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**STUDENT LOANS FOR HIGHER
EDUCATION IN RUSSIA**

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In this paper the results of research on student loans in Russian universities are presented. Student loans are a new instrument of education finance. Since both its significance for the society and usefulness to education institutions is widely accepted, it is rather important to study the potential for its development. Our paper concerns two hypotheses (1) whether student loans can help universities to attract low-income students and (2) whether students from relatively well-to-do families want to resort to student loans (so to redistribute the costs of higher education so to secure relatively high level of personal consumption while at university) when deciding on the sources of funds to pay for the studies. Our results indicate that the propensity to apply for student loans is primarily affected by income and its determinants; prior borrowing experience and perceptions of the role of higher education are significant, but less important.

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Андрушак Г.В., Спиридонова О.И. Образовательные кредиты и высшее образование в России: Препринт WP10/2007/04. — М.: ГУ ВШЭ, 2007. — 20 с.

В работе представлены результаты исследования склонности к использованию института образовательного кредитования среди студентов российских вузов. Образовательные кредиты являются для России новым инструментом финансирования образования. Их значимость для общества и польза для образовательных институтов широко признаны, что придает изучению потенциала образовательного кредитования большое значение. Задача данного исследования заключается в анализе двух гипотез: (1) могут ли образовательные кредиты помочь вузам привлечь студентов из необеспеченных семей и (2) будут ли студенты из относительно состоятельных семей обращаться за образовательными кредитами (для перераспределения стоимости высшего образования и обеспечения высокого уровня индивидуального потребления в течение периода обучения) при принятии решения о том, какие средства направлять на оплату обучения. Результаты показывают, что на склонность к образовательному кредитованию главным образом влияют доход и его детерминанты; влияние предыдущего кредитного опыта и представлений о роли высшего образования также значимо, но менее значительно.

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Introduction

Reforms of Russian Higher Education and Student Loans

Contemporary Russian higher education institutions face the challenge of adaptation to new conditions: the contraction of “traditional” demand (by recent graduates of lower level of education institutions, such as high schools, colleges) for higher education, and, therefore, associated financial pressures. Both of them are in some sense novel to the majority of Russian universities. Indeed, since mid 1990s to mid 2000s enrolment grew at the rate of 9.2% per year [State University — Higher School of Economics, 2006, p. 370]. Moreover, university finances were then quite loosely tied to demand for higher education — the major source of funds in Russian universities, government subsidies, in 2005 were on average 5.3 times higher than tuition revenue (Economics of Education Monitoring, Survey of administration of higher education institutions, 2006 — <http://isek.hse.ru>).

Difficult times for the universities did not really come out of the blue. The experts had warned that by 2006 there would be reduction of the age cohort of potential students caused by low birth rates during the years of transition [Klyatchko, et al. 2002, Chapter 4]. As for financial pressures, these were expected by-products of higher education reforms of the early 2000s.

Among the most important measures of modernization of higher education during President Putin’s first term were the launching of Uniform State Exam (USE — *Yedinyi Gosudarstvennyi Examen*) and State Nominal Financial Liabilities (SNFL — *Gosudarstvennye Imennye Finansovye Obiazatel'stva*) experiments. These measures were in line with marketization philosophy of higher education reforms in Europe and aimed at reviving competition among universities, which, in turn, was perceived as the driving force for quality assurance.

USE is institutionally analogous to the U.S. Student Aptitude Test, which potential students have to take when applying to a university. During the second half of the 1990s and the first half of the 2000s Russian higher education sector was seized with corruption and different forms of non-official payments related to school-university transition. Non-official payments of university applicants in 2003 corresponded to more than a third of all the costs associated with school-university transition [Levin, Galitskiy, 2004]. Perhaps, the major reason for that was rather vague regulation of content of entry examinations. Therefore, introduction of a uniform admission instrument seemed to be of extreme importance with regard to this problem. Very few universities initially adopted USE as an admission tool, and

though their number increased, only very recently, after the enactment of the law has it been legitimized as a uniform admission requirement.

As for SNFL, it is a form of a voucher system in higher education finance. Depending on the results of USE, any student in the experiment was provided with certain monies from the government budget, which she could use (only) to pay tuition. The subsidy for the students with the highest USE scores, provided them with an opportunity of tuition-free education in any of the Russian public universities including the first tier institutions. Those with lower scores could choose either to study for free in any of the second tier universities or to add to SNFL the missing sum and apply to the first tier universities [Zaborovskaya, Klyatchko, Korolev, 2003]. Due to political reasons, the SNFL system never changed the status of an experiment and after functioning for several years in a few Russian regions it was discontinued.

