

Financial and Investment Tools in Support of the Development of Higher Education in the Ukraine

SUMMARY

In this study the current state and conditions of investment into higher educational establishments are analyzed. The role of investments is shown in improving educational services.

The global integration processes affect all human activity, including higher education. A single global educational space is currently in the formation and entails an increase in student mobility and cooperation between universities in different countries. Cross-border education developed in the decade past as a direct consequence of increase in the number of people participating in higher education in many countries, expansion in the use of new information and communication technologies, the emergence and acceptance of the idea of an economy based on knowledge, increased internationalization in the labour market and the need for highly qualified labour, and

the growing number of private companies that started to provide educational services.

Higher education is developing fairly rapidly in the Ukraine, but mainly on an extensive basis. One of the economic factors that hinder development in innovation in higher education is the shortage of investment. This is due to several factors: the general economic crisis, demographic trends, insufficient competitive educational products, weak mechanisms of interaction between educational institutions and employers, foreign partners and international organizations etc. In the Ukraine higher education has suffered a substantial devaluation of scientific, technological and innovative potential in the majority of higher educational institutions, manifest in particular in the low efficiency of their research and innovation activities. Higher education institutions are also expected to implement and use modern educational technolo-

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gies in order to be able to provide high-quality educational services.

The actual problem is the selection and justification of advanced financial and economic models of investment into the higher educational system, with a view to the appropriate challenges posed by the particular social and economic situation and long-term predictions on technological development.

The purpose of the article is to present the results of research on financial support to investment institutions of higher education, to make evidence-based suggestions regarding the improvement of financing higher education, and the way to meet the challenges of our days.

ANALYSIS AND PUBLICATIONS

The managers of the leading companies in the world are of the opinion that economic growth reserves may be found especially in the massive innovation in all areas of intellectual activity.¹ It is estimated that in the United States almost two-thirds of “white collars” focus on creative work, not only ideas and their prospective evaluation, but also their implementation, followed by commercialization. As Inhlehart, an HR expert said: “People are employed only where human evaluation, reasoning and creativity is needed ... not for physical strength, but for the ability to innovate”.²

With a view to the above, we can conclude that there is an essential need of research resources (including investment) to ensure development in higher education.³ The dynamics and structure of investment (and especially capital investment) aimed at the improvement of higher education determine the param-

eters of the future of higher education and its ability to solve the problems outlined above.⁴

THE MAIN MATERIAL

In recent years, there have been adverse trends in investment in Ukrainian higher education, due to problems in financial and intellectual support.

The process of investment in higher education is regulated by statutes and regulations, including the Ukraine’s “Act on Investment Activity”, “Act on Innovation Activity”, “Act on Education”, “Act on Foreign Investments”, “Act on the Main Directions in Innovation”, “Act on the Main Directions in Science and Technology in the Ukraine” and others.

Investment in higher education has several features associated with specific educational activities and the functioning of higher education institutions.

First, its aim is not merely to accumulate capital and to achieve business results in the future, but also to increase human and intellectual resources, which requires the use of different technologies in analysis and prediction.

Second, a large number of investment projects in the field of higher education have non-commercial purposes. Education is the basis of the personality, the nation and the state, it is a determining factor in the political, social, economic, cultural and scientific life of society. Education plays and builds the intellectual, spiritual, and economic potential in society.

Thirdly, investment in higher education should take global trends into account. Education is a strategic resource for improving human welfare, national

interests, strengthening the credibility and competitiveness on the international scene. The policy of investment in higher education improvement should be developed with a view to the above.

Fourthly, investment in higher education also affects other areas in education (especially primarily school and vocational) as well as related fields.

Fifthly, in the structure of investment sources allocated to higher education,

traditionally a significant part comes from the state budget (mainly in public higher education institutions maintained by the Ministry of Education and Science of the Ukraine) and from various departmental programs (mainly in public higher educational institutions that manage other departments).

