned in order to hear “the other side of the story” and achieve some sort of triangulation. Such an interview failed to materialize in the case of Belarus.

The results of phase 1 are reported in section 3 and the results of the interviews are synthesised together with data collected to form the basis for conclusions drawn in section 4.

### **3 An overview of the higher education systems in the Baltic states and Belarus**

#### ***3.1 Background***

As in many other conventional economic sectors the successor states of the Soviet Union inherited the part of the higher education system located in their territory. In the Baltic states the inherited institutions were for the most or the most part local state universities and hence somewhere down the Soviet pecking order of higher education institutions though some individual departments had an international reputation and in some cases an institution located in one country served to train specialists for the whole of the Soviet Union. For example, the Riga Civil Aviation Engineers Institute, which after independence became the Riga Aviation University, was an all-Union centre of aviation education. But in general, the Baltic institutions were located at a middle tier of a system which had its pinnacle in Moscow.

Higher education was free and, in the Baltic states for many subjects (but not all of them), there was a dual-track system in which programmes could be followed in both Russian and in the local language – Estonian, Latvian and Lithuanian.

After independence in 1991 the dual track system was rather quickly abolished and tuition was (at least formally) given in local languages, which were now also the official state language in each country. There were some exceptions – in some cases Russian-speaking faculty informally continued to teach in Russian and some institutions that were basically ‘Russian’ institutions continued to offer courses in Russian. A case in point was the Riga Aviation University (RAU) in Latvia, which continued to operate as a state university until it was closed in 1999. RAU was until its closure the only state institution

of higher education in Latvia offering tuition in Russian. Moreover, its role as a provider of aviation education was much diminished and it was focused on offering economics and business as well technical subjects.

A further consequence of independence was that local state budgets could not support universal free higher education and quotas were introduced for budget places (free tuition) for the best students while other students who met the qualifying standards had to pay fees. At the same time, in Latvia (1991) and Estonia (1992) legislation was introduced that permitted the establishment of private higher education. In Lithuania and Belarus there was an absence of enabling legislation and this had opposite effects in these two countries. In Lithuania the absence of legislation retarded the development of the private sector, whereas in Belarus the void in legislation had an enabling effect and private institutions mushroomed only to later decline partly from excessively optimistic expectations and partly from the consequences of a re-establishment of state control over the private sector.

### ***3.2 The post-independence higher education systems***

The post-independence higher education systems of the Baltic states can be described in terms of the following dimensions or parameters:

- The type of institution – university or college. The demarcation between a university and a college is somewhat blurred but typically a college is a degree giving institution concentrating on what is termed ‘professional’ education.
- The type of education. Here the distinction is between ‘academic’ and ‘professional’<sup>3</sup>.
- The method of finance. Here the distinction is between finance by fees and finance from the state budget.
- The form of ‘ownership’. Here we distinguish between ‘private’ and ‘state’ ownership. Private ownership is reasonably clear but typically the state institutions, at least in the Baltic states, have a considerable degree of autonomy.

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<sup>3</sup> Professional education loosely means vocational education but geared to white-collar occupations eg accountancy, banking or information technology.

To varying degrees all parameters are present in all four countries. In all countries there is a distinction between universities which are the sole providers of academic education and colleges who provide professional education. However, universities can and do also provide professional education, but international comparison is somewhat difficult because the nomenclature varies between countries. For example, in Latvia there is a category of institution called a 'high school' (*augstskola*) which may be highly vocational such as the Latvian Police Academy or it can be one of a group of regional high schools which offers academic programmes but calls itself a college. Moreover, academic and professional education can look remarkably similar especially in subjects like banking. Thus there is a fuzzy dividing line between both institutions and type of programme. There is also in many cases overlap in the level of programmes offered with colleges increasingly offering masters level education in addition to bachelors degrees.