Nevertheless, despite quite slow path of the reforms — sluggish introduction of USE and discontinued SNFL experiment — competition among Russian universities has increased. The results of the survey of administration of higher education institutions indicate that the share of rectors who sense it, grew — from 79% in 2003 to 86% in 2005 (Economics of Education Monitoring, Survey of higher education institutions leaders, 2006 — <http://isek.hse.ru>).

Along with intensification of competition USE brought about another important practice. With its introduction universities were in some sense stripped of the income from different kinds of preparatory courses they organized so to “assist” potential students. Looking for alternative sources of funds, they started to exploit tuition strategies pushing up the burden of financing of education directly to its consumers — students and their families. Average tuition fees in public universities rose from about \$233 per year in 2000 to \$490 in 2004 [Gokhberg et al., 2005]. During the times of increasing demand for higher education universities could afford to set high tuition fees. However, in the circumstances of contracting interest in costly higher education, they had to start to think of how not to lose their position on the market.

Basically, there are two opportunities for the universities to retain and even increase enrolments with the help of flexible pricing strategies and financial instruments. The institutions should either attract a different pool of potential students or preserve the current pool. No doubt, they can do both and student loans can be of great help to them. Vast literature on institutional organization of this instrument emphasizes the fact that one of its main goals is the provision of opportunity for low-income students to attend expensive higher education programs. Therefore, attracting low-income students contributes to the first strategy.

However, we believe that student loans may be helpful in case of the second university strategy as well. Students from relatively well-to-do families tend to take loans to finance their education just like representatives of low-income families. It

can be explained by the effect of redistribution of tuition payments to more prosperous phases of students' life-cycles (after they start to work). Although we have no data to estimate the extent of such behaviour, we know that it has been registered at least among students of State University — Higher School of Economics by a series of interviews with them [Pravdina, 2007].

Research goals, data and methodology

Research goals

The goal of our paper concerns these two aspects of student loans in Russian higher education. We study two hypotheses: (1) whether student loans can help universities to attract low-income students and (2) whether students from relatively well-to-do families would resort to student loans (so to redistribute the costs of higher education so to secure relatively high level of personal consumption while at university) when deciding on the sources of funds to pay for the studies. Our paper employs regression analysis of factors of propensity to resort to student loans. In this research we allow for the influence of family composition, its income and labour market strategies, level of education, financial activity, and perceptions of the role of higher education.

The decision to analyze the propensity to take student loans rather than actual participation in the corresponding programs is deliberate. Student loans are relatively a new instrument of higher education finance. Although the first program was introduced in 2000, even today students' participation in them is quite low. In 2005 less than 5% of university students reported that they had been financing their studies with the help of loans (Economics of Education Monitoring, Survey of higher education institutions students, 2005 — <http://isek.hse.ru>). Hence, the data on the use of loans to finance higher education is scarce. However, it was not the scarcity of the data, but rather the topicality of research on the potential of the market that convinced us to study the propensity of students to take loans to finance their education.

It is important to notice that the system of student loans assisted by the government starts only this autumn after almost 7 years since the introduction of the first commercial bank program. Existing programs are administered and financed by commercial banks, so the system of student loans is highly decentralized in Russia. Consequently, access to the data on borrowers is restricted. Another crucial issue of student loans in Russia relates to corresponding decision-making: in Russia in majority of cases the decision to apply for the loan was made by parents rather than their growing up children. Sometimes the loans are viewed as providing some mo-

tivation for students to be more attentive in their studies because they will have to repay borrowed money [Pravdina, 2007]. Thus, we analyze student loans using the data of Economics of Education Monitoring survey of households.

Data

We use the data of the most recent round of “Economics of education monitoring” yearly survey of Russian households (administered by *State University — Higher School of Economics*, which collaborates with major Russian centres of applied sociological analysis — *FOM: Public Opinion Foundation* and *Levada Analytical Center*), collected in December 2006. The survey, being part of a large project, focuses on strategies of households with regard to education of children (from pre-schooling through university-level) and grown-ups (certified specialists’ professional courses, hobbies, etc.). The sample contains 3515 randomly selected households from Moscow and 8482 households from other regions. It is representative with respect to “Moscow-non-Moscow” sub-samples. In our analysis we analyse households with children (of age 4 to 22). Hence, due to this restriction and “missings” in data our “regression” sample consists of 1195 respondents in Moscow and 2858 — in Russia.

In 2006 the survey was expanded as compared to the previous rounds by inclusion of a block of questions on using loans to finance higher education and associated costs. Interviewees were asked if they had resorted to student or some other loans to pay tuition and cover the costs associated with studies in preschool institutions, schools, colleges and universities; if they would have applied for loans under certain circumstances. With the help of these questions we estimate the influence of various factors on families’ propensity to apply for loans for education among representatives of different income-groups. Among the factors we allow for in our analysis are socio-economic characteristics of households, their attitudes to education, experience with commercial banks loans and borrowings from acquaintances and relatives, we estimate the influence of propensity to apply for loans for education among representatives of different income-groups.

