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The review provides a detailed analysis of main trends in Russia's economy in 2014. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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5.3. The Higher Education in 2014: Inconsistency of Reform Measures

In 2014, organizational and economic restructuring of the vocational training system continued along the following main lines:

- restructuring of the system of higher educational establishments on the basis of the monitoring of their condition, identification of educational establishments with evidence of inefficiency and taking of the following three types of decisions in respect of those establishments: liquidation, affiliation with other educational establishment and putting them under control so that to eliminate shortcomings (violations) in their activities. It is to be noted that the following is considered as violations in activities of higher education establishments: enrollment of students with a low grade in the Unified State Exam (USE), lack of academic and laboratory premises (license index), or low HR potential of the higher education establishment (license index). What is actually meant here is restructuring of the system of higher education establishments by means of administrative methods;
- partial modification of the procedure for and toughening of the control of the USE as a kind of a pass to higher education;
- gradual introduction of unified (single) norms of budget financing (the same set of norms is applied to all the educational establishments, but it is to be noted that the norms are differentiated by 9 groups of lines of training (lines of profession), levels of education and modes of training);
- control over prices on paid education services and prevention of cross-subsidy (however only on the part of budget subsidizing of fee-paying students, while on the part of fee-paying students such subsidizing is admissible);
- raising of wages of educational personnel of vocational education establishments (academic staff (AS) of higher education establishments and teachers and foremen of industrial training at secondary vocational training establishments (SVT)).

All the above reforms have been carried out for a few years. So, as a result of the monitoring of efficiency of higher education establishments - which monitoring has been carried out from 2012 - many nongovernment higher education establishments and branches of nongovernment higher education establishments, as well as branches of state higher education establishments were closed down. In addition to the above, mergers of higher education establishments took place. As a result, in the past few years the total number of higher education establishments has rapidly decreased (*Table 13*).

Table 13

The number of Russian higher education establishment and the number of their students in 2000/01 – 2013/14 academic years

| Years | Number of educational establishments | Number of students, total, thousand people |
|---------|--------------------------------------|--|
| 2000/01 | 965 | 4,741.4 |
| 2005/06 | 1068 | 7,064.6 |
| 2006/07 | 1090 | 7,309.8 |
| 2007/08 | 1108 | 7,461.3 |
| 2008/09 | 1134 | 7,513.1 |

| | | |
|---------|------|---------|
| 2009/10 | 1114 | 7,418.8 |
| 2010/11 | 1115 | 7,049.8 |
| 2011/12 | 1080 | 6,490.0 |
| 2012/13 | 1046 | 6,073.9 |
| 2013/14 | 969 | 5,646.7 |

Source: Rosstat, http://www.gks.ru/free_doc/new_site/population/obraz/vp-obr1.htm.

So, after growth in the number of higher education establishments till the 2010/11 academic year, their number started to decrease (before the introduction of the monitoring due to a decrease in the number of students). The highest number of higher education establishments and their students was registered in 2008 (1134 higher education establishments and 7.5m students). Since then, the total number of higher education establishments fell by 14.6%, while the total number of students, by 24.8%. As the rates of decrease in the number of students are higher than those in the number of higher education establishments, further restructuring of the system of higher education establishments is urgently needed.

According to the State Program of Development of Education in 2013–2020, by 2020 the number of state higher education establishments is to fall at least to 500 (at present their number amounts to 578, while in 2009 it was equal to 662). It does not mean that state higher education establishments were liquidated; the main measure in the public sector was affiliation of weaker higher education establishments with stronger ones. At the same time, there were often instances when the affiliated weaker institution was larger as regards the number of students than the institution it was affiliated with (an explicit example of that may be the affiliation of the Russian University of Trade and Economics with the G.V. Plekhanov Russian University of Economics). As a result, there is a risk that the integrated higher education establishment will be less efficient and, at the same time, too big to fail.

However, it is early to speak about the outputs of the current restructuring: its effect is not quite clear yet. The more so, such factors as introduction of new norms of funding, raising of wages to the academic staff and regulation of an education fee for fee-paying students (see below) will have a great impact in the short-term prospect on the efficiency of higher education establishments.

As regards toughening of control over the USE, the average grade has decreased on all those subjects on which the exam was held. The above situation was discussed earlier.¹ The same material includes the analysis of consequences related to modification of the procedure for passing of the USE, primarily, introduction of an essay as a pass to the USE. It appears that the above measure will not bring about any significant changes, but the public at large and the academic community will be satisfied as their requirement has been met.

At the same time, as regards the following three reform positions - raising of wages to the academic staff of higher education establishments, adoption of the scheme of per capita funding of higher education establishments and regulation of prices (cost) on paid education services on the basis of the norms – the situation is getting more and more controversial which factor has a negative effect on development of the entire system of higher education. For the above reason, the situation in question is discussed in detail.