In practice enrolments in universities or university type institutions outnumber enrolments in colleges eg in Lithuania ratio was about 5 to 1 in 2002-3 or in Estonia about 4 to 1 so the sector can typically be thought of as a university dominated sector with a fringe of colleges providing degree level. In Latvia and Estonia the state sector is dominated by a few large universities eg in Latvia in 2004-5 the five official universities had nearly 72% of the enrolment of the 20 state sector institutions and the university of Latvia alone had 31%. In Estonia there is even more concentration with the top 4 state universities claiming nearly 85% of the enrolment and the University of Tartu on its own having a share of nearly 40%. In Lithuania the distribution is more dispersed with Vilnius University (the largest) having about 20% of total enrolments. Belarus too is less concentrated with Belarus State University, the largest institution, having a rather modest 5% of state university enrolment.

An important feature of the state sector is that in all four countries state universities charge fees and that the proportion of fee-paying students has been rising especially in Latvia and Estonia. Thus in Latvia only 23% of students had budget places (free tuition) in 2004-5, which means that 77% were fee-payers as compared with only 33% fee-payers in 1995-6. In Estonia the story is similar with the share of fee-paying students growing

from around 17% in 1995-6 to nearly 53% in 2004-5. Lithuania is more generous with only about 40% of university students paying tuition. In Belarus the state universities also charge fees but, in contrast to the Baltic states, where state sector fees tend to be lower than in the private sector, the state sector in Belarus charges the highest fees – especially in the highly demanded subjects.

Thus a stylized picture of the education system in all four countries is one where the state sector dominates, especially in terms of a select number of key institutions and where the state sector to a large degree charges fees especially in the most demanded subjects. The most demanded subjects are also those which tend to be offered in the private sector. Thus, we appear to have a model in which public and private sectors compete – as in the model described by De Fraja (2001) pp 20-24. In this model there are two possible equilibria, in which there is one equilibrium where the private sector ends up with the weakest students and lower fees than the public sector. This seems to correspond rather well to the Belarus case.

### ***3.3 Size and dynamics of the private sector***

Table 1 below shows the number of private higher education institutions in each of the four countries together with the share of private sector students in total enrolment for the academic year 2002-2003.

**Table 1: Number of private institutions and share of enrolment by country in 2002-3**

	Estonia	Latvia	Lithuania	Belarus
Number of institutions	26 (18.6)*	17 (7.4)*	13 (3.6)*	15 (1.5)*
Private sector share of student enrolment	20.3	22.9	4.5	17.3

Source: UNESCO-CEPES and authors' calculations

\* The figure in brackets indicates the number of institutions per 1m inhabitants

Table 1 clearly shows that Estonia and Latvia are rather similar in the share of private sector students in total enrolment and also rather similar in terms of the number of institutions. The Estonian indicator for number of institutions is somewhat artificially boosted by the presence of 9 institutions that have enrolments of less than 100 – one has an enrolment of 16 and several have enrolments only in the 20s. The share of the private sector enrolments in both Latvia and Estonia is rather high within the 17 Central and Eastern European countries covered by the UNESCO-CEPES survey of higher education<sup>4</sup>. Only Poland (29.4%) and Romania (23.3%) have higher shares and Moldova (20%) is about the same. Belarus stands in 6<sup>th</sup> place. By contrast Lithuania is in 11<sup>th</sup> place at the top of a list of countries with very small private sectors (Albania (0.2%), Slovak Republic (0.4%), Croatia (2.7%), Slovenia (2.9%), Czech Republic (3.2%) and FYR Macedonia (3.5%). Above Lithuania there is a long gap to Ukraine in 10<sup>th</sup> place with a private sector share of 12%.

It is rather clear that the private sector in Lithuania has developed differently as compared with the other Baltic states and with Belarus. This impression is confirmed by other indicators discussed below.

Table 2 shows the dynamics of creation of private sector institutions in the four countries.

