Comparative Analysis of the Higher Education Finance Systems in Russia and Kazakhstan

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Abstract: The article presents comparative analysis of the higher education finance systems in Russia and Kazakhstan. Higher education plays an important role in modern society. Its finance systems development serves for the higher education further progress. Russia and Kazakhstan, like most of developed countries, implement different reforms in their higher education finance systems, but they both face some problems related to financing education. Results of comparative analysis of the financing methods and sources prove the examined systems to have common positive background for their enhancement, despite of the differences in the countries’ approaches to financing the higher education institutions. Comparative analysis of the two countries' education finance systems and detection of specific approaches to financing education enable us to identify the basis for and trends in establishing the global education environment.

Key words: Higher education • Financing • Russia • Kazakhstan • Higher education institution • Endowment fund • Special-purpose capital

INTRODUCTION

In modern society, education became one of the most large human activities fields, whereas the higher education is considered the principal factor determining the country's economic and social growth. This viewpoint is based on acknowledging the fact of a human being the most valuable capital of a modern society. The higher education is an integral part of the national innovation system, while investments in education condition the emergence of innovation enterprises, on which national innovation economy is based.

Since the moment of the higher education establishment, most of developed countries have been implementing all kinds of national education systems reforms requiring intensive investments. That is how the issues related to the number of students and universities increase, knowledge quality, higher education institutions’ new functions, information expansion and information technologies proliferation were settled. But despite of the reforms, different higher education problems come to the fore. Financing education is one of them.

We are to carry out comparative analysis of the higher education finance systems by the example of the Russian Federation and the Republic of Kazakhstan.

Comparative analysis of the higher education finance systems, along with their advantages and disadvantages provide a way to identify the basis for and trends in establishing the global education environment. The higher education finance systems of two countries are the object to be studied through the analysis of their different aspects.

In Soviet times, education institutions were funded on the planned economy basis. It means, respective-level government budget was the only financing source for the state-owned higher education institutions; the corporate bodies' education institutions were funded by corporations themselves. Funds were allocated in conformity with classifications of national, republican or local budgets, depending on the budget level the education institution referred to. Budgeting of education institutions was based on the personnel training financial plans of the respective ministries' and agencies’, or those of cooperative organizations. Annual receipts-and-payments sheet was to be developed individually for each education institution irrespective of its budget level, which was to be approved by the authority education institution was subordinated to. [1]

However this approach may be judged today, it matched well stationary planned economy environment, where all changes in education institutions’ practices were planable and therefore predictable.
After the demise of the Soviet Union, its former republics became independent and followed their own ways of the higher education and its finance system development. The results of analysis of forms and fundraising models in the higher education field revealed only two modern sources of financing of the most of the higher education institutions – government funds and incomes from paid educational services. However, they do not fully cover the expanded educational market needs.


Since the higher education development was considered a nationwide goal, it was basically financed by the Russian federal government. The government finance share was decreased over the last years: federal government investments went down to 70-75 per cent of the state-owned education institutions’ scope of finance. Through the higher education institutions’ commercialization extra-budgetary funds share was increased, inter alia incomes on paid educational services.

Modern Russia inherited from the Soviet society advanced system of the higher professional education provided to its citizens at the government expense. [3]

But it does not cover growing society’s needs. 500 new higher education institutions emerged in 1990s, in particular private ones; public university studies on a paid basis became wide-spread. Number of students double increased within this period. In 1990, the rate of the higher education institutions students per 10 thousand population was 190, whereas in 2002 – 414. For long time private universities have been practicing full-time and intra-extramural training models. Full-time tuition is still dominating in public universities, but due to the inevitable struggle of universities for students studying on a paid basis and non-resident training being more profitable, share of students studying on a full-time basis is most probably going to decrease.

Financial and economic growing independence of state-owned organizations results from changes in mechanisms of interactions between government institutions and respective authorities (transit from the cost sheet to subsidies; introduction of plans and performance reports; granting to the education institutions more rights of administration and disposal of their incomes, etc.). These transformations are designed for the enhancement of the government finance scope dependence on the institutions’ performance and therefore improvement of the budget funds management.

