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# Capacity Building in Economics

Education and Research in Transition Economies

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## Abstract

The development of the institutional capacity to create and evaluate economic policies remains a critical need—and constraint—in most transition economies if they are to complete the successful passage to fully functioning market economies. To take an active role in the transition process, economic policymakers, business leaders, government officials, and others need a thorough grounding in market-based economics. This requires strengthening economics education and providing support for qualified economists to teach economics at all levels and to carry out high-quality research and policy analysis. Although the education systems in a handful of countries have already risen to the challenge, in many other transition countries, the structure of educational and research institutes remains grounded in the Communist model. This paper presents findings from a comprehensive study assessing the state

of economics education and research in 24 countries in East-Central Europe and the former Soviet Union. While 20 countries were initially included because preliminary assessments showed that they lacked the capability to offer high-quality economics education, four additional countries—the Czech Republic, Hungary, Russia, and Ukraine—were included to highlight five centers of excellence that they already host. Based on the experience of these successful centers, the study's findings, and information gathered from a series of donor meetings in Berlin, New York, and Washington, D.C., this paper presents an approach to building new indigenous capacity for teaching and research on market-based economics in regions where the need is particularly critical—the Caucasus, Central Asia, and Southeast Europe.

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This paper—a product of the Research Advisory Staff—is part of a larger effort in the Bank to strengthen economics education and research capacity in transition economies. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Boris Pleskovic, room MC4-385, telephone 202-473-1062, fax 202-522-0304, email address [bpleskovic@worldbank.org](mailto:bpleskovic@worldbank.org). Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The other authors may be contacted at [aaslund@ceip.org](mailto:aaslund@ceip.org), [baderw@ndu.edu](mailto:baderw@ndu.edu), or [campbelr@indiana.edu](mailto:campbelr@indiana.edu). January 2002. (51 pages)

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**CAPACITY BUILDING IN ECONOMICS  
EDUCATION AND RESEARCH IN TRANSITION  
ECONOMIES**

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## OVERVIEW

As the economies of East-Central Europe and the former Soviet Union moved from state planning to markets, there were few economists with training in the fundamental concepts of market dynamics who could advise on this massive transformation. After ten years of transition, the development of the institutional capacity to create and evaluate economic policies still remains a critical need—and constraint—in this part of the world. In order to complete the transition to fully functioning market economies, countries need the active participation of policymakers, academics, researchers, business leaders, government officials, and others with a thorough grounding in market-based economics. This requires strengthening economics education and providing support for qualified economists to teach economics at all levels and to carry out high-quality research and policy analysis. So far the education systems in most transition countries have not risen to the challenge—the structure of educational and research institutes in the region remains grounded in the Communist model. The need to build new indigenous capacity for teaching and research on market-based economics is particularly critical in the Caucasus, Central Asia, and Southeast Europe.

This paper draws primarily on information from a 1999 study assessing the state of economics education and research in twenty-four countries of the former Soviet Union and East-Central Europe. While twenty countries were included initially because preliminary assessments showed that they lacked the capability to offer high-quality economics education, four additional countries—the Czech Republic, Hungary, Russia, and Ukraine—were included to highlight five centers of excellence that they already host.<sup>1</sup> The results and lessons were reported in background country reports<sup>2</sup> and a strategy report<sup>3</sup> recommending an approach for raising the level of economics education and research.

The study found mixed results on the economics education front. Surprisingly, about one-third of the countries under review are progressing quite well. The Baltic countries are already well advanced in terms of educational reforms and assistance from abroad. Bulgaria and Slovakia, though they still have a long way to go, are receiving bilateral support that is moving them in the right direction. Romania has begun a \$10 million program to upgrade postgraduate education, part of a larger \$50 million World Bank loan for university reform, which should also lead to improvement in economics education and research over time. This will also benefit economics education in Moldova, which already sends many students to Romania.

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<sup>1</sup> Although Poland was not included in the study, it has two good economic institutions: Natolin College of Europe and the Economics Department at the University of Warsaw. To date, only five economies in transition have not yet had needs assessments: Bosnia-Herzegovina, China, Mongolia, Vietnam, and Yugoslavia.

<sup>2</sup> This includes twenty background country reports, which are listed in the reference section and summarized in Annex A, and a report on donor programs supporting economics education and research in East-Central Europe and the former Soviet Union.

<sup>3</sup> Pleskovic, B., A. Aslund, W. Bader, Robert Campbell. 1999. "Proposed Strategy to Address Critical Economics Education and Research Needs in Transition Economies." Washington, D.C.: World Bank.



For the remaining countries, however, despite considerable outside assistance and a burgeoning of new, private institutions of business and economics education, the study found that the quality of economics education still needs to be improved. Existing institutions lack the resources to successfully take on the task of producing economists capable of actively taking part in the immense challenge of transforming their countries from centrally planned to market economies. There is not a single high-quality Ph.D. program anywhere in the initial twenty countries reviewed. Old-style Soviet curricula and professors still hold sway over economics education in many traditional, established schools, while new schools emphasize business administration and teach little real economics.

Domestic capacity for economics research also remains institutionally weak throughout the region, with institutions still staffed by professors trained in the Marxist tradition and lacking analytical and quantitative training. Both state and a growing number of private research institutions lack appropriate levels of funding. There are very few economic research journals and only a few that use the rigorous peer review process practiced in the West. The only exceptions to the overall poor quality of economic research seem to be Bulgaria, Croatia, Macedonia FYR, Slovakia, and Slovenia.

Foreign funding for education and research activities in the former Soviet Union and East-Central Europe is considerable, but uneven. The study found that in 1997-98 foreign donor organizations spent an estimated \$35 million to support economics education and related activities in the 20 countries included in this study. The Baltic countries and Bulgaria have received the greatest share of funding, while countries of the former Yugoslavia (Croatia, Macedonia FYR, and Slovenia) have been largely neglected. The situation is similar in Central Asia, with Kazakhstan, Kyrgyz Republic, and Uzbekistan receiving significantly more support than Tajikistan or Turkmenistan. In the Caucasus (Armenia, Azerbaijan, and Georgia), the Eurasia Foundation has funded many activities. Funding for research comes mainly through the European Union's Action for Cooperation in the field of Economics program (ACE), which is run from Brussels.

The study also provided information on five new centers of excellence set up with Western support to provide high-quality economics education and research. These include three institutions with M.A. programs (the Economic Department at the Central European University in Budapest, the Economic Education and Research Consortium program in economics at the Kyiv-Mohyla Academy in Kyiv, and the New Economics School in Moscow), and one with an American-style Ph.D. program (the Center for Economic Research and Graduate Education at Charles University in Prague).<sup>4</sup> The EERC research program located in Moscow was also reviewed as part of the study. These five centers of excellence not only demonstrate that it is possible to set up and run successful economics institutions, but they also serve as models for new institutions of graduate education and research in other transition countries.

Lessons drawn from these five centers, the study's results, and information gathered at a series of donor meetings held in Berlin, New York, and Washington D.C.

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<sup>4</sup> In 2000, the Central European University added a Ph.D. program in economics.

were incorporated into a capacity building strategy aimed at raising the level of economics education and research in transition countries. More specifically, the approach was focused on the Caucasus, Central Asia, and Southeast Europe where, as the study showed, the need for high-quality economics education and research is the greatest and support has been weakest. The strategy stresses that in the short-term, it is vital to start training substantial numbers of economics professors and policymakers at universities abroad or at high-quality regional centers, such as the five reviewed in the assessment study. Given the financial and human capital constraints as well as the small size of some of the countries, a regional approach is considered preferable to a national approach. Such an approach allows concentrating donor support for these endeavors rather than spreading resources too thinly. After creating a critical mass of economics education and research on a regional basis, the long-term goal must be to develop strong economics education and research in each country.

To place this assessment study into a larger context, the paper begins by discussing the World Bank's decade-long involvement in capacity building initiatives in developing and transition countries. It then describes the study's design and methodology and provides an overview of the state of economics education and research under Communism. Next, it synthesizes the study's findings and presents an overview of the current state of undergraduate and graduate economics education and research in twenty transition economies. It then examines five new centers of excellence in economics education and research in the Czech Republic, Hungary, Ukraine and two in Russia to draw out the lessons of their success. Finally, the paper presents an approach for addressing the gap between the needs and capacities of transition countries to provide high quality graduate education in market economics. Annex A presents greater detail on the status of education and research in each country reviewed in the study.

## **CAPACITY BUILDING AND THE WORLD BANK**

The assessment study described in this paper is part of the World Bank's on-going involvement in capacity building initiatives in economic education and research throughout the world. For the last ten years the World Bank has designed, funded and supported a range of capacity building programs and activities in almost every region of the developing world. Currently, it supports academic institutions, research centers, and research networks in Africa, East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa and Southeast Asia. The aim of many of these institutions is to train local researchers, policymakers, and analysts to conduct research, analyze and formulate economic policies, and to provide advice on development issues. The long-term goal is to educate a core of people capable of formulating policies that are tailored to the specific needs of each region and country.

To overcome the financial, institutional, and human capital constraints typical of developing and transition countries, the World Bank has espoused a regional approach to capacity building. Such an approach takes advantage of the commonalities between

researchers in each region, such as language and often times similar economic, social, and political problems. It also allows researchers, economists, policymakers and analysts to pool their knowledge and skills to find better, regionally appropriate solutions to existing problems.

The World Bank has employed a similar approach to donor coordination. It has been a strong proponent of multiple-source funding, and has played a catalytic role in building public-private donor alliances to support economic education and research initiatives. In several instances, the World Bank has instigated the creation of successful consortia of donors representing private foundations, governments, private corporations and international financial institutions to support some of the research institutions and networks. The consortia-building approach has been beneficial to all the main stakeholders. It has helped mitigate risk for the donors. It has secured much needed multi-year financing, which is crucial to the development of nascent academic institutions, and research centers and networks. Finally, it has exposed students, faculty, and researchers to a greater diversity of ideas and experiences, which are brought to each capacity building initiative by the variety of donors.

The Bank formally began its regional capacity building activities with the launching of the African Economic Research Consortium (AERC) in 1988. The AERC, currently based in Kenya, represents a highly collaborative effort with a dozen participating universities from different countries. The Consortium sponsors a research program and offers a Masters degree in economics. In an effort to duplicate the success of AERC, the Bank initiated and supported the creation of similar networks throughout the developing world. Currently, it supports the Economic Research Forum (ERF) in Cairo, the China Center for Economic Research (CCER) at Beijing University, Economics Education and Research Consortium (EERC) in Kyiv and Moscow, the Latin American and the Caribbean Economic Association, and the most recent addition, the South Asian Network of Economic Institutes (SANEI) and the East Asian Development Network (EADN). While their main goal is research capacity building, the activities and programs of the networks differ to reflect the needs of each region. For example, in the Middle East and North Africa, where research all too often reflects the policy stance of the regime in power, the ERF encourages scholars to conduct research that generates independent policy advice. The CCER in Beijing focuses on retaining and repatriating Chinese scholars.

During the last decade, the World Bank has been particularly active in capacity building activities in transition economies of East-Central Europe and the former Soviet Union. Its efforts in the region can be traced back to the establishment of the Economics Education and Research Consortium (EERC) in March 1995<sup>5</sup>, which supports an M.A. program in economics at Kyiv-Mohyla Academy in Ukraine and a Research Center in Russia. The World Bank was a founding member of the EERC and played a central role in the design and implementation of the Consortium. It continues to have representation on EERC's Governing Board.

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<sup>5</sup> For detailed information on capacity building initiatives in the transition economies in the former Soviet Union and East-Central Europe, see section on "New Centers of Excellence in the Region."

The World Bank's regional approach was scaled up in December 1999 with the launching of the Global Development Network (GDN). GDN links together research and policy institutes from around the world and supports activities that aim to generate and share knowledge related to development. The core of the network consists of seven World Bank-supported regional research programs in developing and transition countries and other networks in Europe, Japan, and North America. While the GDN continues to be supported by the World Bank and works closely with institutions detailed in this paper, in June 2001 it became an independent institution, headquartered in Washington D.C.

As the World Bank reviews its activities in this area, it continues to explore the possibility of creating new initiatives to better incorporate remaining, underserved regions and countries. Three such regions—the Caucasus, Central Asia and Southeast Europe—are detailed in this paper. The recommended strategy to address critical economic education and research needs in these three regions integrates lessons learned from the World Bank's decade-long experience with capacity building initiatives.