The above inconsistency is more explicitly seen in comparison of budget funding of a study group of 25 students² on the basis of the approved per capita norms and the need in budget funds for remuneration of labor of the academic staff engaged in training of the study group.

¹ T. Klyachko. USE-2014: The Main Outputs// Economic Development of Russia. 2014. No.8. pp. 36–37.

² 25 students is a guideline number of a study group.

In 2014, for lines of training (lines of profession) which do not require utilization of lab equipment the norm of per capita funding was set in the amount of Rb 63,370. It is perfectly clear that it is infeasible to train a student for the above sum of money. But according to calculations, the above sum is insufficient to organize a standard training of a study group of 25 persons, either. Prior to 2014, the guideline number of students per one lecturer amounted to 10:1. In 2014, the Ministry of Finance proposed to increase it to 12:1. In *Table 14*, a calculation of the need in budget funds per a study group carried out on the basis of the guideline value of 12 students per a lecturer is presented.

With expenditures on remuneration of the academic staff at 88.7% of the allocated volume of budget funds, a higher education establishment will not be able to develop properly, nor upgrade the quality of education services, that is, to meet the goal of the reforms.

Table 14

**Calculation of the need in budget funds for remuneration
of lecturers in training of a study group of 25 state-financed students
by lines of training (lines of profession)
which do not require utilization of a lab equipment
(bachelor's and specialist's degree programs)**

| |
|--|
| Norm of per capita financing (NPCF) – 63370 |
| Group of 25 persons, the number of lecturers with a ratio of 1:12 is equal to 2.1 lecturers |
| The volume of budget funds allocated to that group a year: $63370 \times 25 =$ Rb 1,584,250 |
| According to the Rosstat's data, the average annual pay of the academic staff for 9 months of 2014 amounted to Rb 42822. (135.6% nationwide) |
| Consequently, the annual average pay of 2.1 lecturers with accruals amounts to: $42822 \times 2.1 \times 12 \times 1,302 =$ Rb 1,405,006.9 or 88.7% of the volume of the budget funds meant for that study group. |

Source: calculated on the basis of the data of the Rosstat and the Ministry of Education and Science (http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/wages/) (<http://минобрнауки.рф/документы/3927>).

It means that in setting of norms of per capita funding higher education establishments of social science, economics and the humanities (as they do not need a lab equipment) will manage to survive if they succeed in attracting fee-paying students and charging a much higher education fee than the amount of the funds provided for by the norms. But it is feasible only if there is sufficient solvent demand on those lines of training in the region. However, for example, as regards training in mathematics which line is also financed on the basis of the norm which is equal to Rb 63370 as it does not require utilization of special equipment such demand is completely nonexistent (*Table 15*).

As seen from *Table 15*, in 2014 a more or less considerable enrollment of state-financed students by the lines of training (lines of profession) at that higher education establishment was only observed in the Fundamental Informatics and Information Technologies line of training (bachelor's degree program) and amounted to 15 persons out of 35 persons enrolled. It is to be noted that such a situation normally prevailed everywhere with Moscow and St. Petersburg being an exception to some extent.

As regards lines of training which require utilization of lab equipment, in 2014 the norm of per capita financing in the amount of Rb 67,060 was set. Naturally, it is believed that the difference between the two norms of per capita financing is justified by expenses on maintenance and service of the lab equipment, that is, for those purposes the amounts of Rb 3,690 and Rb

92,250 are to be spent per student or a study group of 25 students, respectively. But here is the same situation with remuneration of lecturers of the study group which remuneration is equal to 83.7% of budget funds allocated for the above group; it is to be noted that a financial maneuver is feasible only by means of reduction of costs related to maintenance and service of the lab equipment.¹

Table 15

The number of state-financed and fee-paying students by some lines of training of first-year students of a state university (National Research University) in a large city in 2014

| National Research University in a large city – enrollment for the 2014/15 academic year | | | | | |
|---|---|--------------------------------------|---|---|---------------|
| Mode of training | Line of training (line of profession) by the Federal State Educational Standard | The number of applications submitted | The number of enrolled first-year students, persons | | Qualification |
| | | | total | Including those with the expenses compensated | |
| Full time education | 010100 - Math | 0 | 0 | 0 | Bachelor |
| Full time education | 010100 - Math | 21 | 20 (20) | 0 | Master |
| Full time education | 010200 - Math and computer science | 437 | 64 (60) | 4 | Bachelor |
| Full time education | 010300 – Fundamental informatics and information technologies | 370 | 35 (20) | 15 | Bachelor |
| Full time education | 010300 - Fundamental informatics and information technologies | 25 | 15 (15) | 0 | Master |
| Full time education | 010400 – Applied mathematics and informatics | 363 | 50 (15) | 5 | Bachelor |
| Full time education | 010400 - Applied mathematics and informatics | 26 | 21 (21) | 0 | Master |
| Full time education | 010500 – Mathematical support and administration of information systems | 307 | 13 (10) | 3 | Bachelor |
| Full time education | 010800 – Mechanical Science and math modelling | 317 | 25 (20) | 5 | Bachelor |
| Full time education | 010800 - Mechanical Science and math modelling | 11 | 10 (10) | 0 | Master |

Note: enrollment of state-financed students is specified in brackets.