Federal Law “On amendments to some legal acts of the Russian Federation in connection with the national (local) organizations’ legal status improvement” adopted on 8th of May, 2010, is a significant stage of development of the government order mechanism and introduction of new instruments for financing state-owned organizations. The law divides state-owned organizations into budgetary, autonomous and public ones, identifying their legal status, enhancing their independence in administration of their incomes. Moreover, the law regulates the issues of government orders placement and financial provisions against their fulfillment in behalf of any-type state-owned organizations, managing high-value real estate and major transactions, list of the organizations’ performance data to be mandatorily disclosed.

Among other things, it states “financial provisions of educational activities of federal state-owned public organizations and that of the government order fulfillment by state-owned budgetary and autonomous education institutions are based on federal standards for financial provisions of educational activities...”

Implementation of the Federal Law involved major arrangements, such as legal and methodological background development both on federal and the level of owners and national (local) organizations, promotion of a transition to the government order principles and new finance mechanism. In order to secure successful transformation, special transition time framework from January 1st, 2011, to January 1st, 2012, was settled for the federal executive bodies, from January 1st, 2011, to July 1st, 2012, – for the regional and municipal bodies [4].

According to the data presented in Table 1, the number of the higher education institutions was growing till 2011-2012; starting from 2000, the increasing number is mostly presented by non-governmental education institutions. But starting from 2010, there was a decrease in the number of the higher education institutions. The number of students in 2011 decreased in comparison with 2009 by 7 thousand people in national and local organizations and by 11 thousand in private ones.
Table 1: Number of the higher professional education institutions (at the beginning of the academic year) [5]

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<tr>
<td><strong>Total number of education institutions</strong></td>
<td>965</td>
<td>1068</td>
<td>1090</td>
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<td>1134</td>
<td>1114</td>
<td>1115</td>
<td>1080</td>
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<td>national and local organizations</td>
<td>607</td>
<td>655</td>
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<td>658</td>
<td>660</td>
<td>662</td>
<td>653</td>
<td>634</td>
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<tr>
<td>non-governmental organizations</td>
<td>358</td>
<td>413</td>
<td>430</td>
<td>450</td>
<td>474</td>
<td>452</td>
<td>462</td>
<td>446</td>
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<td><strong>Total number of students, thousands of people</strong></td>
<td>4741</td>
<td>7064</td>
<td>7310</td>
<td>7461</td>
<td>7513</td>
<td>7419</td>
<td>7050</td>
<td>6490</td>
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<td>in national and local organizations</td>
<td>4271</td>
<td>5985</td>
<td>6133</td>
<td>6208</td>
<td>6215</td>
<td>6136</td>
<td>5849</td>
<td>5454</td>
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<tr>
<td>in private organizations</td>
<td>471</td>
<td>1079</td>
<td>1177</td>
<td>1253</td>
<td>1298</td>
<td>1283</td>
<td>1201</td>
<td>1036</td>
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<tr>
<td><strong>Number of students per 10 thousand population, people</strong></td>
<td>324</td>
<td>495</td>
<td>514</td>
<td>525</td>
<td>529</td>
<td>523</td>
<td>493</td>
<td>454</td>
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<tr>
<td>in national and local organizations</td>
<td>292</td>
<td>419</td>
<td>431</td>
<td>437</td>
<td>438</td>
<td>432</td>
<td>409</td>
<td>381</td>
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Like any system passing through reforms, the education system of the Russian Federation faces some difficulties. The problem of equal access to education, which is one of them, includes two aspects:

- Making basic education available, so that everybody could be sufficient in modern society;
- Providing equal access to education institutions to all social categories irrespective of their financial situation, nationality, sex, residence and other characteristics.[6]

Education is characterized by its high relevance to society, especially to young people determining the future of education, science, culture and country as a whole. That is why the continuing growth of their interest to receiving degree is the most relevant criteria of the Russian higher education system efficiency. Russian universities get around 700 thousand students annually, which is maximum over the entire history of the existence of the Soviet and Russian education systems.