## **THE STUDY: SAMPLE AND METHODOLOGY**

This paper draws primarily on data from a 1999 assessment study on economics education and research in the former Soviet Union and East-Central Europe.<sup>6</sup> Its main objective was to assess the capacities of transition countries to undertake quality economics education at institutions of higher education and to conduct policy analysis, policy design, and research in a market context. The study culminated in a strategy report that addresses the critical economics education and research needs in the region, twenty country-specific background papers, and a database summarizing major donors' current activities in economics education and research.

Initially, the study covered twenty countries: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia FYR, Moldova, Romania, Slovakia, Slovenia, Tajikistan, Turkmenistan, and Uzbekistan. Preliminary studies had shown that education and research institutions in these countries did not have the capacity to offer high-quality market-based economics education, and therefore, warranted special attention. The Czech Republic, Hungary, and Poland were excluded from this first phase of the study because the preliminary studies had found that they already had several good economics institutions. Ukraine and Russia were not among the twenty countries reviewed in the initial stage of this study because they were already assessed in a similar study in 1995<sup>7</sup>. In addition, both countries already had several model economics education and research centers.

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<sup>6</sup> Where appropriate, sections of this paper have been updated with information gathered from a series of donor meetings held in Berlin (November 6, 1999), New York (December 17, 1998) and Washington D.C. (March 30 1999, and May 22, 2001).

<sup>7</sup> Ingram, G., B. Pleskovic, K. Wittenben. 1995. "Critical Economics Education and Research Needs in Russia and Ukraine." Washington, D.C.: World Bank.

During a later stage of the study, four additional countries were included: the Czech Republic, Hungary, Russia, and Ukraine. All four countries have successful Western-funded centers of excellence for economics education and research. These include: the Central European University (CEU) in Budapest, and the Centre for Economic Research and Graduate Education-Economic Institute (CERGE-EI) in Prague, and the New Economics School (NES), and the Economic Education and Research Consortium (EERC), both in Moscow, and an EERC Master's degree program at the Kyiv-Mohyla Academy in Ukraine. Lessons learned from these centers contributed to the development of the strategy report.

The study provided a comprehensive assessment of the state of education and research in each country at both national and institutional levels. At the national level, general developments in the reform of higher education, including accreditation of degrees, requirements for teaching at institutions of higher education, and recognition of foreign degrees were assessed. The extent and nature of financial and policy support by national and local governments, international institutions, and donors were also reviewed, as were the existing barriers to modernizing economics education and research. At the institutional level, the study provided a general description and profile of prominent economics education and research institutions in each country, including descriptions of faculties or departments, student bodies, staff, libraries and Internet resources.

The study was carried out in three stages. First, the four study leaders, including the director of the project, designed the project in consultation with the funders and formulated terms of reference for the country consultants. Next, they selected country consultants to conduct detailed field studies in each country and to document their findings. The study's four principal authors reviewed twenty background country reports and distilled the broad conclusions into an overview of economics education and research in the region. In the third stage, the strategy report incorporated those findings plus the lessons drawn from a review of the five new centers of excellence (located in four countries) in economics education and research. The structure of the study was unique in that it involved representatives from foundations, governments, international financial institutions, and the private sector, and others supporters of capacity building projects throughout the region from the very start. Crucial stages of the study were discussed at meetings held in New York at the Open Society Institute, in Washington D.C. at the World Bank, and in Berlin at a satellite event of the 10<sup>th</sup> Annual General Assembly of the European Foundation Centre.

## **COMMUNIST ERA ECONOMICS EDUCATION AND RESEARCH**

After a decade of transition and despite many reforms, economics education and research in countries of the former Soviet Union and East-Central Europe retain many aspects of a highly centralized and standardized Communist education and research system.

Under Communism, economics higher education was subordinated to the demands of political uniformity and the needs of a centrally planned economy. Institutions offered a mixture of quantitative courses and non-analytical courses, such as political economy of socialism, the economics of a self-managed economy, and the economics of social planning. Marxist ideology heavily influenced the curriculum, and hence the study of market economics was typically excluded. No distinction was made between economics and business education, so students of economics often studied accounting and marketing. The higher education system was overly specialized and extremely rigid. Teaching was based on the transfer of facts and not on how to acquire and apply knowledge. Overall, the program of study allowed students to develop good quantitative skills comparable to their colleagues in the West, while neglecting the development of critical thinking and analytical methods.

Traditionally, four types of institutions provided economics education. State universities, national universities of economics, polytechnic institutes, and national academies of management. (All four are described in detail in the following section.) In many cases, enrollment rates and the number of faculty hired by any institution were centrally determined to reflect the needs of the national economy.

The Soviet system of university degrees was complicated and bureaucratic. Undergraduate education consisted of 4-5 years of study (on average 4 years in East-Central Europe and 5 years in the Soviet Union), culminating in a degree of specialist. Those wishing to pursue a higher degree remained at the same institution and entered *aspirantura*, which culminated in a candidate of science degree.<sup>8</sup> Students, under the loose supervision of one faculty member, conducted independent research and wrote dissertations. A limited number of students pursued a doctor of science degree also at the same institution. Academic titles such as senior lecturer, professor, or docent were based not only on the type of degree earned, but also on the number of years worked at the institution and number of publications. Traditionally, at the tertiary level, the majority of the teaching staff possessed only a candidate of science degree.

Like education, economic research under Communism was funded solely by the state. As such, research reflected Marxist ideology and the tenets of a centrally planned economy. In many of the countries under review, the Academy of Sciences, various branch ministries and even certain industries had a monopoly on economic research activities. While research was rarely conducted at universities—the norm in the West—university staff worked part-time at the various research centers.

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<sup>8</sup> Unlike Western countries, the majority of the teaching staff at any institution received their degrees from that same institution. The higher education system allowed for fourth and fifth-year students to make a smooth transition from student to faculty and further graduate study.

## CURRENT STATE OF ECONOMICS EDUCATION AND RESEARCH

A great deal has happened during the second half of the 1990s. Most countries in the region have undertaken a major reform of higher education, generally through laws that have attempted to democratize higher education and to support a move to a more international (Western) system of higher education. Hence, universities and institutions of higher education are gaining more autonomy in most countries. A persistent problem, however, is the rule of old communist professors of political economy within the economics department, the university, or the national higher education system administration.

Many countries in East-Central Europe already had a Western-style university and degree system. Most countries in the former Soviet Union are beginning to accept the Western system of B.A., M.A., and Ph.D. degrees, while maintaining the old Soviet degree system in parallel. The old, formal discrimination against international degrees is beginning to break down in most countries. The problem, however, is that standards are weakening as well, though there are exceptions such as Estonia, which has introduced rigorous evaluations by outside academics.

The old confusion between economics and business administration persists.<sup>9</sup> Business administration is developing at a rapid pace in most countries, in terms of the number of students, the quality of the best business schools, and tuition fees. Some business programs include elements of basic economics, such as microeconomics, macroeconomics, and statistics. But business administration often appears to be an impediment rather than a support for economics. Lighter, applied business courses are generally given preference over more serious, theoretical economics courses. The best students prefer to go into business, as low-paying academia has little appeal, and cadres of professional economists have yet to be established in the countries in question. Foreign assistance resources also go predominantly to training in business administration.

The number of undergraduate students in economics and business studies has increased in virtually every country in the region, even doubling in some countries because of the great demand for knowledge of economics on the labor market. The increase has benefited primarily business administration, however. One reason for the large increase in numbers of students is the spread of part-time programs. Conversely, the number of students pursuing traditional Soviet candidate of science and doctorate of

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<sup>9</sup> At a Meeting on Economics Education and Research in Countries of the Former Soviet Union and East-Central Europe held on November 6, 1999 in Berlin Germany Joseph Stiglitz explained eloquently the difference between business and economics education. He stated: "While businesspeople are concerned with what actions to take to increase profits, find new markets, and improve efficiency, economists are concerned with the design of the overall economy and with the broader social and political architecture of society. Economics focuses on how to get the right incentives for individuals so they can do the right thing. Right now there is a lot of incentive for students in these countries to study business, because they think that they can get well-paying jobs in a bank or an international organization. The study of economics is more oriented toward public service. This is the most significant lacuna in education that needs to be addressed."

science degrees has decreased in many of the countries. In general, low salaries, the highly bureaucratic system of awarding degrees, and limited opportunity for professional development has deterred many students from pursuing higher degrees.

### **Types of Institutions Engaged in Economics Education**

In most of the countries reviewed there has been some shakeup in tertiary education, particularly in economics-related areas such as business. These institutional and structural changes are strongly reflective of funding changes. In East-Central Europe and the Baltics, the university structure has remained reasonably intact, and a few private universities, primarily business schools, have been added. The old national universities tend to maintain their dominance. In most of the former Soviet Union, new private universities and institutes of higher education have mushroomed, particularly in the Caucasus.

The general structure of education system is similar in most countries—not surprising considering that the Soviet system was so standardized:

- Each country has a dominant national *state university*, which is almost always located in the capital (Estonia is the only exception, with its main university in Tartu) and is usually the best of the old universities in terms of staff, resources, students, and international contacts. The national state university has high status and is often independent of the Ministry of Education. The national state universities are likely to remain the leading universities for some time to come. The big question is whether the academic leadership of the universities is prepared to accept the necessary reforms. The leading state universities have recently been catching up and have become more interesting as prospective partners for foreign donors and institutions. Reform has been much more extensive in East-Central Europe than in the former Soviet Union, however.
- Another traditional institution is the *national university of economics*, sometimes called an institute or academy, also located in the capital. Its roots are in the German *Handelshochschule*, a school of economics and business administration. They are more elitist than the capital state university. While these institutions generally have excellent students, large resources, extensive international contacts, and excellent business contacts, they have more limited academic ambitions. They tended to be more vocational than academic in the old days, and business administration has taken over even more today. They make more money on business administration, which tends to crowd out economics.
- A third group of traditional institutions is the specialized institutes, which have been branching out into economics. These include *polytechnic institutes*, specialized engineering institutes, pedagogic institutes, and agricultural institutes with a department of economics. Mostly, they are highly vocational and focus on business administration rather than economics. However, the polytechnic institutes, in particular, can be surprisingly rigorous, given their strong mathematical base.



- A similar category is the *national academies of management*. Each Soviet republic had such an institution for training its top managers. These institutions fit nicely into the U.S. pattern of MBA training. They are small, highly elite, well funded, and very well connected within their domestic establishments and abroad. While many of these national academies of management have undergone substantial reform and serve an important role in management training, they do not do much more than that. Their ambition to teach theoretical economics is limited, and they tend to confuse economics with business administration.

There has also been a significant entry of new private institutions, particularly numerous in the former Soviet Union. Even the new institutions tend to follow similar patterns however, and all are still at a very rudimentary stage.

- Several countries have an *American University*. Although the founders and sponsors vary, the name indicates an ambition to set up a U.S.-model university. The American universities tend to be small institutions of high quality. Promising American universities exist in Armenia, Bulgaria, and the Kyrgyz Republic, and they seem to have a good chance of becoming the best institutions in their countries. Their structure and syllabus are on the U.S. model, teaching is conducted in English, and they have a large number of foreign professors of good quality. Their weakness might be that they are too small, inadequately funded, or suffer from government discrimination.

Some countries have a *European university*, supported by the EU or another European interest. These institutions are more of a mixed bag in terms of academic leadership, staff, curricula, students, resources, international contacts, and financing, but they have the most progressive outlook. There are many other independent international universities, supported by various foreign universities, though surprisingly often these are not very prominent institutions.

- Several new *Western-style business schools* have emerged, funded with large amounts of Western money. They typically focus on two-year MBA programs. Good examples of schools offering such programs are the Kazakhstan Institute of Management, Economics, and Strategic Research (KIMEP) and the Stockholm School of Economics in Riga. Both offer good training in management.

Many of the old institutes are branching out with departments of economics and business administration, and the old universities are developing all kinds of hybrid institutions. Such development brought, for example, no less than 279 registered institutions of higher education to Georgia (179 of them in Tbilisi). The only countries in the former Soviet Union that vary from this new trend are Turkmenistan and Uzbekistan, where almost no new institutions have sprung up, an indication of the degree of state control over education in those two countries. Even Belarus has 20 private institutions of higher education.

This spontaneous development of private higher education indicates how great the popular demand for higher education remains in these countries. Thus at least in terms of number of institutions and students, the collapse of higher education that many feared in connection with the shrinking of public funding with the fall of Communism has not happened.