Source: www.edu.ru

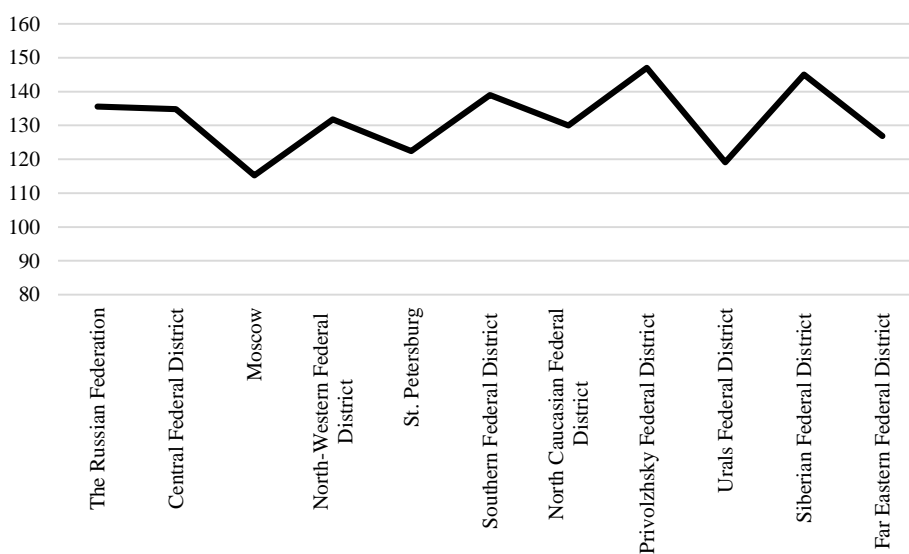
In training of personnel by lines (lines of profession) which require utilization of complex lab equipment, the share of wages in the total volume of budget funds allocated on training of a study group of 25 persons will decrease to 80.7%, but still at a very high level. It will fall to

¹ It is to be noted that there is no clear justification of expenditures related to maintenance and service of lab equipment. So, for example, at one higher education establishment there are 3 groups of students using the lab equipment (accordingly, expenses on maintenance and service of the equipment amount to Rb 276,750), while at another higher education establishment there 5 groups (the expenses will amount to Rb 461,250). Most probably, the former higher education establishment will lack funds on maintenance and service of that equipment, while the latter one has a surplus of funds; it is to be noted that the optimal number of groups utilizing that equipment for training is 4.

50.2% only as regards priority lines of training where the norm of per capita financing was set in the amount of Rb 112,000 a year in 2014.

So, it seems higher education establishments are motivated to reorient training of students to priority lines. Such a situation may have an effect to a certain extent on the pattern of training and result in enrollment of a higher number of students for training, for example, in certain engineering professions. But such a policy will become successful only in case those graduates succeed in getting a well-paid job. At present, they generally graduate by the above priority lines from higher education establishments of technology and seek a job not in accordance with their vocation, but at premium sectors of the Russian economy: the information and communication technologies sector, financial sector, oil and gas sector and some segments of the services sector, including business services. Due to the above, the index of employment of graduates which is used in monitoring of efficiency of activities of higher education establishments should be regarded only in general terms without being linked to a line of training (line of profession) of a student. It is to be noted that among graduates of prestigious western universities nearly 40% of graduates do not work within their profession, particularly, those with a bachelor's degree. It is related to the fact that the higher education at its first stage is becoming more and more a general higher education with some profile training components included.

With preservation of the introduced approach to per capita financing of higher education establishments in accordance with the norms, public higher education establishments of Moscow and St. Petersburg happen to be in a particularly complicated situation as the level of the average labor remuneration in the above cities is much higher than in most Russian regions (Fig. 7).



Source: The Rosstat. http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/wages/

Fig. 7. The average pay of the academic staff as compared to the average one in the economy of federal regions, Moscow and St. Petersburg in Q3 2014, %

For 9 months 2014, in Moscow the average pay of the academic staff (the data on the year 2014 was not available as of the date of preparation of the review) amounted to Rb 67,859 or 115.2% of the average one in the economy of the capital city (in St. Petersburg it amounted to

Rb 47,845 or 122.4%, respectively). A rather low index is registered in the Urals Federal District which situation can be explained by the fact that in the Yamalo-Nenets Autonomous Region with an average pay of Rb 74514 in that region the average pay of the academic staff of higher education establishments amounted to Rb 73520 or 98.7% of the average level. It is to be noted that in the Sverdlov Region (the Urals Federal District) the average pay of the academic staff of higher education establishments amounted to 155.8% of the average pay in the economy of that constituent entity of the Russian Federation (Rb 45,200 against Rb 29,000). Similarly, in the Vladimir Region (the Central Federal District) the index of the ratio between the average pay of the academic staff of higher education establishments and the average pay in the region was equal to 173.8%; it is to be noted that in absolute terms the average pay of the academic staff of higher education establishments in the Vladimir Region was 1.8 times lower than in Moscow.