**Table 2: Proportion of institutions founded by 1995\***

Estonia	Latvia	Lithuania	Belarus
77%	60%	30%	100%

Source: Authors' investigation

\* Data on year of foundation is missing for some institutions

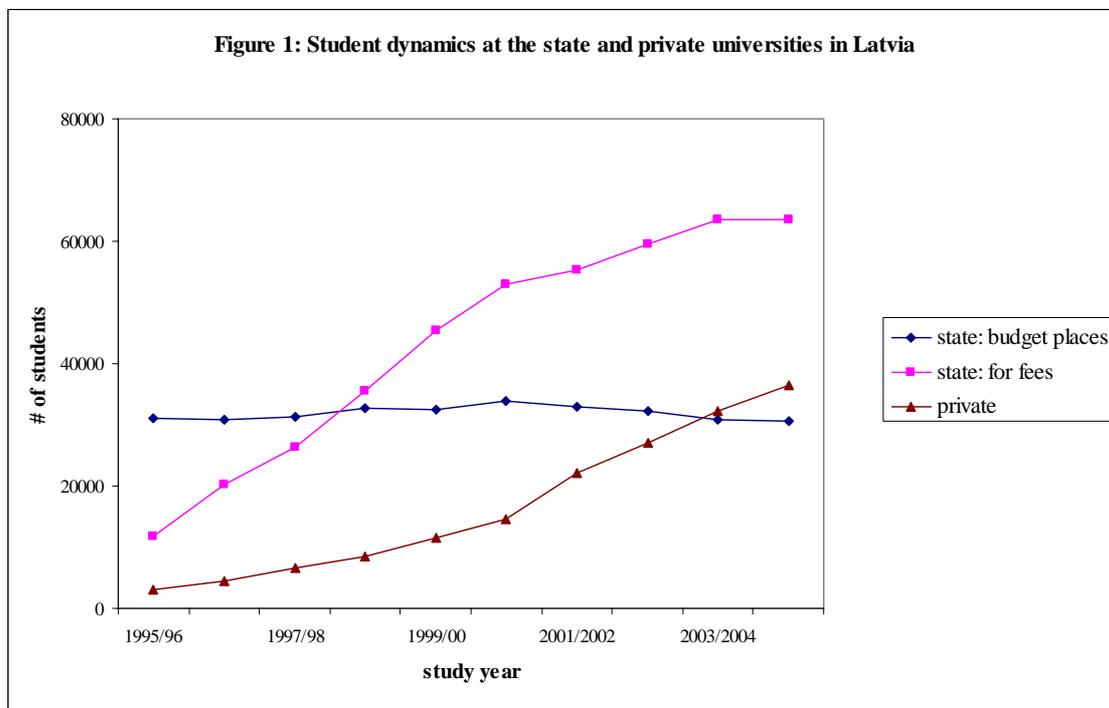
Here we see that except for Lithuania<sup>5</sup> most private sector institutions were established by or before 1995 – indeed except for one in Belarus in 1995 they were all established by

<sup>4</sup> See European Centre for Higher Education: Statistical Information on Higher Education in Central and Eastern Europe at [http://www.cepes.ro/information\\_services/statistics\\_02.htm](http://www.cepes.ro/information_services/statistics_02.htm)

<sup>5</sup> According to official figures there were no private sector institutions in Lithuania before 1999. However this must reflect some sort of lack of official recognition, since several institutions themselves list much earlier start dates eg Kaunas Business College started operations in 1993 and Vilnius Business College even earlier in 1989.

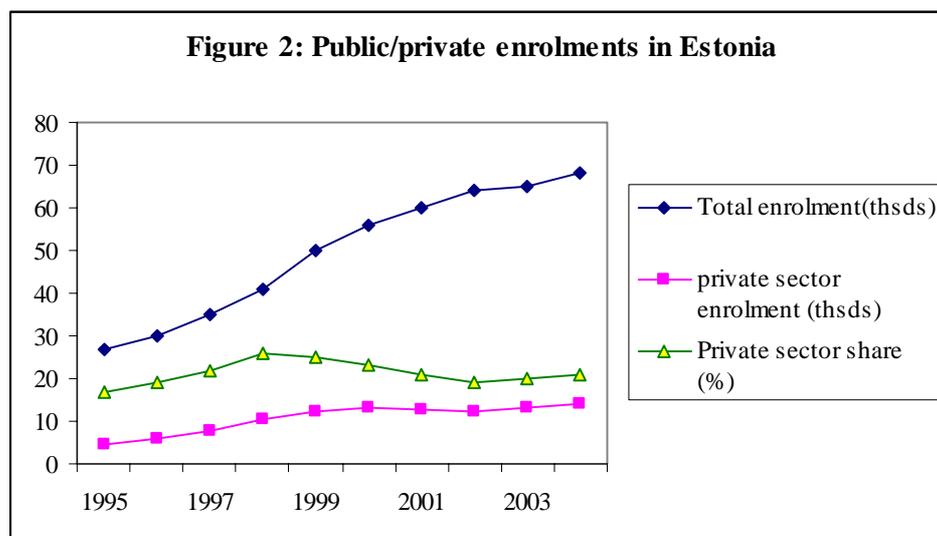
1994. Thus there was a burst of creation of new private sector institutions in early transition and in some cases in Estonia, Belarus and Lithuania even in Soviet times – in 1988, 1989 and 1990. In Latvia there is a second burst of growth in the period 1999-2003 when the other 40% of institutions were founded. This may be explained by changes in the Law on Professional Education in 1999 which allowed private colleges to provide 1<sup>st</sup> level professional education.