Table 1 characterizes the current state of investment support to higher education development.

Table 1: Investment support to higher education development

Indicators	2006	2007	2008	2009	2010
Mastered (used) investment in fixed assets, mln. hrn	400.9	479.9	711.1	502.3	597.5
Investment index in %, year-on-year	90.0	103.9	117.2	57.0	98.3
Total investment share, %	0.3	0.3	0.3	0.3	0.3

Prepared according to the State Statistics of the Ukraine.

The data listed in the table shows that investment in higher education is unstable (in 2006, 2009 and 2010 decline, and in 2007 and 2008 increase is recorded).

The rapid decline in investment in 2009 is due, above all, to the overall investment crisis (a decrease was recorded

in all sectors of economic activity in 2009). The share of investment used in higher education relative to the total investment is stable (0.3%).

Investment into higher education at the expense of the state budget is presented in *Table 2*.

Table 2: Investment support to higher education development in the state budget

Indicators	2006	2007	2008	2009
Investment in fixed assets, mln. hrn.	400.9	479.9	711.1	563.4
Investment from the state budget, mln. hrn.	95.0	133.0	222.4	108.5
As a percentage of the total investment in economic activity	23.7	27.7	31.3	19.3

On the basis of data from the State Statistics of the Ukraine.

The data shows that between 2006–2009 a significant part of investment made in fixed assets (between 21.6 and 31.3%) in higher education was financed by the state budget (the average rate being 5.0%).

The analyzed statistical data suggest that there is inconsistency in the conduct

of public investment policy in higher education, as it depends on the rapid changes in the macroeconomic situation and on the state budget revenues.

Under these conditions the public policy of investment in higher education must be optimised on the basis of a common conceptual approach to the

priorities and projects; and new mechanisms must be applied in public–private partnerships to attract non-traditional sources of investment financing.

However, in a realistic assessment of the current situation it should be noted that it is rather unfeasible to develop a common policy for investment in higher education, because higher education institutions, the key elements in this system, fundamentally differ in terms of ownership and the legal forms of governance.

State universities must set up and implement their own investment policy in compliance with the relevant government regulations in the context of the overall state investment model. Public investment resources are limited (according to estimates, between 2009–2011 approximately 95% of the budget expenditures were allocated to finance the salaries of public sector employees, social benefits and purchasing energy), and thus the implementation of massive public investment projects was actually impossible.

State and local governments finance budget institutions (educational, cultural and research institutions, governments, courts and other judicial authorities etc.). Financing by budgetary institutions, companies and organizations is performed, as a rule, on the basis of the estimation and planning methodology.

In practice, the problem of determining the optimum number of budgetary institutions also arises (as it affects the maintenance costs of such institutions).

The efficiency of investment in higher education can be improved on the basis of a prudential reform, including, in particular, the optimization of universities. Today in the Ukraine more than 850 higher education institutions train

specialists of all accreditation levels. They report to 26 ministries and departments, and 10 of them are subordinated to only one institution. Educational institutions are often hindered in development by their subordinate status, and the introduction of the idea of integration in educational activities, which requires a new paradigm of educational institutions in interaction with both ministries and employers, and the higher education system as a whole. A study of foreign examples shows that the countries with similar demographic indices have the following average student numbers at universities: Spain – 22,000; Italy – 23,000; Greece – 14,000; while there are only 3,000 students in the Ukraine.

The approaches and criteria used in making investment decisions relating to higher education development at the expense of the budget should be revised. The government must change the external criteria of assessing the quality of higher education. While the principle of “more students – more money” works, the quality of education suffers. It is reasonable to develop comprehensive quality assessment criteria of the educational process, including the evaluation of the learning content and the technologies used in training; the assessment of the knowledge gained by a student; the requirements of organizing and monitoring the learning process; modern requirements for the competence of teachers and students; a clear and transparent procedure of self-analysis by each higher education institution as the basis of the quality assurance system.