### **Scarcity and Poor Quality of Teachers**

While most other conditions have improved by comparison with conditions found by the 1995 study of Russia and Ukraine, there has been almost no improvement in the national corps of teachers anywhere. A scarcity of teachers appears to be the main bottleneck to the expansion of economics higher education. Despite increasing numbers of students and institutions, the number of university teachers has declined almost everywhere, both overall and in economics. The student-teacher ratio has worsened considerably and has perhaps doubled in the last decade. Teachers are overburdened by the demands of classroom teaching, rendering it difficult for them to do research or develop their teaching skills. The quality of research and teaching has little effect on promotions. The only improvement is an increase in the number of visiting foreign professors.

Salaries have fallen sharply as well, which is one reason for the large exodus of teachers to the private sector and, for some countries of the former Soviet Union, to other countries. Salaries are especially low in Belarus, Moldova, the Caucasus, and Central Asia. There are some exceptions, however. Salaries are reasonably good in Croatia, Slovenia, and the Baltics. Private business schools pay teachers up to 10 times more than public universities, but they tend to pay only for teaching and not for research. In the new private institutions, teachers are usually paid per hour taught. Teachers therefore maximize their number of classroom hours, to the neglect of research and their own training. Teachers from public institutions often supplement their incomes by working part-time at private institutions. In some countries, this has adversely effected the quality of education and teaching at public institutions.

As a result of such adverse incentive structures, teachers have little reason to improve their qualifications. In the few cases where the number of Ph.D.s has increased, it seems to be largely a consequence of a substantial lowering of already low standards, notably in Kazakhstan and Romania. The assessment study could find only five national returnees with Western Ph.D. degrees who were permanently employed at a department of economics: two in Slovenia and one each in Croatia, Bulgaria, and Lithuania. There might be a few more, but the extent of isolation from Western economics research is stunning. The low quality of teachers has the expected negative effect on higher education in economics.

While limited in scope, many institutions participate in programs that send teachers abroad for short-term training seminars. Most of the programs support economics education primarily through exchange programs with foreign universities and partnership programs. These include short-term professional development, teacher training, and faculty and student exchanges.

## Curricula and Corruption

Economics curricula have developed considerably in the past few years. By and large, economics education is now oriented toward market economics in a Western sense, though the economics is dominated by business administration. Standard Western curricula for undergraduate courses are widely copied, and the same textbooks are being used. Teachers' lack of competence remains a serious impediment.<sup>10</sup>

Knowledge of English is improving rapidly, and resistance to instruction in English is waning. A few countries have formal rules against teaching in languages other than the national language (Latvia and Turkmenistan), but the rules are directed primarily against Russian, so English is tolerated in practice. Knowledge of English is important because most of the economics literature is in English. Furthermore, the study found that providing economics education in English might be preferable in ethnically and linguistically diverse countries.

Serious complaints about textbooks abound. A few major Western textbooks (in a relevant language) are available in most countries. However, too few titles are available, foreign textbooks are expensive, and substandard teachers often produce their own bad books or students make do with similarly poor quality lecture notes. Libraries are poorly equipped. All the main universities have a fair number of computers and Internet access, but apart from the most expensive business schools these resources need to be extended almost everywhere.

Although the assessment is based predominantly on anecdotal sources of information, corruption in economics education seems to be widespread. Students make side payments both to be admitted and to get decent grades. The system of oral examinations lends itself to nontransparent grading and too much discretionary power by professors. Corruption seems to be worst in the South and the East of the former Soviet Union—and at large public universities—and relatively insignificant in East-Central Europe. Corrupt practices seem to have been at their height at the beginning of the post-communist transition, as public funding and teachers' salaries collapsed. Most countries now report improvements. At least two countries—Bulgaria and Estonia—have made serious, seemingly successful efforts to clean up corruption. For example, students at Sofia University recently established an Anticorruption Society and conducted a study of corruption at four Bulgarian institutes of higher learning.<sup>11</sup> The explosion of private schools seems to have reduced corruption, both because students have to pay substantial tuition fees (replacing bribes) and because teachers at private schools are better paid and presumably better supervised.

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<sup>10</sup> The study found that many teachers who taught Marxist-type economic courses switched to teaching market-oriented economic courses without any retraining.

<sup>11</sup> *Summary of the results were included in Alexandrova, S and K. Stanchev. 1998. "The State of Economics Education and Research in Bulgaria."* Background paper. Washington, D.C.: World Bank.

As a result of these developments, many countries now have a few schools that offer respectable undergraduate teaching in economics. Most of the countries have one or two graduate programs in economics, but their quality is poor and, as mentioned, they cover more business administration than economics. There is no satisfactory doctoral program in economics in any of the twenty countries that were included in the initial stage of the study, nor is there likely to be one for several years to come.

## **The State of Economic Research**

The general consensus is that research institutes fared far worse than teaching institutions during transition. Economic research in the standard international sense barely exists in most countries in the region. The only exceptions are Bulgaria, Croatia, Macedonia FYR, Slovakia, and Slovenia. There is a shortfall of all resources (funding, computers, journals, networks, and research outlets), but the fundamental problem is the lack of trained researchers. Every country has a number of public and private economics research institutes, and some funding seems to be available. The problem is lack of training and lack of a reasonable research environment. There are very few economic research journals, and almost none that use the rigorous peer review process practiced in the West. The dearth and low quality of journals seem more a consequence of the lack of economic research than a cause, however.

Traditionally, universities and other institutions of higher education were supposed to teach, while institutes of the Academy of Sciences and of various branch ministries were supposed to do research. Institutions of higher education thus have almost no facilities for research, and their staff has neither the inclination nor the time for research. Countries in the region have a large number of traditional state-funded economic research institutes and a growing number of new nonprofit and private ones:

- Almost every country has a large Institute of Economics at the Academy of Sciences employing about 100 researchers, many with advanced research degrees. Staffed by old professors of the political economy of socialism, these institutes have few resources other than real estate.
- Almost every country also has an economics research institute attached to the Ministry of Economy (formerly the State Planning Committee). These institutes of applied research could barely be distinguished from Gosplan's ordinary administration. They had few qualified researchers, though they produced abundant statistics. They are withering away.
- A third group of research institutes had ties to various branch organizations. They were even more applied and less scholarly. Most have been disbanded.
- New nonprofit and private research institutes are mushrooming. While private research institutes often provide consulting services to the private sector, research activities of nonprofit institutes are largely determined by the needs of the

international donor community. Professors and researchers from state institutes often establish new research institutes. Many tend to be platforms for the views of deposed politicians. They might be good for politics and civil society, but they do little for economics.

- A few promising new economic research centers have also emerged, such as Academia Istropolitana Nova in Slovakia. No new research center stands out in the Baltics or the Caucasus, while the Institute of Development of Kazakhstan appears to be the most promising economic research institute in Central Asia.

Most of the old-style economics research is so inadequate that it can largely be ignored, with the important exceptions of that in Bulgaria, Croatia, Macedonia FYR, Slovakia, and Slovenia. This is not surprising. There seems to be very little demand for the economic research funded by either public or private sources. Economic policies are usually influenced not by policy recommendations made by indigenous research institutions but by policy advice from international organizations. The one exception seems to be Azerbaijan, where policy recommendations from local research institutes are highly regarded. Unfortunately, budgetary and other constraints result in many policies never being implemented.

## **Funding**

Almost all public and private education and research institutions rely on mixed sources of funding. With increasing enrollment rates and decreasing state expenditure on education and research, institutions have developed innovative ways to diversify their funding sources. A growing number of students self-finance their studies both at public and private institutions. It is not uncommon for public institutions to lease space to private schools or businesses, to organize workshops and seminars, and, in some cases, to fundraise from local businesses. Both public and state education and research institutions vie for funding from international organization donors.

### ***Domestic Funding***

While the number of students has been rising, the public funding of education, including higher education, has been falling through much of the region. A decade or so ago, most countries in the region spent 5-6 percent of GDP on education. Countries in East-Central Europe and the Baltics have not radically reduced education expenditure, but most of the countries of the former Soviet Union have. There, total public funding of education appears to have fallen to about one-third of its real level a decade ago. Where public funding of education has fallen sharply, teachers' wages have also plummeted. Economics has not been protected but seems to have suffered the same proportional cuts as higher education in general.

Private financing, meanwhile, has proliferated. Almost all the new institutions are financed by tuition fees, which are relatively high. Tuition fees are spreading to public institutes as well. An increasing share of students pay tuition fees in countries of the

former Soviet Union, while public higher education is essentially free in East-Central Europe. In Georgia, for example, tuition at a state university slightly exceeds that of a private institution. Foreign financing by governments, international organizations, enterprises, and foundations is an important funding component (see below). However, the financing is heavily focused on undergraduate and business education and much less for graduate. There seems to be minimal demand for economic research, which is suffering from sharply falling public funding across the region, East-Central Europe included, and attracts little private funding.

### *Foreign Support*

Foreign donor organizations spent an estimated \$35 million in 1997–98 to support economics education and related activities in the twenty countries of East-Central Europe and the former Soviet Union included in this study. The largest donors were the European Union (about \$14 million), Soros/Open Society Institute<sup>12</sup> (about \$12 million, \$3 million of it directly for economics education and the rest for related activities), and the U.S. Information Agency (in association with IREX, ACTR/ACCELS, and other U.S. organizations, about \$4 million). Other major donors include the U.S. Department of Education (\$2.5 million), Pew Charitable Trusts (approximately \$845,000), the Eurasia Foundation (about \$664,000), the United Kingdom (The British Council and the Foreign Commonwealth Office, at least \$400,000), and several Scandinavian countries.

The EU supports economics education primarily through its PHARE (covering Eastern Europe) and TACIS (countries of the former Soviet Union) programs. Though TACIS funds programs throughout the former Soviet Union, most current economics education programs are in Russia and Ukraine, rather than in the countries included in this study. Much of the recent EU funding through PHARE seems to focus heavily on the Czech Republic, Hungary, and Poland (again, countries not included in this study), with training and cooperation geared toward future integration with the EU.

Donor support for economics education throughout the rest of the region is very uneven. The Baltic countries and Bulgaria have received the greatest share of funding and support in the countries of East-Central Europe in this study. The Baltics are well supported by the EuroFaculty and the Stockholm School of Economics. Bulgaria has received funding from USIA and is well represented in CERGE-EI, Pew, Civic Education Project, and other programs. Romania has not previously received much funding in economics education. Recently, however, the World Bank has designated \$10 million (out of a \$50 million loan to Romania) to be spent over the next several years specifically on upgrading postgraduate education; we recommend that \$5 million of that amount be spent on graduate economics programs. The countries of the former Yugoslavia have not received much foreign funding. Croatia has been excluded from the EU PHARE program because of the political situation. Macedonia FYR and Slovenia have been included in many USIA programs, but there are currently few, if any, students from these countries participating. Although the Belarussian Open Society Institute office was closed in 1997,

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<sup>12</sup> In Fall of 2001 George Soros donated an endowment of \$220 million to the Central European University.

Soros continues to support higher education, including economics, in Belarus (about \$390,000 in 1997).

In the Caucasus, the Eurasia Foundation has funded curriculum development, acquisition of teaching materials and texts, library enhancement, and support for new economics courses in Armenia, Azerbaijan, and Georgia (about \$325,000 in 1997). Though the region is included in the EU TACIS program, there have been no economics programs in any of the three countries. Soros has supported libraries throughout the region, travel grants in Armenia and scholarships to other European universities for students from Georgia (\$725,000).

In Central Asia funding has also been uneven, with Kazakhstan, Kyrgyz Republic, and Uzbekistan receiving significantly more support than Tajikistan or Turkmenistan. USIA sponsors two programs specifically for Kazakhstan and Uzbekistan (at a cost of about \$20,000 per student). Over the past year the EU TACIS program funded two economics programs in Kazakhstan (\$115,000), one in the Kyrgyz Republic (\$775,000), and one in Uzbekistan (maximum of \$580,000). Soros has supported education reform and training in all the Central Asian countries except Turkmenistan (about \$2.1 million) through the Higher Education Support Program, Curriculum Development Centers (Kazakhstan), seminars, textbook distribution, scholarships, and grants for study and travel.