Figure 1 below shows the growth of enrolments in the Latvian private sector as compared with the state sector and also the dynamics of budget places.



Source: Ministry of Education and Science Latvia

Figure 2 shows the development of the private sector in Estonia.



Source: Statistical office of Estonia

#### *Size distribution of establishments*

Table three below shows the size distribution of the private sector establishments in three of the countries under investigation.

**Table 3: Size distribution of private sector establishments by country\***

Size	0 - 250	251 - 500	501 - 1000	1001 - 2000	2001 - 3000	3001 - 4000	4001 - 5000	> 5000
Estonia	13	5	3	4	1	0	0	0
Latvia	2	4	2	3	2	2	0	1
Lithuania	2	1	3	2	1	0	0	0
Belarus	1	1	1	4	1	1	2	4

\* We do not have enrolments for some small Lithuanian institutions

Here Estonia stands out with 18 establishments that have less than 500 students and, of these, half have an enrolment of less than 100. Included in these extremely small establishments are 4 theological colleges and also several other institutions offering somewhat 'fringe' subjects such as the Higher Private School of Applied Art (25 students), International Center of Conjecture and Consulting EMONO-R (28), and so on.

The main institutions offering mainstream products are in the 500-3000 bracket of which the largest is the Estonian Business School with an enrolment of over 2200.

In Latvia the size distribution is much more even with only 6 establishments that have an enrolment of less than 500, 9 that are in the range 500-4000 and one much larger institution – the Baltic Russian Institute – which has an enrolment of over 7000.

Belarus has much larger institutions than the Baltic states, with 6 institutions having an enrolment in excess of 4000. The largest of these is the Institute of Management and Entrepreneurship with an enrolment of more than 8500.

In Lithuania we see that there is no large institution – the largest being the Vilnius Law and Business college with an enrolment of nearly 2400.

#### *Geographical distribution*

The location of an institution is determined by its legal address and its main location of activity. With the exception of Lithuania there is a heavy concentration in the respective capital cities. Thus we have:

Estonia            22 out of 26 institutions located in Tallinn

Latvia            16 out of 17 institutions located in Riga

Belarus           12 out of 15 institutions located in Minsk

By contrast in Lithuania the institutions are rather dispersed among the country's three main cities. Only 5 are in Vilnius, 4 are in Klaipeda and 3 are in Kaunas. In part this geographical distribution reflects the geographical distribution of population, which is rather concentrated in the capital in Latvia and Estonia and rather dispersed in Lithuania. However, this does not seem to apply to Belarus, where Minsk has a population of nearly 1.7m (out of 10.3) and there are 11 other cities with a population of over 100000. The

only significant non-Minsk institution is the Mogilev Institute of Finance and Economics located in Mogilev, the third largest city in Belarus.

Also of interest is the extent to which the central institutions have branches in other cities and where those branches are located. Here we find that no less than 13 of 17 Riga-based institutions have branches in other parts of the country and 8 of them have branches in more than one regional town. So despite an apparent concentration of establishments in Riga, most institutions have significant outreach activities. More interesting is where the branches are located. There are 6 institutions whose branches are exclusively located in the Russian-speaking eastern part of Latvia, at the same time there are two whose branches are located in largely Latvian speaking areas. These include the business school Turība which is Latvia's second largest private institution. Latvia's largest institution, the Baltic Russian Institute, has branches in all parts of Latvia as well as two in Lithuania and one in Estonia. These indicators suggest some indirect support for the hypothesis that a part of Latvia's private sector is aimed at the Russian-speaking minority.