At the same time, proper functioning of many Moscow- and St. Petersburg-based higher education establishments of the humanities, economics and management -- which are not included in the number of national research universities, but provide high quality of education services that are in demand with students -- is feasible only in case of dramatic expansion of paid education services and setting of a higher fee for education services as the shortage of funds for remuneration of the academic staff is getting more acute there. So, for Moscow the calculation which is similar to the nationwide one (*Table 14*) is presented on the basis of the *Economics* profession line (*Table 16*).

Table 16

The deficit of budget financing of higher education establishments of social sciences, economics and the humanities in Moscow (*Economics* profession line) in 2014 with utilization of the approved model of per capita financing in accordance with the norm (per a study group)

| |
|--|
| Norm of per capita financing (NPCF) – 63,370 |
| Group of 25 students, the number of lecturers with a ratio of 1:12 is equal to 2.1 lecturers |
| The volume of budget funds allocated to that group a year: $63370 * 25 =$ Rb 1,584,250 |
| According to the Rosstat's data, in 2014 the average annual pay of the academic staff in Moscow amounted to Rb 67,859 (115.2% of the average pay in Moscow) |
| Consequently, the annual average pay of 2.1 lecturers with accruals amounts to: $67859 * 2.1 * 12 * 1.302 =$ Rb 2,226,481 or 88.7% of the volume of budget funds meant for that study group |
| So, the deficit of budget funds per a study group at Moscow-based higher education establishments of economics and management amounts on average to Rb 642,231. |

Let us consider what fee for education services at higher education establishments of social sciences, economics and/or the humanities in Moscow should be in order to cover at least the deficit of remuneration to the academic staff. Let us assume for the sake of simplicity that in a study group 50% of students are financed out of the state budget, while fee-paying students account for the remaining 50%.

On the basis of our assumptions, the volume of the allocated budget funds per a study group will amount to Rb 792,125 while the need in funds for labor remuneration of the academic staff within a year is equal to Rb 2,226,481. Consequently, the education fee of fee-paying students should cover at least the difference of Rb 1,434,356 or in calculation per one fee-paying student it should amount minimum to Rb 114,748.5, that is, exceed by more than 100% the norm set for the students whose education is financed out of the state budget.

If one proceeds from the fact that labor remuneration of the academic staff should not amount to over 50% of a higher education establishment's expenditures related to fulfillment of education activities,¹ the education fee of fee-paying students is to be increased on average to Rb 292,867 which exceeds 4.6 times over the norm. It is believed that even Moscow-based higher education establishments will be unable to charge such a high *average* fee for education services from all the fee-paying students who study by those lines (lines of profession) which do not require utilization of the lab equipment (training in Bachelor's or specialist's degree programs of economists, managers, lawyers, psychologists, mathematicians and other). In addition to the above, in preservation of the introduced model of per capita financing of higher education establishments for the middle class of Moscow and St. Petersburg – those people are particularly hit by the economic crisis – the extent of availability of quality higher education in social sciences, economics, humanities and other lines may decrease dramatically. It is to be noted that availability of a quality higher education for that particular social stratum is an important social value that ensures reproduction of that strata.

It is to be noted that as regards lines of training (lines of profession) which require utilization of lab equipment and particularly complex lab equipment the fee for education services at Moscow- and St. Petersburg-based higher education establishments of technology should amount to a higher value than at higher education establishments of social sciences, economics and the humanities of both the capital cities. It is related to the fact that at higher education establishments of technology the share of fee-paying students is normally much lower than at higher education establishments of social sciences, economics and the humanities.

At the same time, in Russia's state-subsidized regions the price (cost) of paid education services which is at the level of the lowest norms of budget financing is often too high for most people. The above results in a situation where by decision of their scientific councils higher education establishments reduce a fee for education services by providing numerous discounts to fee-paying students and, thus bypassing the established requirements. Higher education establishments in those regions take advantage of the fact that in the above regions the average amount of wages and salaries is lower than in Moscow and St. Petersburg, though in that case, too, the low value of the norms will eventually result in degradation of the material and technical base of higher education establishments (*Table 17*).