The propensity to apply for student loans (in the following text we do not differentiate between student loans *par se* and other kinds of loans; the loans we work with are *loans to pay tuition and cover other costs associated with higher education*) is captured by two questions. The first one presents a hypothetical situation and describes some options, which households may choose from when deciding how to pay for college. The hypothetical situation actually models the system of USE-SNFL: households consider the case, in which their children are not liable to the maximum subsidy provided by SNFL and, therefore they have to decide whether to apply to a second tier university without paying any tuition fees, or to reapply for a tuition free program at a top tier university next year, or to apply to a top tier university and pay certain fees this year. If households choose the third op-

tion they are asked which of the following sources of funds they plan to use to pay tuition: (a) personal savings, (b) borrowings from relatives or acquaintances, (c) loans provided by current employers of parents, (d) student loans, (e) bank loans for non-specified purpose, (f) some other source.

The second question is a lot less complex than the first one and simply asks “If a member of your family had to pay a considerable sum for education, what would you do?” and provides the following answers to choose: (a) we would pay the necessary amount from our savings, (b) he/she would abandon the studies we could not afford, (c) we would sell our apartment, cottage, car or some other valuables and would pay for education, (d) we would borrow from acquaintances or relatives, (e) we would apply for a long-run loan with current employers, (f) we would apply for a student loan with a commercial bank, (g) we would apply for a non-specified purpose commercial bank loan, (h) we would pay for education from other source, (i) this situation is absolutely impossible.

Primary analysis of the data shows that if we address the answers to the questions above, which correspond to various means of payments for education — options (a) through (f) from the first and (a) and (c) through (h) from the second question, — we will find quite significant divergence in their distributions. The most frequent source of funds, revealed by the first question, is personal savings and funds from selling valuables; however, by the second question — student loans. Moreover, the questions differ on the number of people who are ready to pay for education. The USE-SNLS question “generates” approximately 2 times less positive answers of continuing (or starting) education when serious costs are implied (Table 1).

Table 1. Potential sources of funds to cover education costs (2005/2006)

	First question		Second question	
	Households	%	Households	%
Personal savings, funds from selling valuables	1192	52%	951	17%
Borrowings from acquaintances and relatives	202	9%	922	16%
Long-run loan from current employers	102	4%	253	4%
Student loans	567	25%	3 022	53%
Non-specified purpose commercial bank loans	132	6%	483	8%
Other source	99	4%	101	2%
Total	2294	100%	5732	100%

Source: Survey of households, Economics of Education Monitoring, 2006.

We admit that the primary reason of mentioned divergence stems from the bias in the USE-SNLS question. Though the preamble to the question briefly explains the way how the new system of personal student aid will be organized, it does not

say a word on the criteria for distinguishing top and second tier universities. Since in Russia there are neither official nor widely accepted understanding of what a good university is, the choice of a top or a second tier university becomes obscured by quite often contradicting each other rankings compiled by newspapers, information agencies, etc. Hence, respondents probably did not perceive the difference of universities and decided to sacrifice non-evident quality — almost 2365 families chose the variant that they would have applied to a second tier university. We consider such results to be *a priori* biased in favour of second tier university variants and, hence, appears the bias with regard to loans decisions.

The second question has some potential complications as well. The distribution of answers should not be interpreted as providing a direct indicator for loans-for-education market capacity. When households were asked, what they would do if they needed monies to finance higher education, they were not separated into groups who would and would not actually have to pay for it. Therefore, the share of households ready to apply for the loans (in 53%+8% in Table 1) is overestimated since a lot less of them really had to pay. According to the 2005 round of “Economics of education monitoring”, in 2004 about 44% of university students were officially paying tuition [Petrenko, Oslon, 2005]; however, Russian Statistical agency points out that in 2006 that figure rose to 57.5% [Rosstat, 2007]. Nevertheless, even 27—34% estimates of loans-for-education market seem quite bold, because tuition, which households have pay, may in practice be quite low and they may be able to secure enough funds for this purpose without borrowing.

Within the research of factors influencing households’ propensity to apply for loans to finance education we have used the following explanatory variables: general characteristics of households (number of people in the household, family income per person, child’s gender, who was the subject of the interview, age of the child — if there were more than one child in the family, the questionnaire concerned the child, whose birthday was the closest to the date of the interview); education of parents; post of a parent with the highest income; sector of the economy where a parent with highest income works. Along with these characteristics we have studied the role of households’ experience of use of financial services, including personal savings management, currency exchange operations, stock market investments, etc.; experience of applying for commercial bank loans vs. borrowings from acquaintances and relatives; perceptions of higher education. Our database consists of 127 variables.