There is substantial support for economics education in East-Central Europe and the countries of the former Soviet Union through the American Universities in Armenia, Bulgaria and the Kyrgyz Republic. The Open Society Foundation (Soros), provides primary funding for the American University in Bulgaria and the American University in the Kyrgyz Republic, and the Armenian General Benevolent Union (about \$1.8 million in 1998) for the American University in Armenia. The Center for Economic Research and Graduate Education-Economic Institute (CERGE-EI) in the Czech Republic and the Central European University (CEU) also provide sizable support. Currently, 63 students from the region are enrolled at CERGE-EI and 56 students in the CEU economics department.

Most of the programs support economics education primarily through exchange programs with foreign universities and partnership programs. These include short-term professional development, teacher training, and faculty and student exchanges. The majority of the exchanges are established for scholars to pursue graduate degree studies. Few programs focus on policy-orientated research. Most graduate-level training and research is conducted abroad with the support of donors rather than in-country.

Few programs place Western or Western-trained lecturers in local universities or institutions, with the exception of the Civic Education Project (CEP), Fulbright, and the EuroFaculty in the Baltics. CEP usually places lecturers in a wide range of disciplines including economics for one-year terms at the request of local institutions. Currently, economics is the largest field, and CEP has seen demand for economics lecturers rise in the past year.

Funding for research comes mainly through the European Union's ACE program, which is run from Brussels. The program allocates funds for research projects on a competitive basis. It previously provided institutional financing to CERGE-EI in Prague and financed the establishment of a Ph.D. program in economics at the Academy of Economic Studies in Bucharest, but it has stopped doing so for policy reasons. ACE has two parts, PHARE ACE for East-Central Europe, including the Baltics, and TACIS ACE for the countries of the former Soviet Union. Croatia and Yugoslavia are excluded from PHARE ACE for political reasons. For 1999, PHARE ACE was allocated a budget of 10 million euros (\$11 million). In 2000 funding will be scaled down to 7.5 million euros, and the program will last for three years. TACIS ACE has been allocated 1 million euros for Russia only, but no action has yet been taken to launch the program, and it is unlikely that the program will be continued. PHARE ACE provides adequate funding of economics research in East-Central Europe and the Baltics, and the EU is likely to continue covering the region's needs in one way or another. However, the countries of the former Soviet Union are virtually without funding for economics research, with the exception of the EERC for Russia. Clearly, this is a need that should be addressed.

As emphasized elsewhere in this paper, there generally is little distinction between economics and business in the focus of these programs. Often, the description of economics as a priority sector means the inclusion of both economics and business, with no regard for the differences between these disciplines. That said, however, all of the programs do cite economics as a priority for the coming years, and many have seen a rise in demand for economics education in the region.

### **NEW CENTERS OF EXCELLENCE IN THE REGION<sup>13</sup>**

A number of new academic and research institutions have been set up with Western support to provide high-quality Western economics education and research. The Economic Education and Research Consortium (EERC) program in economics at the Kyiv-Mohyla Academy in Kyiv, the New Economics School (NES) in Moscow, and the Economics Department at the Central European University (CEU) in Budapest offer high quality M.A. programs. These programs are designed to prepare students for Ph.D. programs at the best Western universities or for employment in the public and private sectors in the students' country of origin. Both the Center for Economic Research and Graduate Education-Economic Institute (CERGE-EI) at Charles University in Prague and the Department of Economics at CEU now offer American-style Ph.D. programs. NES intends to develop a Ph.D. program in economics, and the EERC in Kyiv might do so in the more distant future. In Moscow, the EERC research center helps to foster a network

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<sup>13</sup> This section has been updated significantly with information gathered at a series of donor meetings, particularly a May 22, 2001 meeting on "Building Private-Public Donor Alliances for Economics Education in Countries of the Former Soviet Union and East-Central Europe." The meeting was held in Washington, D.C. at the World Bank.



of high-quality, policy-relevant economic research in Russia, while providing capacity building and professional development for Russian researchers.

These programs demonstrate that it is possible to set up and run highly successful economics research and graduate education institutions in the region. For that reason they can serve as *models for new institutions in other parts of East-Central Europe and the former Soviet Union*. The graduate programs have shown their excellence by attracting high-caliber students and by giving them an excellent education, as proven by graduates' acceptance to top doctoral programs in the West as well as to comparable programs in the region—the Ph.D. programs at CERGE-EI in Prague and at CEU in Budapest. The employment data of its alumni also indicate the high quality of these programs; many graduates find work in prestigious institutions in the public and private sectors in their country of origin. The programs have also attracted strong teachers. Their curricula conform to the standards of good U.S. universities. All schools teach strictly economics, not business administration, and almost all instruction is in English. They have all begun to develop a *permanent faculty with an increasing number of staff from the region*. Students at these institutions receive scholarships covering tuition and living costs.

### **The Economics Department at the Central European University (CEU)**

Central European University was established in 1991 as an institution committed to promoting educational development throughout Central and Eastern Europe and the former Soviet Union. The university was founded and funded by George Soros. CEU's Economics Department was started a year later in 1992 at its Prague campus as an intensive 12-month M.A. program in economics. In 1995, the department was moved to the Budapest campus and the M.A. program was expanded to two years, with the first year taught at Essex University in the United Kingdom. In 1998 that part of the program was transferred to Budapest, to create a fully-fledged economics department. Today, CEU's Economics Department offers two programs: a two-year MA and a new four-year PhD Program, which was launched in 2000. It plans to launch a Master of Science program in Banking and Finance in academic year 2002-03.

The department attracts high caliber students from all of the countries in East-Central Europe and the former Soviet Union. It accepts 50 students each year to its M.A. program and this year eight students from East-Central Europe were admitted into the first class of the Ph.D. program. (The department plans to admit a total of 14 Ph.D. students for the academic year 2001-02.) Almost half the graduates of the M.A. program continue their studies at Ph.D. programs in the United States and Europe. Today, students also have the option of pursuing a Ph.D. at CEU. Roughly half of the M.A. graduates go straight into full-time jobs, largely in the public and private sectors in their home countries. CEU's high completion rate, with almost half its graduates going on to Ph.D. programs in the West, and its high numbers of qualified applicants are just two factors indicating the high quality of the economics program. The department accepts students from virtually the whole post-communist region, and the M.A. program has 18 applicants for each opening. Thanks to the Open Society Institute network, the CEU is able to reach out to good students throughout the post-communist region.

The department's teaching staff has developed from a largely visiting faculty to a stable body of permanent and recurrent visiting professors. For the academic year 2001-02, CEU has 16 permanent professors and 24 visiting professors. Out of a total faculty of 40, half are nationals of countries in the region. This is largely due to CEU's policy to actively recruit faculty from the region (essentially Hungary and Poland). In recent years, CEU has also brought back 4 professors who earned their Ph.D.s abroad after completing their M.A.s at CEU.

The doctoral program alone has 3 full-time faculty, 3 part-time faculty, and 12-15 visiting faculty. Five faculty members are from the region and also teach at other universities in Central and Eastern Europe. Three faculty members are from the region and are affiliated with European and American universities. The other visiting faculty are from Western universities.

The situation in research has also improved. Until 1998 the CEU had too few permanent professors to form a critical mass of talent for research, but that impediment seems to have been overcome. As part of an international university and with a large visiting faculty, the Economics Department has a strong international network. Its links to the Hungarian academic community have recently been strengthened with the hiring of more Hungarian faculty and the launching of a weekly economics seminar together with the National Bank of Hungary and the Hungarian Academy of Sciences.

The aggregate departmental budget for the academic year 2000/2001 is approximately \$910,000. The real annual cost per M.A. student is \$16,000 and per Ph.D. student \$21,000. These figures include tuition, a pro-rata contribution for overhead (administration, library, computing) and a direct student cost of \$ 5,000 covering room and board, travel, and books. The majority of M.A. and Ph.D. students receive Soros-funded scholarships, covering tuition, room and board, and travel.

### **The Economics Education and Research Consortium (EERC)–Kyiv, M.A. Program**

The EERC Ukraine M.A. program in market economics, conducted in partnership with the University of Kyiv-Mohyla Academy in Kyiv, began operation in fall 1996. It is governed by the EERC Board, with the assistance of its International Advisory Committee of leading Western economists. Initially supported by the Eurasia Foundation, the Open Society Institute, the World Bank, and the Ford Foundation, its supporters now also include the Carnegie Corporation of New York, the Citigroup Foundation, the Starr Foundation, the Norwegian and Swedish Foreign Ministries, and the Government of Finland. Halfway into its sixth year of operation, it is solidly established in terms of teaching a modern English-language based curriculum, using faculty from abroad and from the region, to excellent students. The program has quickly become Ukraine's preeminent source of well-trained economists.

The program has a two-year curriculum that includes courses in theoretical and applied economics, instruction by visiting western faculty, and collaborative research opportunities for students, graduates, and participating Ukrainian faculty. The program's goal is to produce a new generation of economists for Ukraine. Graduates are prepared to pursue Ph.D.-level studies abroad or careers as trained economic analysts for public, private, or international organizations within Ukraine.

Visiting faculty and academic advisers are drawn from more than a dozen countries—notably Canada, Germany, Israel, Sweden, the United Kingdom, and the United States—and the program is eager to maintain a highly international profile. EERC has helped to reverse the “brain drain” by awarding six fellowships to support research conducted in Ukraine by Ukrainians and through active recruitment of Ukrainian Ph.D.'s to fill faculty openings. With support from the Swedish Foreign Ministry, the student body has also internationalized to a small degree, with the inclusion of students from Belarus in each of the last three entering classes. Applicants have increasingly come from outside Kyiv, with the majority of the most recent class coming from other parts of Ukraine and three from Belarus.

Over its first few years, EERC's M.A. program in economics has accomplished a great deal. As of June 2001, it has awarded diplomas to some 130 graduates and anticipates graduation of 40–50 highly trained students annually. It has been fully accredited by the Ukrainian Ministry of Education, an accomplishment unparalleled by any other western-supported educational reform effort in the country. EERC graduates have also fared well. One-third of its graduates have been placed in outstanding doctoral programs in Western Europe and North America and two-thirds of its graduates have begun their professional careers in Ukraine in policy-related positions in public and/or international agencies. For example, EERC has placed graduates in public agencies, including the Ukrainian Parliament, the National Bank, the Ministry of Finance, and the Prime Minister's office and in international policy analysis organizations, including the International Monetary Fund, the World Bank, the Ukrainian-European Legal and Policy Advice Center, the International Center for Policy Studies, and the German Advisory Group.

In addition to its core teaching program, EERC also operates a number of supplementary programs. It is launching a research and outreach initiative to provide hands-on research opportunities for faculty and students. The Speakers' Series aims to give students and faculty the opportunity to interact with economists and public policymakers engaged in Ukraine's transition to a market economy. Finally, the Dissertation Fellowships aim to encourage and support Ukrainian economists dedicated to building the academic environment in their native country. The program provides support to students engaged in Ph.D. studies abroad to undertake dissertation research in residence at the Kyiv-Mohyla Academy.

The program has succeeded in establishing a culture of achievement and excellence, based on transparency in admissions, academic integrity in coursework and the writing of research papers, and dismissal for inadequate performance. It is succeeding

in its goal of orienting students to the international standards and habits of professional economists. The excellent Internet facilities now in operation have been not only a crucial resource for research, but also a powerful stimulus in socializing students in the literature, standards, institutions, and English language writing requirements of the world economics community.

The budget for the program has averaged about \$1.5 million per year. Since the fall 1999, the program has been at full capacity, with an enrollment of approximately 100 M.A. students. The cost per student per year will certainly be less than \$15,000.

### **The New Economics School (NES), M.A. Program**

NES in Moscow was the first non-state-run graduate school of economics in Russia. It is a Russian school operated with the close advice of its International Advisory Board. NES was founded in 1992 as a partnership of the Central Economics and Mathematical Institute (CEMI) of the Russian Academy of Sciences, the Hebrew University in Jerusalem, and Moscow State University, with financial support from the Soros Foundation. The school is located within the CEMI building. NES is financed by the Citicorp Foundation, the Eurasia Foundation, the Ford Foundation, the MacArthur Foundation, Soros Foundation (through Higher Education Support Program), and the World Bank.

NES admits about 50-60 students a year.<sup>14</sup> There are about two and a half applicants per position, and the quality of the students accepted is very high. Half the students come from Moscow, and the rest from other Russian cities, with a few from other former Soviet republics. More than 110 of the 250 students who graduated from NES in its first eight years went on to pursue Ph.D. studies at the best universities in the West, including Harvard, Yale, and the Massachusetts Institute of Technology (MIT), a strong indicator of program strength. The first of these graduates have already returned to Russia to begin promising careers as academic researchers and faculty. The rest of the graduates, more than 140 so far, go on to successful careers in Russia as economists in the private and public sectors. Some work for the central bank, some in international financial institutions and government institutions, and some for private consulting firms, such as Accenture and KPMG.