Table 17

The share of labor remuneration in budget financing of public higher education establishments of social sciences, economics and the humanities in the Tambov Region, %

| |
|---|
| Norm of per capita financing (NPCF) –Rb 63,370 |
| Group of 25 persons, the number of lecturers with a ratio of 1:12 is equal to 2.1 lecturers |
| The volume of budget funds allocated to that group a year: Rb 63,370 * 25 = Rb 1,584,250. |
| In 2014, the average annual pay of the academic staff in the Tambov Region amounted to Rb 27,100. (136.4% of the Region's average pay) |
| Consequently, the annual average pay of 2.1 lecturers with accruals amounts to: Rb 27100 * 2.1 * 12 * 1,302 = Rb 889,162 or 56.1% of the volume of budget funds meant for that study group |
| So, in 2014 the share of labor remuneration in budget financing of a study group amounted to 56.1% |

In state-subsidized constituent entities of the Russian Federation with a low level of an average labor remuneration in the region, the fee for paid education at a higher education establishment may be set both as equal to the norm and that which is several times lower than that

¹ According to the norms of the Soviet period, the fund of labor remuneration of the academic staff with accruals was not to exceed 40% of budgets funds allocated on education activities.

norm; it is to be noted that the main strategy of higher education establishments consists in economizing on the extent with simultaneous growth in the burden on the academic staff. So, in 2014 with reduction of the number of state-financed students at public higher education establishments to 1,731,800 people the number of lecturers who train them should have amounted with the ratio of 1:10 to 173,200 people, while with the ratio of 1:12, to 144,300 people, that is a decrease of nearly 17%.¹

In principle, a decrease in the number of the academic staff takes place at universities of other countries; it is an important measure aimed at reduction of costs which have increased rapidly of late.² However, in other countries such a decrease in the number of the academic staff is accompanied by a transfer to new educational technologies, including on-line training, while in Russia there is no such transformation so far. It is to be noted that a transfer to new technologies of training requires substantial initial inputs for maintaining (supporting) the quality of education services on the same level, including development of university libraries on a principally new basis and only after that cost saving is possible.

As regards higher education establishments of technology, with the approved new model of guideline per capita financing the economic situation, as was stated above, is more complicated than at higher education establishments of social sciences, economics and the humanities as the share of labor remuneration in their budgets is a bit lower than that at higher education establishments of social sciences, economics and the humanities, while the unit weight of fee-paying students is much lower. So, they seek to attract as many state-financed students as possible in order to utilize budget financing completely even if the level of knowledge of applicants – judging by the grade of the USE – is not very high. In other words, those higher education establishments “fight” for budget funds: the higher the amount, the greater the financial maneuver a higher education establishment can ensure for itself.

As seen from the calculation shown in *Table 17*, further growth in labor remuneration of the academic staff is feasible either by means of a dramatic increase in the norm or by way of cutting of all other expenditures on education activities or attracting of the maximum number of fee-paying students (even with reduction of the fee for education services in some regions below the norm of per capita financing, which practice is officially forbidden). At present, due to the fact that the norm of per capita financing is set to higher education establishments from the outside they use a combination of the second and third options. Without development of the effective system of student loans which has nothing to do with that which existed until recently in the Russian Federation, for most students it will be feasible to achieve in the near future the cost of education services which exceeds the norm set for full-time students of higher education establishments only in donor regions, but even there due to worsening of the economic situation it will be quite a problem to ensure that. A small number of fee-paying students will largely concentrate in a limited number of prestigious higher education establishments, while in others it is going to be either reduced or concentrated at correspondence departments of higher education establishments as the per capita norm of financing and, consequently, the fee for education services are in that case much lower than in case of full-time education. So, with the per capita norm of financing set at Rb 63,370 (full-time education), the norm as regards the correspondence mode of education will amount to Rb 12,674 which situation permits a higher education

¹ The calculation is made on the average basis and not on the basis of the number of people specified; in the latter case the reduction of the academic teaching staff would have been even higher.

² On that matter, see, for example: *The Future of Universities. The Digital Degree. The Staid Higher-Education Business is about to Experience a Welcome Earthquake// The Economics*. 2014. Jun 28th.

establishment to set the fee for paid education services in the amount of, for example, from Rb 15,000 to Rb 30,000 and gain a tangible economic advantage with a simultaneous decrease in the quality of education. Unfortunately, as regards higher education establishments of technology, such a solution is possible primarily in non-profile lines of training.

So, low (financial) norms of budget financing motivate most higher education establishments to enroll a larger number of fee-paying students for such lines of training as economics, law, management and other because there is explicit demand on them on the part of the population. In the above segment of higher education, there is a trend towards reduction of the quality of training due to adoption of the inefficient model of per capita financing. However, with a reduction of the number of state-financed students in such lines of training as economics, management and law even students with a high USE grade will have to pay in many cases for their higher education, while students with a much lower USE grade who were enrolled with lines of training (lines of profession) in technology and natural sciences are financed by means of state budget funds.