In the context of multichannel financing and economic independence, the issue of securing the education institutions' financial sustainability not only at their own expense, but also by means of combined financial mechanisms, is becoming priority. Endowment fund is one of the effective financial economic instruments providing financial sustainability for educational services suppliers. Pursuant to the Federal Law “On regulations for establishing and operating the non-profitable organizations’ special-purpose capital” dated 30th of December, 2006, legal background for the Russian endowment institution intensive development was settled. However, the Law does not regulate application of the special-purpose capital (only income on investments is allowed to be used), nor stipulates any endows’ tax preferences. That is inconsistent with the worldwide practice setting minimal norms of the endowment fund consumption for the purpose of, for example, preventing misapplication resulting from the fund unlimited increase due to the tax-free income on investments, as well as providing preferences to donors. Law “On regulations for establishing and operating the non-profitable organizations’ special-purpose capital” also does not allow replenish the endowment fund at the expense of the owner, which deprives profitable education institutions of any tax-free incomes on passive investments. Noblelevsky is currently the best-known endowment fund established at the end of the 19th century. At this stage, 85 endowment funds are registered in Russia. According to the initiators of the “Special-Purpose Capital” Program of the “Donors’ Forum” Non-Profitable Grantors Partnership, halve of the registered endowment funds have already established their special-purpose capital, while the others are collecting donations.

At the moment, endowment funds are established in the largest universities of Russia, i.e. State University – High School of Economics, “Education and Science in South Federal District” Fund, European University in Saint Petersburg, Vyatsk State University, Finance University under the Government of the Russian Federation, Moscow State Institute of International Relations, Moscow State University named after M.V. Lomonosov, High Management School of the Saint Petersburg State University, Siberian Federal Institute, Russian School of Economics, South Federal University, Novosibirsk Federal University, Smolensk State University, Saint Petersburg State University, Volgograd State University, Tambov State University named after G.R. Derzhavin and others [7].
Public-private partnership provides significant advantages for the higher education institutions. Connection between business and education institution enables the latter to actualize its curriculum, subordinate its programs to actual demand on certain professions, improve methodology, put in practice its scientific hypothesis and increase its revenues through establishing and operating incomes on special-purpose capital.

In the Republic of Kazakhstan, education has a high priority, which is declared by various political statements and programs. The Republic of Kazakhstan is considered by the world community a country with a market economy. Within its short independence period, it achieved its significant economic growth integrating into the world community.

Kazakhstan education policy is based on the Law of the Republic of Kazakhstan “On education”. Government is responsible for the education policy development and implementation. Education central and local executive bodies of the Republic of Kazakhstan are also involved in the process.

According to the Law “On education”, Kazakhstan higher education system is presented not only by institutes, academies and universities, but also innovation universities and innovative education consortiums.

Currently, 139 higher education institutions are working in Kazakhstan. Total number of students in 2012-2013 academic year, according to the Statistics Agency of the Republic of Kazakhstan, reached 595 thousand. At that in Kazakhstan the number of student per 10 thousand population is 422.5, while worldwide it is 232. The number of the higher-education teaching personnel is 40.5 thousand people, of which 45.5 percent have an academic degree. Higher education in Kazakhstan is focused on international standards and integration into the global education environment. The goals are to be achieved by means of satisfying the criteria of the Bologna process, which Kazakhstan joined in March, 2010. General principles of the Bologna process have been actualized. All civic higher education institutions are practicing credit concept; double-degree and distant learning programs are carried out by 38 and 42 institutions respectively. Structure of the higher and postgraduate education in the Republic of Kazakhstan conforms to the UNESCO international education standard classification. Full transition to the ‘bachelor – master – PhD’ three-level personnel training model is completed. The concept of providing and guarantying high-quality education was settled. In 2009, the higher and postgraduate education Classifier was adopted, which assures the bachelor – master – PhD programs continuity.

In order to be properly managed, government expenses are to be thoroughly planned and revenues operated. Thus, planned approach is one of the basic principles of the government costs management. Government is involved in the global social product and national income distribution and re-distribution among production, non-production fields and economic regions for the purpose of the balanced national economy and nation’s social development. Balance is the principal method of financing government expenses. Purposive character of financing government expenses means using government funds for the strictly-defined activities, which assures proportions in different national economy fields and regions development, financing above all most prospective and successful fields determining science and technical progress and settling the primary social problems.