In Estonia just 5 institutions have branches outside Tallinn and the locations do not suggest any obvious ethnic minority target. In Lithuania just 3 institutions are known to have branches outside the city of origin and with one exception in each case the branch is in one of the three main cities. In Belarus only 3 institutions are known to have branches outside Minsk, so here the private sector appears to be heavily concentrated in the capital.

### ***3.4 Study programmes***

In all four countries the private sector offers a large number of study programmes. In Estonia there are 127 programmes, in Latvia 91, in Lithuania 42 and in Belarus 104. In our survey programmes are distinguished on the one hand by academic level and on the other by the subject area. Table 4 below offers a summary.

**Table 4: Type of programme by level and subject area and country (% of total programmes)**

Programme	Estonia	Latvia	Lithuania	Belarus
Professional	44%	87%	76%	na
Commercial	36%	55%	62%	60%

Note: *Commercial studies* consist of business and management, marketing, economics, law, international relations and tourism, and public relations and communications.

Here the evidence suggests that the private sector in Latvia and Lithuania is largely a provider of professional (vocational) programmes rather than academic ones. Moreover, the subject areas offered are dominated by commercial subjects. Commercial subjects also dominate in Belarus. However, in Estonia professional programmes constitute less than half of the programmes and commercial subjects are in a minority.

### **3.5 Languages of instruction**

Here the aim is to see how far the private sector is aimed at the Russian-speaking minorities. The evidence is incomplete but for both Latvia and Estonia it appears that instruction in the state language (Estonian and Latvian) is more frequently offered than instruction in Russian. Thus in Estonia four institutions offer instruction only in Estonian and three only in Russian. Interestingly, one institution offers instruction only in English. Otherwise five institutions offer instruction in Russian and Estonian and 4 in Estonian, Russian and English. In total instruction in Estonian is offered by 15 institutions and in Russian by 12 institutions. Seven institutions offer instruction in English.

In Latvia there is a similar picture, with six institutions offering instruction only in Latvian and just one offering it only in Russian. There is no institution offering instruction only in English or in Latvian and English. However, two institutions offer instruction in Latvian, Russian and English and seven offer it in Latvian and Russian.

In Lithuania, for the seven institutions for which we have information 6 offer instruction only in Lithuanian and there one that offers it in Lithuanian and English. No instruction is offered in Russian.

Thus for Estonia and Latvia there is clear evidence that the private sector caters to a significant degree for the Russian-speaking minorities.

#### **4 Discussion of the phase 2 interview results**

The aim of phase 2 was to go beyond what could be obtained from statistics, institution and ministry websites and other secondary sources by interviewing representatives of selected private sector institutions. The nature of this exercise naturally precludes “hard” quantifiable results. We believe, however, that the relatively large number of institutions interviewed, as compared to the total number of institutions, together with the depth of the interviews provide a quite firm basis for meaningful results.

Results are reported and discussed in the framework of the “aims” identified and possible “gaps” outlined in the introduction.

##### ***4.1 Why did the private sector emerge?***

The answer to this question is the only one which is exactly the same in all four countries: That the public sector was simply too slow, too inert, to react quickly and properly to the winds of change. Transition brought with it a demand for different programmes and curricula, a demand the public sector was slow/unable to meet. Several institutions replied that the new situation provided a market for entrepreneurial activity and that new institutions sprung up to meet the new demand for education in this sphere – just as private firms in other sectors of the economy did. These points of view are substantiated by the evidence provided in section 3 that the private sector did in fact emerge fast and early in all four countries.

Estonian and Latvian institutions in particular argue that the young transition economies saw needs (also) for shorter and more practical courses plus a demand for professionals (ie entrepreneurs and other ‘practical’ people) rather than professors as instructors. At that time the public sector could not supply either of these ‘demands’.