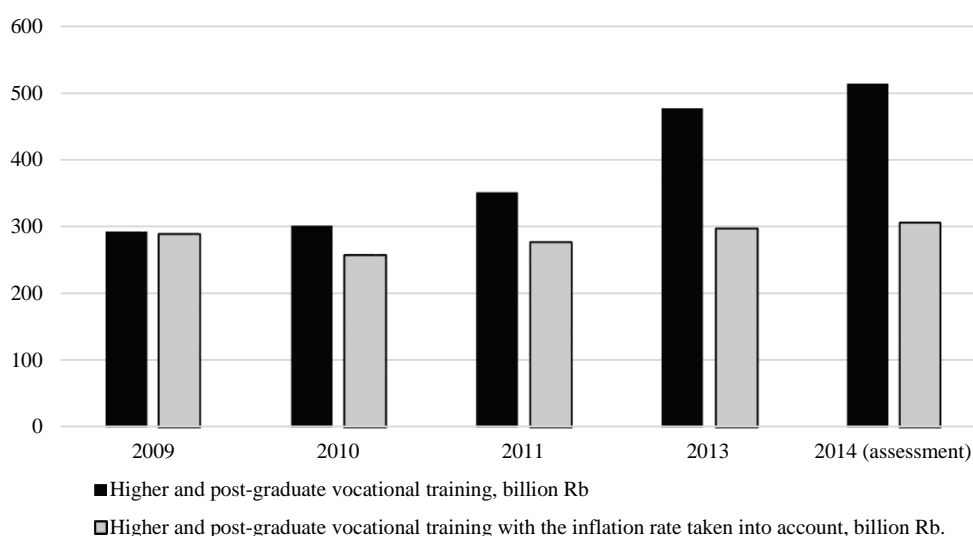
The situation with many natural science and math lines of training (lines of profession) - where at present there is a drop in demand on educational services on the part of the population, too - is much similar to that in state-subsidized regions: higher education establishments are seeking to reduce prices on paid education services in order to attract the maximum number of students.

As a result, in the system of higher education there is a highly negative motivation which may result in a drop in the quality of the higher education, while introduction of guideline per capita financing was meant to enhance it. In addition to the above, the fight against cross-subsidizing is a phantom: on the one side, fee-paying students subsidize those financed from the state budget, while on the other side many higher education establishments reduce the education fee below the norm fearing loss of hard cash and, thus, wishing it or not, subsidize education of fee-paying students.¹

Another problem related to introduction of the norm of per capita financing consists both in the approach to formation of the norms and financial replenishment thereof and ensuring of transparency of distribution of budget funds among education establishments on the basis of those norms.

Budget financing of state and municipal higher education establishments has been steadily growing in the past few years (*Fig. 8*).

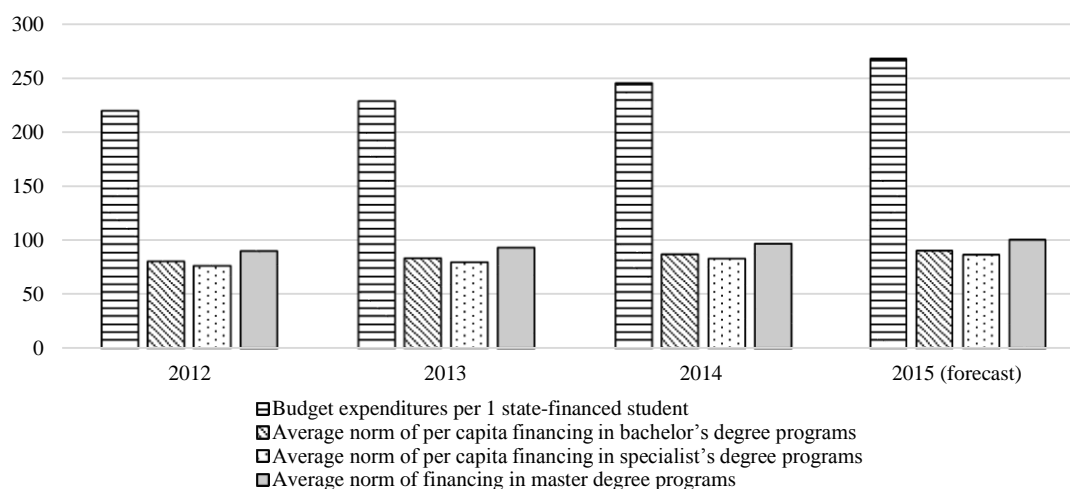
¹ Subsidizing by higher education establishments of fee-paying students can also be viewed as follows: state-financed students receive a subsidy which covers completely their expenditures on education, while a reduction of the education fee below the norm is a partial subsidizing by the state of those students who failed to be enrolled to budget-funded places.



Source: The Ministry of Finance of the Russian Federation, the Federal Treasury and the Rosstat.

Fig. 8. Budget expenditures on higher education in the 2008–2015 period in nominal terms and with the rate of inflation taken into account, billion Rb

Accordingly, budget expenditures per one state-financed student have been growing. At the same time, norms of per capita financing were set at the level which was much lower than unit expenditures. (Fig. 9).



