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IMPROVEMENT OF UKRAINIAN STUDENT LOAN PROGRAM

The article explores the issues of improving the student loan program in Ukraine through the optimization of budget expenses and obtaining financial access to paid higher education by students. The rated coefficient of loan return is proposed for the evaluation of budget expenses.

Keywords: loan; higher education; financial accessibility; budget expenses.

JEL Classification: I22, H52, H81.

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ВДОСКОНАЛЕННЯ ПРОГРАМИ КРЕДИТУВАННЯ НА ЗДОБУТТЯ ВИЩОЇ ОСВІТИ В УКРАЇНІ

У статті розглянуто питання вдосконалення програми студентського кредитування в Україні з метою оптимізації бюджетних видатків та підвищення доступності платної вищої освіти для студентів. Рівень державних видатків запропоновано оцінювати за допомогою розрахункового коефіцієнту повернення кредитних коштів.

Ключові слова: кредит; вища освіта; фінансова доступність; бюджетні видатки.

Табл. 1. Рис. 1. Літ. 11.

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СОВЕРШЕНСТВОВАНИЕ ПРОГРАММЫ КРЕДИТОВАНИЯ НА ПОЛУЧЕНИЕ ВЫСШЕГО ОБРАЗОВАНИЯ В УКРАИНЕ

В статье рассмотрены вопросы совершенствования программы студенческого кредитования в Украине с целью оптимизации бюджетных расходов и повышения финансовой доступности платного высшего образования для студентов. Уровень государственных расходов предложено оценивать при помощи расчетного коэффициента возврата кредитных средств.

Ключевые слова: кредит; высшее образование; финансовая доступность; бюджетные расходы.

Problem setting. In Ukraine the mechanisms of cost sharing in higher education are used extensively and all domestic universities charge tuitions fees. At the same time, tuition fees are an uneasy burden for many students because of quite low incomes of most Ukrainians. Such situation causes the urgent necessity for providing effective mass programs of student financial support.

Today the student loan program exists in Ukraine but because of its expensive-ness for budget it isn't mass and thus can't help increasing access to higher education for domestic students. The possibility of getting a degree for free for a part of Ukrainian students eases the problem of financial accessibility of higher education in Ukraine but doesn't solve it completely.

The mechanisms of cost sharing in higher education have been getting popular worldwide since the end of the last century. Developed countries have gained huge experience in providing access to higher education in case of setting tuition fees in universities. This experience might be very useful to Ukraine.

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Recent research and publication analysis. A number of theoretical and methodical issues that concerned the organization of student loan programs were thoroughly considered by Barr (1997) and Chapman (1997). These researchers examined the influence of different organization schemes of student loans (contingent-loan schemes and the ones with fix repayments) on the participation in higher education; they also compared the effectiveness of grants and loans in different countries.

Ukrainian scientists (L. Antoshkina (2008), T. Bogolib (2006), N. Verhogladova (2005) etc.) referred to the issue of student loans in the context of more general problems of higher education financing.

The existing student loan program in Ukraine is imperfect and needs improvement. Thereby, the issues connected with its development are of great importance. This determines the need to provide a more detailed research on student loan topics.

Research objective. The purpose of the article is determining the key directions of improvement of the student loan program in Ukraine taking into account the experience of developed countries in organizing such programs.

Key research findings. After a number of faults and losses, years of developing and improving of student loan programs, their main characteristics in developed countries have got very similar. Namely,

a) student loans are always long-term but the repayment period in most cases doesn't exceed 10 years after graduating from a university;

b) interest rates are always set larger than the inflation rate by 0.03–0.05 points;

c) governments act as active participants in student loan programs obtaining subsidies for students and guarantees for banks.

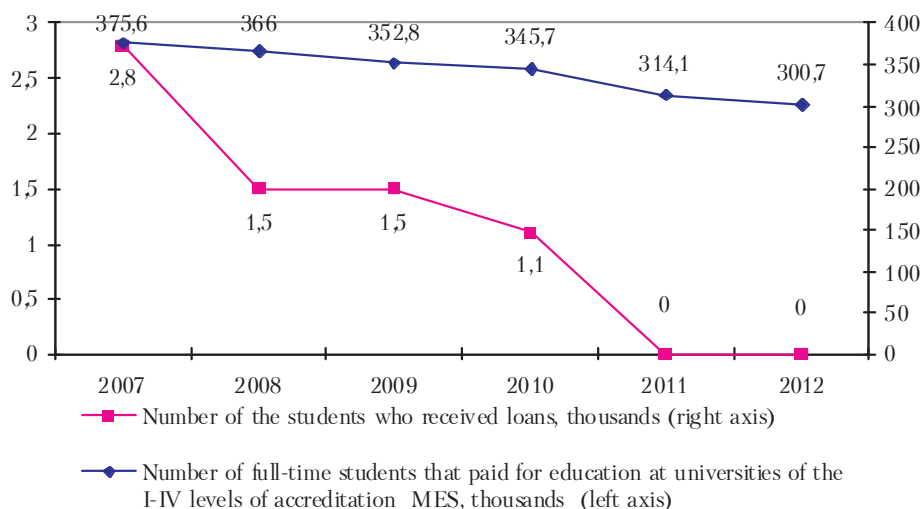
Under such conditions loans might be given to a large number of students who successfully obtain access to higher education.