#### ***4.2 Why has the private sector expanded?***

For some purposes it is useful to split the four countries into two groups with Estonia and Latvia as one group and Lithuania and Belarus as a second group.

The private sector has indeed expanded in both Estonia and Latvia (see Figures 1 and 2 above). Both countries have substantial Russian-speaking minorities and following independence teaching in Russian at higher educational establishments in the public sector was abolished in favour of instruction purely in Estonian and Latvian, respectively. However, lecturing in Russian is not forbidden in the private sector, thus providing the private sector with ample opportunity and incentive to provide courses and programmes in Russian. Crucially, the private sector could also expand (or perhaps one should say reallocate) the supply of Russian-speaking instructors since many of these suddenly saw themselves without a job in the public sector. The presence of large numbers of Russian speakers thus implied a massive demand and supply effect in the private higher education arena. This effect was never relevant for Lithuania and Belarus where such large minorities are absent<sup>6</sup>.

The case of the Riga Aviation University (RAU) neatly illustrates this dual effect. Until it was closed in 1999 RAU offered Russian language programmes in both economics and business and in technical subjects to about 3000 students. After the closure of the university existing students were taken over by the University of Latvia as were some faculty. However, there was a substantial gap left on both the demand and supply sides which was filled by a newly created private institution – the Institute of Transport and Telecommunications – one of the private sector institutions we interviewed. At present 80% of tuition at the Institute is in Russian, some 17% in Latvian and 3% in English. It appears that the proportion of Latvian-speaking students is increasing, in line with what was reported at other ‘Russian’ institutions.

The “minority effect” is certainly important for Estonia and Latvia but is not the only factor, just as the lack of sizeable minorities is not the only reason for a less expanding

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<sup>6</sup> The Russian-speaking minority is less than 10% of the population in Lithuania (but around 30% in Estonian and about 40% in Latvia). In Belarus, the language of instruction is Russian.

private sector in Lithuania and Belarus. In the latter, the government seems to be the major obstacle (see 4.4 below).

In Estonia and Latvia those interviewed mentioned the following as other factors supporting the expansion of the private sector:

- the possibility of paying higher wages and thus attracting better faculty
- a more “practical” orientation (ie short courses, very specialized courses, courses targeting persons who already hold one or two degrees)
- a study environment which is more interactive and less “old style Soviet professor-student” dominated, the latter still important at state institutions due, possibly, to the lack of willingness (or lack of ability due to low salaries) to hire new and in particular foreign-trained staff, see also Kraft and Vodopivec (2001).

#### ***4.3 Country specific characteristics***

Estonia is possibly the country with the most market-oriented private sector (also in higher education). To meet the upcoming demographic crunch (see 4.6 below) and strengthen its niche position, the Estonian Business School, arguably the most progressive private institution, is looking beyond the local market and targeting foreign students eg the Chinese market.

Other country specific factors include:

- New legislation in Latvia, which requires a higher level of education for eg policemen. The private sector successfully caters to such groups.
- In Lithuania, study loans are only possible for students in the public sector, thus severely denting the private sector’s ability to compete.
- In Belarus the private institutions seemingly cater to the lower end of the market, ie they fill what we have denoted a “quantity gap”. The Belarussian State University is perceived as the top institution with fees much higher (2 – 3 times) than in the private institutions.
- Another very country-specific case for Belarus is budget places (ie no or low tuition) at state institutions for children of policemen (not a small group in

Belarus!) and for children of families from the large areas affected by the 1986 Chernobyl disaster in Ukraine.

#### ***4.4 Why a different development in each country?***

The already mentioned large Russian minorities in Estonia and Latvia provide one reason. Another significant reason is the attitude of the government. In Estonia and Latvia the government seems largely in supportive of the private institutions<sup>7</sup> whereas the government is perceived as largely hostile in Lithuania and increasingly hostile in Belarus. In Lithuania, several institutions complained about obstacles created by the government. In Belarus, as an example, the European Humanities University was closed for “technical reasons” but allegedly for teaching a too “western” curriculum<sup>8</sup>.