Source: The Ministry of Finance of the Russian Federation, the Federal Treasury and the Ministry of Education and Science of the Russian Federation

Fig. 9. Budget expenditures per 1 state-financed student and average norms of financing in bachelor's, specialist's and master degree programs in the 2012–2015 period, thousand Rb (2015 – forecast)

If in 2012 and 2013 the difference between unit expenditures and the norms was explained by existence of adjustment ratios, in 2014 those ratios were set mainly equal to 1. An exception was only regional wages and salaries ratios.

Due to such a gap between the amount of unit expenditures and the values of the average norm of per capita financing, there is a question how they were calculated and what purposes the difference between those values was spent on. At the same time, introduction of the norm of per capita financing was largely justified by the need to enhance transparency of distribution of budget funds between public higher education establishments. But if the norms of financing are much lower than unit expenditures it means that after higher education establishments have received funds as per the norms distribution of budget funds by other criteria and rules begins (or continues). Such rules may be, for example, as follows:

- Allocation of budget financing for support of higher education establishments which participate in the race to win a place in global ratings of universities;
- Ensuring of academic programs of development;
- Provision of subsidies for other purposes and other.

It is to be noted that the ratio between the volumes of budget funds allocated in accordance with the norms and those on the basis of other grounds may vary greatly from one higher education establishment to another which situation results in a loss of the declared transparency and preservation of the “administrative bargaining”.

The situation in question is largely related to the fact that at present there are two main differently directed trends in the Russian system of higher education. On the one side, there is explicit differentiation of higher education establishments and singling out of leader universities or those which are to become leaders (formation of the pool of status higher education establishments). The trend in question emerged in the beginning of the 2000s when an effort was made to determine the leading higher education establishments, while from 2006 after the start-up of the *Education* priority national project it became an important one as within the frameworks of the project two tenders were organized to identify *innovation* universities. Then, from 2008 in each federal district federal universities were established as points of growth in quality of the higher education in regional profile. In addition to that, they started on a tender basis to single out national research universities (NRU) so that those universities could play a key role in development of Russian science, attract foreign students and compete with leading international universities. All those NRU stated to receive higher volume of funding for solution of those tasks.

At the same time, from 2010 with approval of Federal Law No.83-FZ,¹ harmonization of budget financing of higher education establishments on the basis of norms of per capita financing, as was stated above, began. That approach is based on the fact that higher education is regarded as a public *standardized* service which is to be of the same quality at any Russian higher education establishment and, consequently, financed in the same volume. So, the norms are set for 9 groups of training (professions) regardless of the fact at which higher education establishment the training is carried out.

So, differentiation of higher education establishments is carried out on the basis of quality of their education services, while the mechanism of funding is aimed entirely at accounting of the number of students who go to each higher education establishment.

The logic of guideline per capita financing consists in the fact that students seek to get enrolled with higher education establishments which provide high quality education services and, as a result of that, the latter receive a higher volume of budget funding and motivation and potential for development, while inferior ones leave the market. But in practice the above

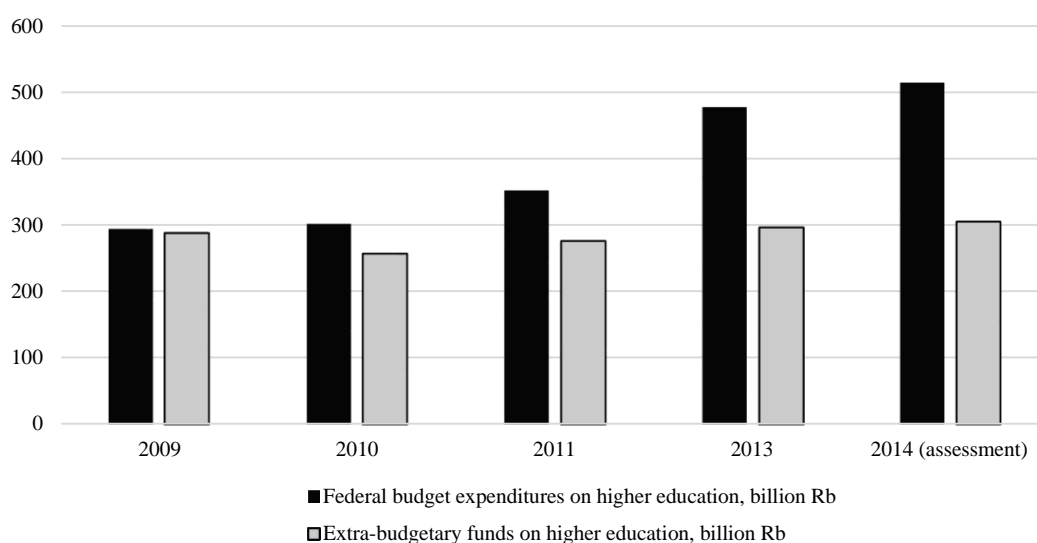
¹Federal Law No.83-FZ of 8 May 2010 on Amendment of Individual Legislative Acts of the Russian Federation in Connection with Upgrading of the Legal Status of State (Municipal) Entities.