NES offers a two-year M.A. program in modern economics. Initially, most of the faculty were visiting professors from the West, who came for eight-week terms. Currently, instruction is split between visiting professors, Russian professors, and returning Ph.D.s. Many visiting professors return regularly or remain for more than one term. NES is starting to draw on its old graduates, who are coming back to teach after receiving doctorates in the West. Over the last couple of years, NES has been successful in building a permanent Russian faculty; today 80 percent of the faculty is Russian. The number of full-time faculty is expected to increase by an average of two per year, bringing the student to faculty ratio to 10 to 1.

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<sup>14</sup> Approximately three quarters of the students complete their studies.

NES also has a research component. Research is organized by projects, most of them focusing on the Russian economy. Students participate in the research program as part of their M.A. thesis preparation, under the supervision of project leaders who are experts in the subject, one from the West and one from Russia per project. NES research workshops involve faculty, students, and visiting scholars in a collaborative process.

In the beginning there was not much interaction with other Russian universities, but NES has launched an extensive outreach program, which now teaches modern economics and econometrics to some 200 economists (mostly from outside of Moscow) in a series of intensive workshops. A major partnership effort has been established with a number of regional universities (for example, Voronezh State University and Urals State University in Yekaterinburg), the goal being to upgrade and modernize their economics teaching and research. NES is cooperating with a number of research institutes in Moscow, especially with the Center for Economic and Financial Research (CEFIR) and the EERC Research Center.

NES's annual operating budget is about \$1.5 million, partly a reflection of the higher prices in Moscow, but mostly of the large research and extensive outreach programs. Costs per student are about \$8,000 for the first year and \$12,000 for the second year. As part of a major effort to move towards long-term financial sustainability, NES is planning to diversify its grant support, charge for research engagements, and secure more funding from the Russian alumni and firms. It has started developing a tuition program supported by a student loan fund and plans to create an endowment. In order to facilitate fundraising and public relations activities, NES established in the US a tax-exempt organization, The American Friends of NES.

In the future NES plans to expand its admission to 100 students a year and to further diversify the curriculum and develop its research and outreach activities. (Already the entering class for the academic year 2000-01 was the largest in the history of NES, with 80 students.) The teaching program will include more applied courses, a part-time study program, and continuing education program. NES also plans to launch an in-house policy oriented group. As graduates who have received Western Ph.D.s return and NES develops a permanent faculty, it plans to start its own Ph.D. program.

### **The Center for Economic Research and Graduate Education-Economics Institute (CERGE-EI), Ph.D. Program**

CERGE was founded in 1991 as an American-style Ph.D. program and research center of Charles University in Prague. Its principal mission was to educate the next generation of leading economists for the former Soviet bloc countries. Since 1992 CERGE has cooperated closely with the Economics Institute (EI) of the Academy of Sciences of the Czech Republic. The joint initiative has become known as CERGE-EI. The program is governed by an international Executive and Supervisory Committee (ESC), together with the directors of CERGE and EI. The program was established with financial assistance

from the U.S. Agency for International Development, the Mellon Foundation, and the Pew Charitable Trusts. Other sponsors joined after the successful launch of the program.

CERGE–EI has a broader mission than the other institutions discussed here: it provides a fully fledged American-style Ph.D. program, stimulates academic and policy-oriented research, and disseminates research and policy information to a wide global audience. The program now admits approximately 25 students each year and has about 12 applicants for each position. About 30 percent of students come from the Czech Republic and most of the rest from various post-communist countries. As of 2000, twenty-four students had earned their Ph.D.s from CERGE-EI. Its graduates have been placed in good academic institutions, as well as high-level government and business positions. CERGE-EI has excess capacity and could enroll more students in its two years of courses, if funding were available. Given its mission, it would also like to reach out more to potential applicants from the countries of the former Soviet Union.

The program has proved its excellence in a number of ways. It is still the only institution in the former Soviet bloc that provides a fully-fledged American-style Ph.D. program, that has won full accreditation in both the United States and the Czech Republic. From the start, the program has established rigorous international supervision and stressed its comparability with the leading U.S. programs in terms of quality of education and research. It has a permanent teaching faculty of approximately 20 scholars from a wide variety of countries, including Brazil, Croatia, the Czech Republic, Japan, Korea, Russia, Slovakia, the United States, and Venezuela. All faculty members have doctorates from highly regarded institutions in the West and some from CERGE-EI. There are also seven visiting professors with repeating appointments and one visiting researcher. The program's research papers appear in international economic journals and account for over half the papers accepted from transition economies for presentation at the Annual Meetings of the European Economic Association. CERGE-EI also disseminates faculty and student research findings through its working paper and discussion paper series, and various books.

CERGE-EI's annual budget for teaching and research is \$2.5 million. Average cost per student per year (both on- and off-campus students) is \$13,500 for teaching expenses and scholarships. Its total education budget is about \$1.4 million and the research budget is about \$1 million. CERGE-EI is supported by two foundations—the CERGE-EI Foundation based in New Jersey and the Nadace CERGE-EI based in Prague—which closely coordinate their fundraising efforts in order to ensure maximum efficiency. Because of its emphasis on quality and major fundraising efforts, CERGE-EI has been relatively successful in raising funds.

### **Economics Education and Research Consortium (EERC)–Moscow, Research Program**

Established in 1996, the EERC research program aims to foster high-quality, policy-relevant economic research in Russia, while providing capacity building and professional

development for Russian researchers. The program has an advisory committee of leading Western economists and is aided by a “faculty” of 50 international scholars from over 15 countries in North America, Western and Central Europe, and the Middle East who act as resource persons to emerging economists from the region.

EERC’s Russia-based activities aim to provide incentives for Russian economists to pursue top-quality original research in Russia, to provide technical training to upgrade the skills of Russian economists, and to make research results publicly available for use by domestic policymakers and international economics professionals. These goals have been met successfully through: biannual research grants competitions, research workshops, methodological seminar series, summer schools, development research grants, and various dissemination activities.

EERC’s grants competition has provided funding to 200 Russian economists, allowing them to pursue original policy-related research. To date, EERC has held nine rounds of competition and has sponsored almost 200 research projects, with direct research support now totaling some \$1.5 million. In conjunction with the grants competition, EERC holds biannual research workshops involving peer review of policy research proposals and works in progress. At each workshop about 48 projects from about 75 Russian researchers are presented. The workshops have helped create professional networks for skilled economists in Russia, which today span the entire country, from Saint Petersburg to Vladivostok. Key to the success of the EERC program is the research workshop process itself, which emphasizes intensive peer review, a transparent selection process, and a commitment to improving the quality of sponsored research. The workshops provide a model of international professional norms, helping young Russian economists gain experience in the practices followed within the world economics community. Joint research projects by Russian and international economists are another recent outcome of these workshops.

Through its series of methodological seminars, summer schools, and research development grants, EERC has worked to strengthen the research skills of less experienced researchers. Quarterly methodological seminars provide intensive training in specific research techniques (such as panel data analysis and computable general equilibrium modeling). Both the summer school and seminars aim to strengthen the research resources available to network members and aspiring research applicants. To date, approximately 400 Russian economists have been trained at EERC’s summer schools and methodological seminars. In 2000, the EERC also started providing participants with modest research development grants and putting them through an annual cycle of intensive methodological training, internships at leading research and higher education institutions, and specifically designed research development workshops.

Since its inception, the EERC has worked to develop a comprehensive publications program to serve Russia’s budding economics profession—including a working paper series, newsletters, annual conference reports, research abstracts, and an extensive Web site. EERC has published more than 30 working papers documenting outstanding research results and featuring the work of network members. Working papers

are published in both Russian and English. Abstracts of these publications are available in print and electronic form, via the program's Web site. The program's semi-annual newsletter, "Research in Transition," features policy-relevant work of network members and other researchers on issues of economic transition. EERC also organizes an annual conference of international specialists on the dynamics of economies in transition.

The program's overall annual operating budget is about \$1.5 million. While the EERC network was originally launched to only serve Russian researchers, increasingly it is working with researchers from throughout the region. With the support of the Global Development Network (GDN), the EERC created the Transition Economics Research Network (TERN), gradually involving scholars from other countries in the region in the research and training activities of the Russian network.

## **ADDRESSING ECONOMICS EDUCATION AND RESEARCH NEEDS AND CAPABILITIES OF TRANSITION COUNTRIES**

The transition from socialist to market economies has been arduous and long for many of the countries in East-Central Europe and the former Soviet Union. Ten years since it began, the focus on macroeconomic issues has been replaced by a realization that the process of transition is much more complex than initially assumed. Today, researchers and policymakers understand that transition also involves the development of the institutional infrastructure of a market economy, a legal structure that will enforce contracts, and the creation of new enterprises and jobs.<sup>15</sup> To successfully complete the transition, countries need to build indigenous capacity to formulate and analyze economic policies; they need to train a corps of policymakers, researchers, and teachers who have a full understanding of how a market economy functions.

While the assessment found that about a third of the twenty countries were doing reasonably well, two-thirds were lagging far behind. The education systems in transition countries where the need is the greatest—in the Caucasus, Central Asia, and Southeast Europe—have not responded to the challenge of transition. Despite reforms in higher education and the appearance of new private institutions, the assessment study found that the quality of economics education and research remains poor. University teachers are poorly trained in market economics and the curricula are inadequate. Much of Western assistance, which remains unbalanced, has been based on the misguided assumptions that much good economics education and research is taking place in the region and just needed some additional support and that economics professors were basically sound and just needed short courses or study tours to make the transition to market economics. In fact, the study found that even the best economics graduate studies and research are of

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<sup>15</sup> J. Stiglitz. 1999. "Minutes of November 6, 1999, Meeting on Economics Education and Research in the Countries of the Former Soviet Union and East-Central Europe." Berlin, Germany: World Bank. Mimeo can be obtained from Boris Pleskovic at [bpleskovic@worldbank.org](mailto:bpleskovic@worldbank.org).



poor quality, and the socialist economics in which most professors were trained is not economics in any Western sense.

To support the development of strong, indigenous education and research capacity in economics in the countries in the region, the study recommended the creation of three graduate schools of economics and a research center. The three schools should be located in the Caucasus, Central Asia, and Southeast Europe. By offering a two-year, Western-style M.A. program in economics, followed later by a Ph.D. program, and a research component, the schools should increase the long-term capacity for economics education and research in all three regions. A research center should also be created to cover those countries in the former Soviet Union that are not already covered by other programs. This would exclude Russia, Ukraine, and the Baltic States. The center will be a network for professional economists, helping them to foster high-quality, policy-relevant economic research, while providing capacity building and professional development for local researchers. These goals can be realized through a small research grants competition for economists in the region, semi-annual research workshops, methodological seminars, and a publications program.

At first glance, the task of setting up these three schools and a research center, and thus raising the level of economics education and research may seem daunting. The task is made easier, however, because successful models are available. The design, implementation, administration as well as donor participation and coordination of the five centers of excellence in the Czech Republic, Hungary, Ukraine and two in Russia provide us with valuable lessons.

### ***Guiding Principles***

The following guiding principles for building capacity in economics education and research in transition economies incorporate these lessons. They also rely heavily on the assessment study results and the information gathered from a series of meetings held in Berlin, New York, and Washington D.C., which brought together representatives from European and North American foundations, governments, international financial institutions, and the private sector to discuss their current and future involvement in capacity building activities in the region.