#### ***4.5 Degree of competition between and within sectors?***

For Estonia and Latvia it is very hard to draw conclusions since the responses to these questions were very different, ranking from “very high” to “very low”. We take this as possible evidence of the institutions catering to quite different groups and thus being far from uniform. The fee structure seems to support this conclusion: Some institutions charge very high fees compared to the public sector, some charge relatively low fees. Many institutions claim they do not wish to increase their student intake, which indicates that the competition they face is not that stiff (but is also related to the future, see 4.6 below).

Several Lithuanian private institutions complained about the difficulty of competing with the public sector, partly due to study loans only being available to students in the public sector, partly due to different (obviously more advantageous) ways of financing.

As mentioned in the previous sub-section, Belarus differs. Competition with the state sector is low since the private sector to a large extent caters for those who do not qualify for the public sector higher educational establishments.

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<sup>7</sup> In Latvia, for instance, the ministry official saw the private sector as a necessary “demand-absorbing” initiative since the public sector cannot offer enough higher education to meet overall demand.

<sup>8</sup> It has recently reopened in Vilnius.

#### ***4.6 Future prospects/future outlook?***

Also here, the four countries – or at least the two sets of countries – differ. In Belarus interviews revealed a perception of the government being increasingly suspicious of the private sector. Several interviewees saw the future of the private higher education sector as contingent on purely political factors – essentially being dependent of the whims of President Lukashenko. A post-Lukashenko Belarus could see things change.

Private institutions in Lithuania stressed the lack of vision of the government (together with the specific problems already mentioned) as the main obstacle to the development of the private sector and some talked of a fight for survival but the general feeling was still of optimism.

In Latvia the view is that the private sector is there to stay<sup>9</sup> - but not with as many institutions as currently exist. In the words of the ministry official “it is not a question of private or public – it is a question of big or small”. The upcoming demographic crunch (see eg Hansen (2005)) will in a few years imply significantly smaller cohorts entering higher education. Closure of smaller institutions and consolidation and possible mergers of larger ones are envisaged. This explains why institutions do not intend to expand today and it also provides another explanation of why some institutions operate in several cities: It is not just due to the demand and/or ethnic group being present; there is an element of economies of scale. Thus, fewer private institutions might be expected in Latvia in the future but not necessarily a smaller share of the market. The main reason for the continuing presence of the private sector will be the state sector’s inability to meet overall demand for higher education.

The same trend seems present in Estonia, perhaps with the added argument of the private sector’s “entrepreneurial aggressiveness” eg the drive to attract foreign students.

### **5 Conclusions**

We entered our investigation with the idea that the higher education private sector in the Baltic countries could be explained in terms of a number of gaps. What can we conclude?

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<sup>9</sup> And this view is held by the private institutions as well as by the ministry official.

Clearly a “quantity gap” can be observed at the bottom in Belarus where the private sector offers cheaper education to students who have failed to gain admission to the perceived elite state institutions.

On the other hand a “quality gap” has not been identified anywhere at the top end of education. Rather, it seems that many institutions either compete with the public sector or offer niche education (short courses, more “practical” courses, courses for persons with older degrees) not provided by the public sector. A “human capital gap” was identified in the context of professionals/entrepreneurs as lecturers in the private sector vis-à-vis “old-style professors” in the public sector. An “ethnicity/language gap” was, as was to be expected, identified in Estonia and Latvia but, interestingly, may start to be reversed. Some institutions noted that many Russian-speakers now preferred more instruction in Latvian in order to better integrate – and some Latvian speakers prefer courses in Russian to improve their Russian skills and to use those in the Russian market. A “religious gap”, hitherto not mentioned, can be identified. Estonia, Latvia and Belarus have private institutions teaching theology<sup>10</sup>. And, as the perhaps most uniform result, we have found a strong “adaptability gap” – the public sector was simply too slow to adapt to the changes brought on by transition, thus letting the door wide open for a private sector. Finally, it was almost universally observed that the working environment – offices, lecture rooms, libraries etc – was noticeably superior at the private sector institutions than is the norm in the state sector.

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<sup>10</sup> But not Lithuania. Lithuania is Catholic (whereas Estonia and Latvia are mainly Lutheran and Belarus mainly Orthodox) and we assume that theological training in such a case is firmly taken care of by the state.

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