scheme does not work well in Russia. In a situation where higher education has become a social norm, inferior higher education establishments are in a more advantageous position as a larger number of students goes there to receive a diploma with little effort. It is to be noted that an inferior higher education establishment could have received good financing from the budget. So, the principle of guideline per capita financing was combined with a state assignment which is to be distributed on a tender basis with the quality of education services provided by a higher education establishment taken into account. In other words, a tender committee distributes the state assignment between higher education establishments with taking into account the quality of education in each of them. It permits institutions where the quality of education services is higher to have more budget-funded places (that is, to admit a larger number of students) as compared to those with substandard quality of education services. However, there may be a situation where despite the same number of budget-funded places a moderate higher education establishment of technology receives much more budget funds as compared to a well-established university of economics because the norms are calculated with taking into account the need in (special) lab equipment, while a university of economics does not, supposedly, need it.

That problem is well known in the economics. In Chile, they introduced a similar scheme of financing in the 80s. As a result, universities of the humanities started to establish department of economics and imitated in every possible way universities of technology. In the long run, they had to give up that model of per capita financing because the system of higher education became oriented solely at the value of the norms, and not the requirements of the labor market and people.

So, introduction of guideline per capita funding in the adopted format does not contribute to higher transparency of distribution of budget funds, nor stimulate competition among them for winning over high-grade students. On the contrary, a procedure for distribution of target enrollment figures between higher education establishments (that is, setting to higher education establishments of a state assignment which procedure is followed by allocation of budget funds) takes place first – it is to be noted that the above procedure is not quite a clear one though it is carried out on a tender basis – while after that a distribution of other budget funds is carried out on the basis of various grounds. One may suggest that the actual process of allocation of budget funds may take place in a reverse order: non-normative lines of spending of budget funds are determined first and, then, the norms of per capita financing are calculated on the basis of the remaining volume of budget funds and the state assignment is distributed.

As the main trends for public higher education establishments as regards the influx of funds for paid higher education are concerned, it can be stated that households start to “lag” much behind the state in that respect (*Fig. 10*).



Source: The Rosstat and the Federal Treasury

Fig. 10. Budget and extra-budgetary funds (against the fee for education) in the system of higher education in the 2009–2014 period (2014 – estimate), billion Rb.

In the 2013/14 academic year, the number of fee-paying students of Russian higher education establishments (public and private) amounted to 3.4m people. Consequently, the average fee for higher education of fee-paying students was equal to Rb 85,800 a year. If those expenditures are compared with unit budget expenditures per 1 state-financed student in 2013 (Rb 228,800), the latter was 2.67 times higher. If the average fee for education is compared with the average norms of budget expenditures in bachelor's, specialist's and master degree programs in 2013 (full time education), it becomes clear that for a fee-paying student it is the maximum fee he/she can afford to pay for full-time education in bachelor's and specialist's degree programs, but he/she already lacks funds to pay for education in master degree programs. As was stated above, it is mainly part-time and correspondence forms of education that are affordable for fee-paying students at nongovernment higher education establishments because prices at those institutions are so far 20%-25% lower than at public higher education establishments.

In final analysis, it can be stated that a small number of fee-paying students study full-time at prestigious higher education establishments where the amount of the fee is 2-3 times higher than the average one in the system of higher education, 26% of students study at private higher education establishments with 80% of them studying by correspondence there, while the rest of fee-paying students study mainly part-time and by correspondence at moderate and low-grade public (municipal) higher education establishments (and their branches).

With increasing of norms of budget financing and preservation of the requirement that a fee for education cannot be lower than the norm, the trend in question will only be getting worse: quality higher education will be far less affordable for those who pay for their education. Consequently, children from worse off families and the lower middle class will be increasingly ousted to the segment of part-time education. Thus, at present the mechanism which prevents the use of higher education as an instrument of vertical social mobility has been established.

So, in 2014 it became clear that the *adopted* model of guideline per capita financing of higher education establishments prevents bringing the pay of the academic staff to 200% as compared to the average pay in the region, motivates higher education establishments to expand in every possible way the number of fee-paying students or – in case of lack of solvent demand – to enroll applicants with the lowest feasible USE grade to budget-funded places.

It became clear long ago (minimum 20 years ago) that simple models of guideline per capita financing do not permit to ensure higher efficiency of budget expenditures. So, a transfer to more complex models of financing which explicitly take into account the quality of educational programs carried out by higher education establishments, as well as growth potential of a university has taken place in different countries. In addition to the above, the general rule consists in harmonization of reform moves and not in a conflict between them. Unfortunately, though there is much talk in Russia about comprehensiveness of the pursued policy it is actually made up of a set of quite rational measures which do not harmonize with one another very well.