The education finance system is presented by budgets, other revenue sources, as well as budgetary and extra-budgetary processes and relations.

The Following Are the Sources of Financing Education:

- Granting budget funds to the government education institutions;
- Financing government education order;
- Incomes on paid services, allowed by law of the Republic of Kazakhstan;
- Financial institutions' loans;
- Sponsor and charity support, voluntary donations and grants. [8]

Government funds secure each Kazakhstani's right for education. Government invests in current budget programs and development programs. [9]

Government education institutions are financed by national and local budgets with the requirements imposed on different levels of education system by state educational standards and provisions of law of the Republic of Kazakhstan. Under the Law of the Republic of Kazakhstan “On the national 2012-2014 budget” dated 24th November, 2011, 15,928,133 thousand tenges are planned for the Ministry of Education and Science expenses, of which 90,365 thousand tenges – state prizes and scholarships, 650,957 tenges - capital expense of the government science institutions, 15,186,811 tenges – fundamental and applied researches. [10]
Financing of the private education institutions is provided by their paid educational services, their owners' investments and other sources allowed by law of the Republic of Kazakhstan.

Government order on financing the secondary professional and higher professional education is presented by differentiated grants (conditional grants). The amount of differentiated educational grants is regulated by the government of the Republic of Kazakhstan subject to the major, type and status of education institution. Under the government Decree “On adopting government education order for specialists having higher and academic, technical, professional, post-secondary degree in education institutions financed from national budget (except institutions preparing Armed Services, other troops and military units personnel) dated 18th of May, 2012, in 2012/2013 academic year” government intends to order 34,315 specialists (full-time and intra-extramural basis) from education institutions financed from national budget. 1 student in 1 academic year costs around 700,000 tenges.

Development of material and technical facilities of the state education institutions is financed by national and local budgets, incomes on paid services and other resources allowed by law of the Republic of Kazakhstan, within the national and local investment programs and projects.

Financing of education projects has been increasing in Kazakhstan. Overall national budget funds assigned to education for three-year period count for 1,357.5 billion tenges, of which 456.8 billion tenges - for 2012, 435.8 billion tenges - for 2013, 464.9 billion tenges - for 2014. [11]

Education system development has been remaining the government’s priority for long, which results in overall scope of finance. According to the 2011-national accounts the following improvements were carried out:

- New higher education institutions' classification was developed in order to improve training quality;
- For the first time, government financed academic mobility (200 million tenges). 300 leading institutions’ masters were given a chance to study within a semester or academic year in universities of Europe, South-East Asia and CIS;
- 28 percent of the higher education institutions integrated Kazakhstan model of transfer and accumulation of credits similar to the European credit transfer system (ECTS);
- General provisions of the state educational standard (SES) for the higher and postgraduate education stipulating 67 percent-expansion of academic independence of institutions were enacted;
- 1,647 foreign teachers and consultants in 27 leading higher education institutions of Kazakhstan were paid from national budget, 1.096 of which – in national institutions;
- 40 prime higher education institutions signed practical-training agreements with big companies for the purpose of training personnel for the State Program on Forced Industrial Innovation Development;
- Alumni studied on the 30%-rural-quota basis were placed in 2012. [12]

Based on the above stated, the higher education institutions finance scope is increasing from year to year. However, it does not fully cover their needs. Current government-support mechanisms are insufficient.

Higher education in almost any country faces severe finance constraints, but each country follows its own way of solving the problem. It is determined by the higher education management and economic mechanism within the frameworks of the government order and state-owned property in our country.

Analysis of the results of different activities aimed on deficit reduction demonstrate the following measures’ particular sufficiency:

- Limiting educational opportunities by dint of partial submission of education institutions to local authorities and reduction of funds per student;
- Reduction of costs and non-productive expenses through effective management at all levels (tenders, auctions, heat and water meters, rational exploitation of premises and equipment and teaching technologies improvement);
- Mobilization of own resources unleashed due to optimization of the institutions network and privatization;
- Privatization as an instrument for the national budget unloading;
- Fundraising.