#### ***Building regional capacity***

It is critical to train a corps of high-quality economics professors, policymakers, and researchers who fully understand the workings of a market economy. Because of limited financial resources and the small size of many countries in the region, this goal is best achieved by first creating a critical mass of economics education and research on a regional basis before trying to achieve the same in each country. Once established and fully operational, the regional centers of excellence such as CEU, CERGE-EI, EERC, and NES act as a magnet to attract and retain the best economics minds in the region. Thus the centers would gradually improve other economics faculties by raising the standards of academic excellence through competition. Financially, such a broad approach means

concentrating Western support for the creation of regional centers rather than spreading resources too thinly among many institutions throughout the region.<sup>16</sup>

Regional centers are already playing a catalytic role in improving economics education at other institutions. For example, NES, in conjunction with the Open Society Institute, started a project of upgrading and improving provincial universities in Yekaterinburg and Voronezh, Russia. NES faculty and local academics that they have trained work closely with the economics faculty of the provincial universities. Gur Ofer, the founder of NES, recently suggested that “any expansion of existing projects should use this project as a model; you start from an established base and expand it in a joint venture, creating civil society institutions, improving social capital, and trying to work outside of the government in society at large.”<sup>17</sup>

#### *Developing and expanding a coalition of supporters*

Experience shows the importance of establishing and maintaining a consortium of donors representing the private sector, foundations, international and regional organizations, and governments. An expanding coalition of supporters means more financial, material, and human resources, and more ideas and new perspectives for economics education and research institutions. It also ensures better coordination and thus more efficiency in donor activity in the region. At present, donor activity in the former Soviet Union and East-Central Europe remains unbalanced, with some countries receiving assistance from a multitude of donors for a variety of institutions and other countries receiving little attention or funding.

Involving a consortium of donors from the initial planning stages helps to ensure long-term financial stability and institutional continuity. Largely due to fundraising efforts well in advance of the programs’ implementation, the EERC today enjoys a steady stream of funding from an ever-expanding and diverse group of donors. Other centers have not been as fortunate. Programs that started off with one or two sources of funding remain in a precarious situation. At a meeting in Berlin in 1999, George Soros, the founder of the CEU, highlighted this point when he candidly admitted that “while I have no regrets about working alone during the early years of transition, if I were to start the Central European University today, I would not do so as the sole funder. Although it is a successful institution, it is not good for an institution to have a single source of support. Today, my support for any new initiative in higher education is contingent on having a viable business plan and a group of supporters or donors that can ensure institutional continuity.”<sup>18</sup>

The model of a coalition of public and private partners also mirrors the changing nature of international aid assistance. At the meeting in Washington D.C., James D. Wolfensohn, the President of World Bank, made this point when he emphasized the World Bank’s commitment to working with this consortium of donors in building economics education and research capacity in transition economies. He pointed out that

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<sup>16</sup> B. Pleskovic. “Minutes of November 6, 1999 Meeting.”

<sup>17</sup> G. Ofer. “Minutes of November 6, 1999 Meeting.”

<sup>18</sup> G. Soros. “Minutes of November 6, 1999 Meeting.”

today development assistance is only a small part of the flow of funds to developing and transition economies. In this new and diverse development environment, “You cannot have enduring progress without understanding that the whole funding equation has changed and that the new system is not just the World Bank or the IMF, but a composite of official institutions, private sector foundations, and civil society.”<sup>19</sup>

#### *Building international cooperation and character*

Improving the quality of economics education and research should be an international effort. For the donor community, this means bringing together representatives from the public and private sectors, from Europe and from North American. Strong transatlantic partnerships will only improve the chances for success of existing and future centers of excellence.

The international character of the five centers reviewed in the study is reflected not only in the make-up of their governing structures, but also in their faculty and student body. The CEU, which continues to have the largest outreach in East-Central Europe and the former Soviet Union, enrolls students from nearly 20 different countries. The EERC has also attracted support from the international community; 40 percent of the people who have provided the intellectual resources for the Russian program came from outside the United States and 60 percent in the case of the Ukrainian program.

#### *Locating in a supportive environment*

A supportive environment that enables each center to function efficiently and smoothly is crucial. Most important, this means working with countries that show clear signs of economic, political, and social stability. Centers should be started in countries that accept a fair degree of pluralism and are open to students and faculty from within their own region and beyond, regardless of nationality, religion, or ethnic background.

Cooperation with reform-minded countries and institutions is also important in creating a conducive environment. Host countries and institutions that strive toward higher standards of excellence and support progressive reforms in education, especially at the university level, should be chosen. They should be dedicated to the idea of building long-term capacity for economics education and research through the creation of Western-style universities, including graduate schools of economics.

#### *Ensuring autonomy and independent status*

The most successful centers cooperated with host countries and institutions that offered support and showed a willingness to cooperate in any way necessary to ensure the success of each center, but did not impinge on the center’s independent status. The centers were able to retain a high degree of autonomy by having their own governing board. As the centers developed and grew stronger, they began to create effective links with their host institutions, increasing their interactions gradually.

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<sup>19</sup> J. Wolfensohn. “Minutes of March 30, 1999, Meeting on a Proposed Strategy to Address Critical Economics Education and Research Needs in Transition Economies.” Washington, D.C.: World Bank.

At a 1999 strategy meeting in Berlin, Germany, of foundations, governments, international institutions and the private sector, a general consensus emerged that creating new independent institutions is initially much more efficient and cost-effective than working with institutions from the Soviet period. In many instances, entrenched bureaucracy and Communist era faculty have complicated efforts to work in successful partnerships.

### *The Way Forward*

Although these guiding principles will no doubt be altered to better reflect the realities in each region and country, they represent basic fundamentals that have already been put into practice at CERGE-EI, CEU, NES, and the two EERC programs. The results have been promising. The teaching programs attract high caliber students and give them an excellent education, as evidenced by the number of students who are admitted to best Western Ph.D. programs. Many of the programs have already started to build up a permanent faculty and some have even hired economists from the region who hold Western Ph.D. degrees. The research center in Moscow already produces research, holds workshops and conferences that are highly relevant to the region's ongoing transition. With the appropriate support from the international donor community and from host governments, these future graduate schools of economics in the Caucasus, Central Asia, and Southeast Europe and the research center for countries of the former Soviet Union should yield similar results.

As researchers look back at the lessons learned from the last ten years, there is a consensus that the transition process is not only more complex than initially thought, but also requires policies that are tailored to reflect the history and culture of each country. The need to train local economists, policymakers, teachers and others, therefore, is even more compelling today than at the beginning of the transition process. Although existing and future regional centers of excellence will continue to strengthen local capacity, much more can be accomplished. Additional assessment studies, for example, can be conducted in Bosnia-Herzegovina and Yugoslavia, which remain the only two countries in Southeastern Europe not included in the previous two studies. Similarly, assessment studies can be conducted in Mongolia, Vietnam, and China. Examining the status of economics education and research in these countries would give us a better understanding of the suitability and adaptability of our approach to capacity building in regions outside of the East-Central Europe and the former Soviet Union.

Future studies should look at ways to reproduce the regional centers in each country, as the regional centers begin to have feedback on a national level. Again, the assessment methodology described here can be applied, this time at the national level, to examine current human and institutional resources and needs. Countries can then develop their own national programs for strengthening economics research and higher education.

## ANNEX A: SUMMARY FINDINGS ON ECONOMICS INSTITUTIONS THROUGHOUT THE REGION

This section summarizes our survey findings on specific features of economics education and institutions in the 20 countries. The findings are derived from our background studies and the principal consultants' knowledge of the institutions in question. Our aim was to evaluate promising sites for centers of economics education and to give some indication of the institutions that might be worth looking at. The studies did not attempt a systematic evaluation of the institutions mentioned but rather were intended to assess the state of economics education and research in these countries.

### *East-Central Europe*

#### *Albania*

Albania (3.3 million inhabitants) has long been the poorest country in Europe. It moved from the old Soviet degree system to the Western degree system in 1993. Economics education is poor because of a shortfall of all kinds of resources, but academic freedom exists. Foreign degrees are recognized. Traditional public universities still dominate, but they receive minimal public funding and charge no tuition fees. Albania receives substantial foreign aid from many sources. It has a weak base for economics education, but its students could go to a regional center. The prime aim should be to get funding for good Albanian students to go abroad to get Ph.D. degrees.

- The University of Tirana is the dominant university. Its department of economics has 1,700 undergraduate students and 180 graduate students. The university has a M.A. program in cooperation with Lincoln University in Nebraska.

#### *Belarus*

Belarus (10.3 million inhabitants) has done little to reform higher education. Government control and animosity have left economics education in a precarious state. The old Soviet system of centralized state control and Soviet degrees has survived, but public funding has fallen and a large number of professors have left their underpaid jobs. While M.A. degrees are now recognized, Ph.D. and other foreign degrees are not. Since the Soros Foundation office in Belarus was forced to close, foreign assistance to the education system has diminished.<sup>20</sup> Following a rapid expansion of private institutions of higher education in the early 1990s, a state accreditation committee forced most of them to close in 1997 on quality grounds. Today, there are 20 private institutions of higher education, with a total of 28,900 students. There is a severe shortage of Western textbooks. Private universities live on tuition fees, while side payments are prevalent at public universities, which have no tuition fees. The priority for Belarus must be to fund scholarships abroad

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<sup>20</sup> While the in-country office remains closed, the Soros foundations network continues to support civil society in Belarus through activities based at Soros Foundations in neighboring countries and through a Belarus project established by the OSI-Paris Office.

for Belarusian students at programs such as the EERC at the University of Kyiv-Mohyla Academy.

The main institutions of higher education are:

- Belarusian State University, the traditional national university, has large resources and an extensive network of international contacts, but its professors and curricula are old style.
- The Belarusian State Economic University, the traditional economic university, is similarly old style.

The European Humanitarian University is the leading private university with an economics department. It has a Western-style economics curriculum. It charges tuition of \$1,000 a year.

### *Bulgaria*

Bulgaria (8.4 million inhabitants) has done fairly well in reforming its higher economics education. A new law regulates higher education in a reasonable, Western-oriented way, and a Western-style degree system was introduced, though the procedures for awarding doctoral degrees are unduly bureaucratic. Public funding for education fell 60 percent in real terms from 1992 to 1996. About half of the students pay tuition fees. Bulgaria has considerable international support, primarily from the EU, which has enabled Bulgaria to establish two good economics programs. Leading universities with economics education are:

- The American University in Blagoevgrad functions on the U.S. model. The university's autonomy is protected by law. The university is funded by various foreign foundations, corporations and governments, with the Open Society Foundation and the U.S. Government the main funders. The university is widely considered to provide the best economics education in Bulgaria, but it has no graduate program in economics. The economic program has 83 students. As a next step, the American University should consider adding an M.A. degree program in economics.
- Sofia University has a faculty of economics and business administration, which was reestablished in 1991. It offers a four-year B.A. program in economics, a M.A. program in collaboration with Erasmus University, and Ph.D. research programs. Two to four Fulbright professors teach economics at the university each year. Since 1997, a consortium of four French universities has cooperated with the faculty. It is the only university to have attracted a Bulgarian-born economist with a Ph.D. from a Western university.

### *Former Yugoslavia (Croatia, Macedonia FYR, Slovenia)*

Of the five countries that constituted the former Yugoslavia (22 million inhabitants), only Croatia, Macedonia FYR, and Slovenia are discussed here. Reflecting basic differences

from the Soviet bloc in political orientation, Yugoslavia was traditionally Western oriented and practiced so-called self-management under Communism. These differences from Soviet orthodoxy also carried over into economics education, which incorporated some principles of market economics while promoting a theory of social ownership and self-management—an experiment that failed in practice. The old state system has persisted, almost unchanged. Professors trained in socialist economics continue to hold sway with state support, teaching market economics without retraining, leading to excessive conservatism in most programs. All this makes reform from within unlikely. Its education system has been highly monopolized along regional lines and deficient in many ways.

Economics research and journals continue to be of low quality. The wars in the Balkans have increased parochialism and national isolation. On the positive side, salaries remain good, and libraries and other material resources are much better than elsewhere. The three countries still spend about 5 percent of GDP on education, so there has been no scaling back. These countries have also been engaged in international exchanges, and a few new business schools have emerged.

*Croatia* (4.8 million inhabitants) adopted a new law on higher education in 1996, and the universities are largely self-governing. However, the old faculty, inadequately trained in Western economics, remains in place. Through their influence on the National Council on Higher Education, they have managed to block the accreditation of any new program in economics. Croatia has traditionally been Western oriented and has participated actively in international exchanges, which have included Fulbright scholarships. A number of Croatian economists have M.A. degrees in economics from good universities, but only one has a Western Ph.D. Because of its role in the war in Bosnia, Croatia has been excluded from the EU PHARE program since 1992. This has contributed to an increase in international isolation, which has led to a lowering of teaching and research standards. Many good young economists have migrated from academia to government or abroad, but less so to private business. Library, computer, and Internet facilities are good. A couple of new private business schools have developed.

- The leading traditional universities dominate. Of these, Zagreb, Split, Osijek, and Rijeka Universities have economics faculties. The University of Zagreb, with 155 faculty members and about 5,000 students, including business administration, has the strongest economics faculty. It has both a four-year undergraduate program and a two-year graduate program in economics. While the undergraduate program seems good, the graduate program is well below Western standards.