In Ukraine the student loan program has been developed since early 2000s. The key parameters of student loan programs in Ukraine differ from those in developed countries. Thus, the loan interest rate is not connected to the inflation rate and is fixed at 3% (as the inflation rate in Ukraine exceeds 3%, the real loan interest rate appears to be negative), the repayment period equals 15 years after graduating from a university. The responsibility for collecting debts is completely delegated to universities, that have neither effective mechanisms of debt collecting, no possibilities of tracking down borrower and being in touch with them during 15 years after graduation.

Too high level of exemptions for students and ineffective debt management make the loan program a hard burden for budget and universities and prevent its expanding to a larger number of students.

According to the reports of Ukrainian Ministry of Education and Science (MES), the students' participation in loan program during the whole period of its running in Ukraine was insufficient and since 2011 the program hasn't been financed at all (Figure 1).

So, in reality subsidized loans are nor available today for Ukrainian students. Such situation completely contradicts to the world's tendency of enhancing accessibility of higher education; therefore, the existing student loan program should be reconsidered and improved.



Source: Ministry of Education and Science of Ukraine, 2012.

Figure 1. Student's participation in loan program in Ukraine

In case of exclusively budget financing of student loan program (like in Ukraine) the authors suggest to evaluate budget expenditures based on the rated coefficient of loan return K_1 , that shows the share of graduates' returns in the sum of loans given to them (all sums should be converted to future prices). The closer is the value of K_1 to 1, the cheaper is the loan program for budget.

The results of the numerical calculations of this coefficient (Table 1) shows that under the existing conditions of the student loan program the budget does not receive back more than 54% of the loans (in case the average inflation rate equals 8%) and 45% of loans (in case the average inflation rate equals 10%).

Table 1. Evaluation of the coefficient K_1 for different parameters of student loan program

Formula for calculating K_1 ¹⁾	Program option	Value of K_1 in case the annual index of inflation (I) equals to:	
		1.08	1.10
$K_1 = \frac{\sum_{n=0}^4 I^n \times \sum_{n=0}^{T-1} [I^{(T-1-n)} + q \times I^{(T-1-n)}] \times (T-n)}{5T \times I^N}$ where K_1 – the rated coefficient of loan return; I – the expected average annual index of inflation; q – loan annual interest rate; T – the period of loan return after graduating the university; N – the total period of loan return.	existing in Ukraine (q = 0.03; T = 15; N = 21)	0.54	0.45
	offered by authors (q = (I - 1) + 0.03; T = 10; N = 15)	0.90	0.85

¹⁾ It takes into account that loans are given by annual tranches, the education cost rises every year by the inflation rate.

These results were received without taking into account management costs, losses on non-payments as well as subsidies to some categories of borrowers (provided by the existing student loan program). The high expected level of defaults causes that the loan program in Ukraine now looks very like government subsidy.

The authors offer to change the parameters for the student loan program. Namely, to set the interest rate at the level of inflation rate increased by 0.03 points and to reduce the repayment period from 15 to 10 years after graduation. These changes make the program more agreeable from the point of view of budget expenses but also save its attractiveness for students (interest rates are still far lower than market interest rates, interests aren't charged during the period of study, the repayment period is quite long and starts after finishing university).

The suggested changes allow to enhance the rated coefficient of loan return (K_1) from 0.54 to 0.90 (in case the inflation rate is 8%) and from 0.45 to 0.85 (in case the inflation rate is 10%). It means that in case of giving 5 mln UAH of loans to students (as it is planned for 2014) the economy of budget resources (compared to the existing program) equals 1.8 mln UAH³.

For improving the financial discipline and debt management the following steps are suggested:

- a) using the guarantees of another persons (for example, student's parents) for student loans;
- b) ban on receiving visas to other countries and buying luxury goods in case the overdue debts exist;
- c) stimulating quicker repayments by setting easier conditions at earlier periods (for example, differentiation the loan interest rate by periods).

Conclusions. Notwithstanding the vast use of private finance in higher education of Ukraine the student loan program doesn't work. Negative real interest rates, extremely long repayment period, delivering debt management to universities make the existing loan program inoperative and prevent its expansion. Changing the parameters of the student loan program to those which are used in developed countries allows cutting budget expenditures and thus increases students' participation in the loan program.

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³ In case the inflation rate is 8%; larger inflation rates give larger sums of economy.