Solution of the problem with proper investments support in higher education will help to achieve not only short-term

economic success, but also lay the foundations for sustainable long-term development trends in the national economy and its further integration into the European Higher Education scope.⁵

In consideration of the above, the objective of the public investment policy in higher education must include the encouragement of investment and improvement in the structure of investments in the context of creating the conditions for personal development and creative fulfilment for every Ukrainian citizen, educating generations of people able to work effectively and learn throughout life, preserve and increase the value of national culture and civil society to develop and strengthen a sovereign, independent, democratic, social and legal state as an integral part of the European and world community.

The efficiency of funds invested in higher education must be improved on the basis of compliance with the fundamental financial principles,⁶ that is:

- Gradual transformation of the state and local budget allocated to higher education on the basis of the established standards;
- A clear distinction between budgetary and extra-budgetary funding for schools;
- Ensuring accountability and transparency in the use of funds;
- Providing of state order for training in higher educational institutions of different forms of ownership on a competitive basis, taking into account the quality of educational services;
- Organizing the economic activity of educational institutions on the basis of non-profit.

The main measures to improve the

model of investment in higher education should be the following:

- Improving spending on technology at various levels of higher education, and the quantitative and qualitative indicators of the valuation such costs;
- Setting up differentiated standards for the various educational institutions;
- Development and implementation of differentiated standards for the costs of school operation;
- Introduction of mixed-finance innovative projects in education, including the development and implementation of a preferential taxation mechanism for individuals who finance their own tuition;
- Improving the legal framework for privately financed education;
- Regular monitoring of investments by educational authorities (state and local), followed by adjustment;
- Joint control over the budgets of educational institutions;
- Economical use and distribution of resources allocated to education;
- Upgrading the network of educational institutions.

However, in a realistic assessment of the current situation, it should be noted that the elaboration of a common investment policy for higher education is almost impossible because higher education institutions, as a key element of this system, are fundamentally different according to their ownership and legal status.

CONCLUSIONS

In view of the above recommendations, a clear state strategy should be developed regarding investment in higher education. Its application should be aligned

with the strategic documents that set the direction of social and economic development. In our view, it is advisable to adopt a legal act, and everything must be done to ensure genuine implementation.

We believe that increasing integration will pave the way to investment in higher education, as it means the establishment of mutually beneficial business relations between the participants of higher education and those of the national economy. The most promising way is to intensify the integration of higher education and business. Under the new economic conditions educational institutions and companies need to find possible “connection points” to set up efficient cooperation, including investment in education projects. It should also be considered that in post-industrial economies a new phenomenon will be widespread – a powerful system of corporate education. Since large companies usually act as agents of global investment and innovation, they must respond to the challenges posed by the competitive environment in terms of human resources and human capital. Consequently, market-leading companies face the problem of the need to accumulate investment resources and investment projects for the development of human capital.

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NOTES

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- ² *Ukraine in the terms of knowledge economy*. Monograph. Ed. akad. NAS of Ukraine V. M. Heyts, Base, Kiev, 2006.
- ³ O. A. Komarova: *Educational potential*. Theoretical, methodological and practical aspects of the formation. DLAU, Kirovograd, 2009.
- ⁴ I. Kalenyuk: *Economics of the education*. Knowledge of Ukraine, Kiev, 2003.; *The economic basis of the innovative development of the higher education in Ukraine*. Ed. Acad. NAPS V. I. Lugovyi, Pedagogical Press, Kiev, 2009.; *Economic aspects of the problems of the higher education in Ukraine*. Monograph. Ed. Corr. NAPS I. M. Gryschenko, KNU, Khmelnytskyi, 2010.
- ⁵ *The economic basis of the innovative development...*, i. m.
- ⁶ A. M. Smolkyn: *Methods of the active learning*. Higher School, Moscow, 1999.; T. M. Boholib: *Financial support for the development of the higher education in the transformation period*. Kiev, 2006.

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