*Macedonia FYR* (2.1 million inhabitants) has a small education base of potential students, made smaller by the fact that more than a quarter of the population are ethnic Albanians who are largely excluded from the institutions of higher economics education. Macedonia's economics institutions appear to be respectable, though not of international quality. Its institutions remain conservative and provincial. Macedonia has only two faculties of economics, and one economics research institute. It is one of the few countries in the region without a private business school.

- St. Cyril and Methodius University in the capital Skopje is the traditional national university, and it has the best faculty of economics in Macedonia. It offers both undergraduate and graduate programs. Some undergraduates and all graduate students pay tuition fees. It has good facilities of all kinds and extensive international contacts. At least 17 professors have spent at least one semester at a foreign university.
- The Economics Institute in Skopje is the only economic research institution in Macedonia, besides the two universities. It has 22 researchers, but suffers from severe resource constraints. Recently, it started to organize a two-year postgraduate course in international economics, aiming at a M.A. degree in economics. It will be financed by tuition fees.

*Slovenia* (2.0 million inhabitants) adopted a new law on higher education in 1993 and attempted to reform its two economics programs (at Ljubljana and Maribor Universities), but little of substance has changed since the end of Communism. The main problem is the continued dominance of professors educated under socialism, who lack rigorous Western-style analytical and technical training. The returns—and hence incentives—to engage in high-quality teaching and research also remain low. The graduate programs offer little in the way of standard analytical skills beyond those available in the undergraduate programs, and thus the M.A. degree granted by the two universities falls far short of those granted by Western universities in both scope and academic rigor. The economics departments at the two universities have continued the policy of turning down well-qualified Slovenians with Ph.D. degrees from respected U.S. universities. In the past decade close to 10 Slovenians with Western Ph.D.s have been rejected or discouraged from applying to the economics departments. On the positive side, several private business schools have been established.

- Most faculty members in the economics department of the University of Ljubljana lack rigorous Western training. While many faculty members have participated in international conferences and some in exchange programs with Western Europe or the United States, only two earned Ph.D. degrees in the West.
- The Department of Economics at the University of Maribor is younger and has no faculty with Western degrees but has participated in several exchange programs with Western partner institutions. It offers both undergraduate and graduate programs in economics of a similar quality to those of the University of Ljubljana.

Economics research at state universities lacks professional rigor and peer review. A critical mass of well-trained researchers is needed for generating a stimulating environment for research. Domestic journals lack a serious peer review process as practiced in the West. Few outputs are publishable even in lower-caliber Western journals.

The state university system has persisted almost unchanged in these three countries. All three countries have fallen into serious parochialism and conservative rule by old



professors. The procedures required for recognition of Western degrees are lengthy and overly bureaucratic. The graduate programs in economics differ little from their undergraduate programs and thus their M.A. degrees are not comparable to those granted by Western institutions. Academic incentives need to be raised. Rapid improvement appears unlikely however, until there is greater recognition of the severity of the problem. They all need an injection of Western-trained Ph.D.s to modernize curricula and revive scholarship. Because insiders have unchallenged power to protect the status quo, these institutions cannot be reformed from within in the foreseeable future. This region of some 22 million people needs a regional center of graduate studies and research with higher standards and demands than any of the current bodies. Creating an M.A. level program in economics—and a Ph.D. program as well over the medium and longer term—with a substantial research component right from the start would meet much of the demand.

### *Moldova*

Moldova (4.3 million inhabitants) has undertaken a partial, Western-oriented reform of its higher education system. Some 6 percent of Moldovan students (3,000) study abroad, primarily in neighboring, linguistically related Romania, where they should be able to benefit from current, large-scale university reform efforts. Its leading economics schools are:

- The Academy of Economic Studies in Chisinau is the dominant institution of economics education. Begun as a traditional economics university, it has a 320-member faculty and some 8,000 students. It has extensive international contacts and support, a large library, and more than 300 computers. It has a Center for Economic Training and Assistance supported by TACIS. It has not yet developed any Western-style graduate courses. The concentration of foreign support in the Academy of Economic Studies seems appropriate and reasonably targeted, and its achievements to date appear reasonable.
- The International Independent University of Moldova (ULIM), also in Chisinau, is the leading alternative institution. Its faculty of economics has 100 professors and 1,500 students. It designs its own programs and curricula, with loose oversight by the Ministry of Education and Science. Professors are paid much more at ULIM than at public universities, but it has few international contacts. It seems to have less to offer than the Academy of Economic Studies.

### *Romania*

Romania is a large country (22.6 million inhabitants) with the necessary structures for academic freedom but with poor higher education in economics and few resources. Even so, students from neighboring Moldova come to Romania in large numbers to study. Though it has seen an explosion in numbers of students and degrees (1,167 Ph.D. degrees were awarded in 1995), this is mainly a reflection of the lack of attractive jobs and low standards. The country has about 100 institutions of higher education, including 40 new private institutes. Romania has a Western-style degree system and recognizes Western degrees for teaching. A far-reaching university reform has been undertaken, and all

universities are now autonomous. However, this new autonomy has also strengthened the rule of old-style professors at the universities, which hampers progress. Many students from neighboring Moldova come to Romania to study. Romania has just begun a large university reform program under a \$50 million World Bank loan (\$10 million of it for reform of postgraduate education). It would be wise to allot \$5.0 million of the loan to upgrade postgraduate economics education. The upgrade should benefit both Romanian and Moldovan students.

Major public universities with economics are:

- The Academy of Economic Studies in Bucharest, which has some 22,000 students and is a typical Soviet-style university of economics and business management. It has extensive international contacts and over 200 foreign students, primarily from Moldova.
- The Alexandru Ioan Cuza University of Iasi, which has collaborative arrangements with some French, Italian, and U.S. universities.
- The University Babes-Bolyai in Cluj.

### *Slovakia*

The old university structure of Slovakia (population 5.3 million) is largely intact, and the central problem for its higher education system has been the policies of its previous government. Things are beginning to change, however. Foreign assistance has been substantial, and the close links between Bratislava and Vienna are creating a base on which economic education and research in Slovakia can build. Slovakia seems to be doing well enough at the highest level of economics education and does not appear to have any major need to be addressed by this project. With the new government, Slovakia might be able to do something about lower levels of economic education and economics research as well, but this is largely a political question.

- Comenius University in Bratislava, which is the old national university. Since 1997 the University of Pittsburgh has had a cooperative program with the economics and financial mathematics departments at the Comenius University, which has included a substantial, long-term exchange of faculty.
- The Academia Istropolitana Nova was established in 1996 as a new independent institution of postgraduate education. Unable to issue degrees because it is not recognized as a university, its program is comparable to the first two years of a Ph.D. program. All its programs are in English. It has 84 students from 14 countries. The program in applied economics is organized in cooperation with the University of Pittsburgh and the University of Technology and the Institute for Advanced Studies, both in Vienna.
- The University of Economics in Bratislava is the traditional large national university of economics and business administration. It has not reformed. Tellingly, the

University of Pittsburgh had initially attempted to set up a cooperative program with the University of Economics. When that attempt failed despite extensive efforts, it turned to Comenius University instead.

With the support of the University of Pittsburgh, Comenius University seems on its way to establishing a good basic education in economics, Academia Istropolitana Nova, with the support of the University of Pittsburgh and Viennese partners, seems to have exactly the kind of M.A. program in economics that we favor.

### ***The Baltic Countries (Estonia, Latvia, Lithuania)***

The three Baltic countries (8 million inhabitants) are doing very well in terms of economic and education reforms, foreign assistance to education, and development of higher economics education. Their large and sustained efforts to improve economics education have benefited from the EuroFaculty, set up by the Council of Baltic Sea States in 1993 and funded by the governments of Denmark, Finland, Germany, Norway, and Sweden along with EU PHARE and TEMPUS. There has been a strong reform movement in higher education to raise standards to a European level. The old Soviet degree system has been mostly abandoned in favor of a Western model. At the same time numerous resource constraints and structural rigidities remain. The BA curriculum does not offer much beyond introductory macro, micro, statistics and econometrics courses, and the Soviet style doctorate is still required to become a full professor. The reform effort has been devoted mostly to raising undergraduate education to the level of a good Western institution, rather than focusing on producing graduates with M.A. degrees. That effort is now having some success in the form of a BA honors program in economics.

*Estonia* (1.5 million inhabitants) is well advanced in terms of reform of higher education in general, including economics. But while the style is Western, the level is still below Western standards. Estonia gets substantial assistance in economics education from its Western neighbors. Salaries are good, and international accreditation is under way. Estonia is probably the least corrupt post-communist country, thanks to a concerted effort by the authorities. Estonia has two good Western-style business schools, Estonian Business School and Concordia International University of Estonia, but they offer little economics. Western assistance seems to be effective, especially through the EuroFaculty. Leading economics institutions are:

- The School of Economics and Business Administration at the Tartu University, the leading national university and best economics program. It accepts 40 economics students each year for the four-year BA program and charges no tuition. It also has a two-year M.A. degree program.
- Tallinn Technical University has a good faculty of economics. Its dean is possibly Estonia's best economist. It offers only an undergraduate program.

*Latvia* (2.5 million inhabitants) has undertaken a far-reaching reform of its higher education and passed a law on higher education in 1997 based on Western lines. Yet a

Soviet-style doctorate is still a precondition for becoming a full professor, and nontransparent practices are not uncommon. It has no Western-style graduate degree program or credible economic research. The main economics institutions are:

- The EuroFaculty Honors Program at the University of Latvia in Riga, part of the larger Faculty of Economics and Business Administration, is the only pure economics program in Latvia. Three Western professors from the EuroFaculty teach some 30 students in a four-year undergraduate program similar to programs in Western Europe and North America. It is formally forbidden to teach in English, though that prohibition is ignored. The faculty leadership favors business administration over economics. The domination of Soviet-era professors in the faculty is also a problem.
- Riga Technical University has an economics undergraduate program that is strong in *mathematics and quantitative methods*.
- The Stockholm School of Economics in Riga, set up in 1994, is financed primarily by the Swedish government and administered by the Stockholm School of Economics. It offers a two and a half year B.S. program in business administration and attracts the best business economics students in Latvia. It has an entirely Western faculty, and all teaching is in English. However, it teaches predominantly business administration. It admits 100 students each year. Two-thirds come from Latvia and one-third from Estonia and Lithuania.

Though Latvia has improved its higher economics education considerably, it still has no Western-style M.A. degree program, doctoral program, or serious economic research. It is vital to maintain the EuroFaculty Honors Program at the University of Latvia.

In *Lithuania* (3.7 million inhabitants) the government has a largely indifferent attitude toward higher education, leaving universities with a fair amount of autonomy. This autonomy has protected control of economics hiring and curricula by Soviet-era professors and has allowed cheating and nontransparent practices to flourish. While Lithuania is larger than Estonia or Latvia, much less has been done in economics education and fewer assets are available. Private business schools have developed, but none has established a reputation for itself. On the brighter side, the first Lithuanian with a Western Ph.D. in economics (from the University of Connecticut) returned to a Baltic university to teach in 1997. As a first step it needs a good B.A. program in economics, such as that about to be established at Vilnius University. It needs to promote Ph.D. studies in economics abroad for a number of promising candidates. Lithuania has a way to go.

- Vilnius University, the traditional national university, offers the only real economics program in the country. Its program is very thin in the last two years, a defect that may be remedied by the B.A. honors program that the EuroFaculty hopes to launch in the fall of 1999.

As compared to some of the other countries in East-Central Europe, the achievements of the Baltic states in economics higher education are already quite significant; Western resource commitments are substantial, and the region is small, with sharply defined differences. It would appear to make sense to establish one strong regional M.A. degree program in economics using the resources already available.

### ***The Caucasus (Armenia, Azerbaijan, Georgia)***

The Caucasus region is riven by internal conflict. There are, however, some features in the development of post-Soviet higher education common to all these countries. Public funding of higher education has fallen sharply in the wake of wars, but private institutions of higher education have proliferated in response to the still great demand for higher education. Tuition fees have become commonplace.

Armenians and Azerbaijanis could not possibly study in the other's country at present. Georgia is the most open society in the region. Currently, the Caucasus as a whole enjoys high economic growth, which enhances the urgency for improving its economics education and research capacity.