Since 1993, education system of Kazakhstan has been facing state funds constraints. Only 55 percent of funds demand is satisfied. Within last three years only higher education institutions’ salaries and scholarships were financed by the government.[13]
Restrictive measures have qualitative nature. Finance reduction resulted in that of quality requirements. Inaction is the most simple and traditional way of curbing costs. This approach is often practiced, which eventually leads to decline of the teachers’ financial situation, as well as deterioration of education quality at all levels.

Partial submission of education institutions to local authorities or business made national-level institutions more sustainable than those financed from local budgets. In many countries, many activities are not financially supported by government. Since 1992, Kazakhstan has been practicing private financing of state-owned institutions, that is extra-budgetary revenues, i.e. incomes on paid services, tuition fees under direct contracts, rent etc.

Nevertheless, those measures do not fully cover today’s needs for financial resources, even operating and exploitation costs.

Government implemented number of innovations in order to mobilize supplementary resources for the higher education institutions.

Strategic development plan of the Republic of Kazakhstan till 2020 states that “The higher education institutions are to be granted with academic independence within the corporate management principles introduction. Establishing in Astana prestige higher education institution of international standard Nazarbayev University is one of the most significant projects. It is to become a national brand of Kazakhstan, determining a progress in training native engineering, technical and academic staff, as well as establishment of a modern science and research infrastructure.”

Each of the schools (institutes) of the University is to have a foreign academic partner among leading respective-profile education institutions, having rich science and production background integrating education, science and industry. Continuity of the University, preschool and secondary education curriculum of the “Intellectual Nazarbayev Schools” Project is to be assured. Educational services improvement is to be accompanied by that of the finance system, introduction of corporate management elements in education institutions, including involvement of citizens and education quality control mechanisms. Due to sufficient government support teaching profession prestige is to be enhanced.”

Nowadays Kazakhstan universities are among the best 100 higher education institutions in the world, so are Nazarbayev University and Kazakhstan National University named after Al-Farabi.

Along with continuous increase in financing of education institutions, more and more grants, bonuses, scholarships, awards for high grades, excellent performance, scientific and research projects, theses, academic and sports competitions are introduced.

Modern Kazakhstan is at the stage of innovations in education. For example, the Minister of Education and Science B.T. Zhumagulov in his speech at the 20th session of the Education Council under Integration Committee of EurAsEC reported on new laws on science, Nazarbayev University and Intellectual Schools status, respective endowment fund being adopted. New mechanisms for financing science were also enacted, they are basic and grant ones. Basic financing will serve for the scientific organizations’ financial base enhancement; world-standard grant financing will be put in practice next year. Major amendments were made to the Law “On education”, its development program was adopted. [14]

Further development of the higher education institutions’ finance system should be based on foreign experience adoption, for example, endowment fundraising practiced abroad widely.

Endowment fund enables university to replenish its budget, raise resources for long-term major educational and scientific projects, involve famous professors, pay scholarships to talented students, etc. Endowment fund is generated by alumni and university friends’ donations for Alma-mater development purposes, thus compounding its special-purpose capital. Capital is to be invested in stocks, real estate, share funds etc., thus continuously being incremented. University programs are financed with investment incomes, whereas the fund capital remains contingent.

Currently, endowment funds are mostly replenished by presents and contributions from grateful alumni.

Endowment fund of Nazarbayev University is based on the best international practice. For example, its management structure is to include board of regents regulating overall fund’s activity. Prominent national and international figures who are devoted to the Nazarbayev University’s development are to be the members of the board.

Today university cannot afford multi-billion endowment fund, but it is aimed on gaining a status of international research university and therefore replenishing its endowment.

Analysis performed proved different countries to have similar higher education finance systems, despite of some differences in their financing methods development emerged within the post-Soviet period.
Comparative analysis of the higher education finance systems in Russia and Kazakhstan demonstrates different approaches to financing the higher education institutions’ performance.

Survey depicts specificities of different countries’ unique finance systems. Nevertheless, no matter how much unique they are, they can be helpful to other institutions’ development and their alumni’s growth and improvement.

It therefore may be said that comparative analysis of the education finance systems in two countries and identification of their financing approaches enables us to determine the basis for and trends in establishing the global education environment.

REFERENCES