*Armenia* (3.6 million inhabitants) is the smallest country in the Caucasus. Despite the tremendous destruction caused by the war with Azerbaijan, Armenia has made great advances in higher education, thanks to a comparatively good education base, strong support from the Armenian diaspora, and substantial foreign aid. It has also seen an explosion of new institutions of higher education, with some 21 of them offering an economics program. Armenia has received a large share of foreign assistance in education and has used it well. Funders should look at assisting in setting up a department of economics at the American University of Armenia, which appears to be one of the best universities in the countries of the former Soviet Union.

- The American University of Armenia, founded in 1991 and affiliated with the University of California at Los Angeles, is a small, U.S.-style university, with all teaching in English. It has only some 400 students, but an annual budget of \$2 million. The 30-member faculty, mainly U.S. professors on short-term assignments, are well paid. Almost all have Western Ph.D.s. Many graduates have moved on to US universities for doctoral studies. Though it has no graduate economics department, it seems a natural choice for further development. Like Georgia, Armenia needs to review its institutions of higher education with a view toward raising quality standards.
- Yerevan State University, the main national university, has a department of economics with about 700 students and 56 teachers. It is just now switching over from a Soviet-style to a Western-style degree system. All teaching is in Armenian, but the students know English. Tuition is \$830 a year.
- Yerevan Institute of National Economy is the traditional economics university in Armenia. It has about 2,000 students and some 500 lecturers of modest quality.

Teachers' salaries are \$12-\$20 a month. It maintains the Soviet-style degree system, and all teaching is in Armenian. It appears relatively conservative, with less developed institutional resources.

*Azerbaijan* (7.6 million inhabitants) is the most populous country in the Caucasus. The development of its higher economic education is similar to Georgia's, but the booming oil industry has brought in a lot of money. Though there are 59 departments offering economics programs (29 in state universities and 30 in private ones), teacher quality is very poor and the focus is on business administration rather than economics. The study found no Azerbaijani with a foreign M.A. degree in economics, while some 15 Azerbaijanis with foreign B.A. degrees in economics have gone on to private business. The Soviet degree system persists, but a Western degree system has been introduced at certain universities. The dominant language of instruction is Russian, but several of the new universities also use English. Tuition fees at both state and private institutions range from \$200 to \$2,000 a year. The private universities seem to be better than the public universities, but they tend to have a rather narrow business orientation. Many of the universities have developed close links with one or several Western universities.

Some of the best are:

- Teffekkur University, founded in 1995, has 1,900 students. Courses are taught in Azerbaijani, Russian, English, and Spanish. It specializes in international railway transport and customs administration. It has relations with seven U.S. institutions of higher education.
- Khazar University, specializing in tourism management and international economic relations, offers economics courses taught in English. Its top graduates go on to leading universities in Canada, France, the United Kingdom, and the United States.
- Azerbaijan University specializes in foreign economic relations.
- Western University specializes in banking. It is the first institution in the country to develop B.A. and M.A. degree programs. Its economics department has courses taught in English.
- The American University in Baku is a business school with many U.S. teachers. All courses are taught in English.

Azerbaijan seems weaker in human capital for higher education in economics than Georgia and Armenia. Though a multitude of new institutions has arisen, they tend to be weak and focus on business rather than economics.

*Georgia* (5.4 million inhabitants) has some 280 officially registered institutions of higher education, 179 of them in the capital Tbilisi, which has a cosmopolitan history as the cultural center of the Caucasus. Of 130,000 registered students in 1997, one-third were in private institutions. About half of all students paid tuition fees ranging from \$200 to

\$1,000 a year. A Western-style education law has been adopted, but a parallel Soviet-style system persists. There appear to be no administrative impediments to education initiatives, not even state standards. Any type of degree is allowed, and the system is maintained by citizens who cherish higher education. Georgia has some 18 private institutions offering a credible economics or business administration education.

- Tbilisi State University is the largest provider of economics education. Its economics department enrolls 2,400 students. It has a four-year BA program and a two-year graduate program.
- Georgian Technical University, the second largest public provider of economics education, hosts the German Institute of Law and Economics and the Georgian-American Institute of Public Administration.

Both these universities have reasonable resources in terms of computers, libraries, and internet access. While its entrepreneurship is impressive, Georgia will eventually need to raise the standards of its various institutions of higher education.

### ***Central Asia (Kazakhstan, The Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan)***

Central Asia is a large region (55 million inhabitants), but it lacks a good center of graduate economics studies. Economically, Kazakhstan stands out as an oil-rich country with the largest resources. Politically, Kyrgyz Republic is the most open society, followed by Kazakhstan. All countries in the region have undertaken Western-oriented reforms of higher education. Kazakhstan and Kyrgyz Republic have gone through especially dynamic and progressive academic change. The dominant language of university instruction in these two countries is Russian; the others use their national languages, limiting their access to the economics literature and to competent teachers. Kazaks and Kyrgyz have much in common; the other Central Asians do not.

*Kazakhstan* (16.5 million inhabitants) is the richest and most developed country in Central Asia, but public funding for higher education has fallen sharply, as it has elsewhere in the region. Private institutions have proliferated, but the quality of university teachers is poor. There are some 137 private institutions of higher education. Both public and private universities depend on tuition fees, which tend to be around \$1,000 a year. Both the number and quality of university teachers are poor, however. A strong Curriculum Committee, composed of old Soviet-style professors, many of them affiliated with the Kazak State Academy of Management, censors economics education in favor of Soviet-style economics and management. Standards for doctoral degrees have been very low in many cases, and business administration rather than economics predominates. It has the following economics institutions:

- The Kazakhstan Institute of Management, Economics, and Strategic Research (KIMEP) is the leading business school in Kazakhstan. Founded in 1992, it provides a Western-style business education entirely in English. It is autonomous, funded by

the Kazak government, USAID, the Soros and Eurasia Foundations, TACIS, and others. It aims to admit 120 students each year to a four-year B.A. program and 20 students to a two-year M.A. degree program in economics. It has a new Ph.D. program in economics. In academic year 1998-99, KIMEP employed five foreign faculty with Ph.D. degrees, and the eight local faculty with Western M.A. degrees, most from the University of Kentucky or the University of Colorado. Annual tuition for the M.A. program ranges from \$3,000 for residents of Kazakhstan to \$4,300 for residents of other CIS countries. The quality of teaching seems to have declined since 1995; today, KIMEP employs only a handful of faculty who hold Ph.D.s. Business education seems to take precedence over economics education.

- The Institute of Economics and Law at Al-Farabi Kazak State National University (KSNU), the old national university, attempted to establish a M.A. degree program in economics with Middlesex University in the U.K. in 1995. That effort failed. It has partnerships with the University of Kentucky and Oklahoma State University. The institute is dominated by old Soviet-era professors.
- The Institute of Development of Kazakhstan was founded in 1994 as a private think tank. It has an aspirantura program with 26 post-graduate students. It has partnerships with the Institute of Developing Economies in Japan, the Eurasian Foundation in Turkey, and the Institute for Advanced Studies in Austria.

*The Kyrgyz Republic* (4.6 million inhabitants) is the most open country in Central Asia, in politics and economics. It is comparatively poor, and like other post-Soviet countries has suffered serious cuts in state financing of higher education. With an open approach to higher education, the Kyrgyz Republic has allowed many kinds of institutions to flourish, which survive largely because of tuition fees (approximately \$800 a year) and foreign support. It has 47 universities, half of them private. Like Kazakhstan, it is reforming its system of higher education, allowing the old Soviet-style system and a Western-oriented system to coexist, but in a more liberal atmosphere than in Kazakhstan. The Kyrgyz Republic has several new universities that receive strong international support and that have taken the lead in the national university system. Foreign assistance to economics education in the Kyrgyz Republic seems reasonably focused on a few good major institutions. Over the past year the EU TACIS program funded a \$775,000 economics program in the Kyrgyz Republic. But more resources are needed. Only 0.1 percent of Kyrgyz students study abroad. The best institutions teaching economics are:

- The American University in Kyrgyz Republic, founded in 1993, seems the most promising institution of higher education. It has 300 students. It receives financial support from, Soros, IREX, the Eurasia Foundation, and the local business community, but tuition fees of \$1,400 a year provide most of the financing. Its system of education is American, but unlike the American University of Armenia, it has no supportive U.S. parent institution. It recently received a grant of \$2 million from USA. Most teaching is in English. Many of its faculty members are Fulbright scholars or Civic Education Project lecturers. It is starting an economics program this year.



- The Kyrgyz-Russian (Slavic) University, established in 1992 by the Kyrgyz and Russian governments, offers both Western-style degrees and traditional Soviet degrees. It has substantial Russian financing and therefore attracts the best local teachers. It probably has the best material resources. It has partnerships with the University of Nebraska and the University of Cologne.
- The Kyrgyz-European Department at the Kyrgyz National State University is a private institution within the public university. It offers a four-year BA program in economics and management. It has 500 students, who pay about \$1,000 a year in tuition. Its name notwithstanding, it receives little EU financing.

*Tajikistan* (5.9 million inhabitants) is the poorest country covered in this paper and the most war-ravaged. Its higher education programs are terribly impoverished and rely largely on private tuition fees. Even so, Tajikistan has undertaken a Western-style reform of higher education. Eleven institutions, seven of them in the capital Dushanbe, have economics programs. A large number of new private institutions of higher education have been established, for which there is little prospect of public funding. The universities have become highly autonomous in other regards as well. That thousands of students are studying economics even in impoverished Tajikistan underlines the demand for economics studies. Foreign and private initiatives seem too spread out. A more productive approach might be to concentrate international aid efforts on Tajik National University and on sending students for study abroad.

- Tajik National University is the only full-scale university and the only one that claims to have staff with doctoral degrees. It has 7,800 students, 1,800 of them studying economics or business administration. It has a graduate program in economics of obvious low quality.
- The Tajik-American Institute of Economics and Business is a fully private business school, charging \$1,200 in annual tuition. It has several teachers with M.A. degrees in economics. It receives support from the Kolinho Carpet Factory in Khujand.
- The Aga Khan Development Network has plans to establish a new private university at Khorog devoted to the economic and social development of mountain regions.

*Turkmenistan* (4.6 million inhabitants) is probably the most isolated of the former Soviet republics and one of the least developed. It has a regime that stifles all initiative. It has the worst system of economics education in the region and the worst prospects for improvement. It has 15 institutions of higher education, with only one private university, a small joint venture with Turkey. Periodically, capricious reorganizations of the education system are initiated. Despite these severe handicaps, a new reform of higher education aims to move from a Soviet to a Western system of higher education. Efforts should focus on building up a department of economics at Turkmen State University, with good teaching at the undergraduate level. The priority for economics education in

Turkmenistan should be to train economists abroad at all levels. The main institutions of higher economic education are very traditionally Soviet:

- Turkmen State University, the only full-scale university in the country, has a department of international economic relations, but no pure department of economics.
- Turkmen Polytechnic Institute has a faculty of economics and engineering and an International Business School.

The Institute of National Economy is the large traditional provider of poor quality vocational economics education.

*Uzbekistan* (23.2 million inhabitants) is the largest country in Central Asia, but it has the least reformed economy and system of higher education. It has a centralized and state-controlled system of education. The economics curricula of all universities were unified by the Education Law of 1997. B.A. and M.A. degrees have been introduced and Ph.D. degrees are accepted, but the higher degrees are still of the Soviet type. Courses are taught in Uzbek and Russian, though there are no formal restrictions against teaching in English. About half of students pay tuition fees. A new program in 1997, the Umid Presidential Scholarship Program for Talented Youth, provides 150 full scholarship for qualified Uzbek students to study abroad, 100 of them in the United States. As funding declines and reform lags, standards have deteriorated. The tight state control in Uzbekistan makes progressive reforms in higher education unlikely. The best institutions of economics education appear to be:

- Tashkent State University is the dominant school of economics. Its faculty of economics, founded in 1991, specializes in economic theory. A small new institution, with only 130 students in economics, its quality has improved in recent years. It participates in the EU's TEMPUS program, and its partners are Copenhagen University and Surrey University.
- The University of World Economy and Diplomacy is the traditional diplomatic school under the Ministry of Foreign Affairs. It has just 100 undergraduate students in economics. A small elite institution in the capital, its quality has improved in recent years, but it seems somewhat isolated academically.
- The Joint Vienna Institute was established in 1992 with the support of the Bank of International Settlements, the EBRD, the IMF, and the OECD. It offers courses of less than a year for up-and-coming public executives. It is located at Tashkent State University of Economics.

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