Research Methodology

We use binary logistic models to estimate the influence of the mentioned above factors on households’ propensity to use loans to finance education costs. Explanatory variable in these models is constructed with the help of our second ques-

tion — “If a member of your family had to pay a considerable sum for education, what would you do?” In particular, the variable equals 1 for individuals who said that they would take a loan (either a special student loan or a non-specified purpose commercial bank loan), and 0 — otherwise.

Two arguments in favour of our decision to use that question are concerned with already mentioned bias in the first (USE-SNLS) and the distribution of respondents’ answers to the second. Since we have already discussed the bias issues, we now turn to our second reason of choosing our explanatory variable. It is characterized by a more even distribution of those who had chosen the credit option vs. all other options (presented in Table 1) as compared to the USE-SNLS question. Such caption of the sample, as it is widely known, provides more reliable results of testing hypotheses of nontrivial influence of various factors on endogenous variable in binary models.

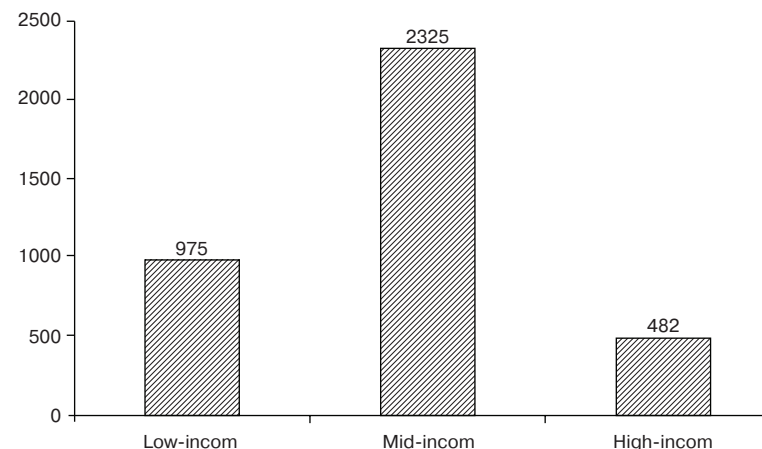


Figure 1. Distribution of households across income-related groups (2005/2006)

Source: Survey of households, Economics of Education Monitoring, 2006.

Our hypotheses emphasize the role of loans for education and associated costs with regard to students from low- and high-income families. Therefore, we have divided the sample of households into three groups. The criteria for this was based on answers of households to the question “Which of the following expressions most precisely characterize financial position of your family?: (a) income is not sufficient even for adequate nutrition; (b) income is sufficient for nutrition, but is not enough to buy clothes; (c) income is sufficient for nutrition and clothing, but not enough for home appliances; (d) income is sufficient for home appliances, but not enough for a new car; (e) income is high enough for everything, except real estate; (f) we

do not experience any financial problems, we could buy a house or an apartment if we wanted to”.

We classify households who chose options (a) and (b) into low-income group, (c) and (d) into mid-income group and (e) and (f) into high-income group. This gives us an opportunity to estimate separately effects of various factors directly on students from low-income and well-to-do families and compare these with the control mid-income group. The use of such criteria to partition the households instead of using conventional sociological income-related classification can be explained by the following reason. Perceptions of households with regard to their consumption power allows us to bypass the problem of regional price-level adjustments in order to secure a uniform income scale across all of the regions of our sample. The distribution of families in our sample across these groups is presented on Figure 1.

Due to the fact that we have quite a large number of endogenous variables, which is comparable with the number of observations in the third (high-income) group of households, we perform a two-stage procedure within our regression analysis. During the first stage we select several variables from the “common sense” groups of variables described earlier (general characteristics of households, parents’ education, etc.). The criterion we use is statistical significance of influence of these variables in the simplest binary logistic regressions of households’ propensity to apply for the loan on each of the corresponding groups of variables. During the second stage we perform conventional regression analysis with the selected variables.

Empirical results

Potential market of student loans

The partitioning of families by their self-perceptions concerning their financial position is presented on Figure 2. It shows that over the half of Russian households were willing to apply for loans in order to finance higher education and associated costs if they needed to pay. This conclusion denies one of the arguments used in the rhetoric for free higher education. Russians do not have any systemic prejudice against taking the burden of financial liability [Androushchak, Yudkevich, 2007].

According to our data the propensity to resort to the loans is the highest among representatives of the low-income group. In our regression sample the percentage of respondents, who pointed out that they would apply for the loan, if needed, is as high as 72.1%, although a bit more modest figure of 69.0% is provided by the original sample. These results suggest that the decision to apply for the loan has very little to do with psychological issues or adaptation of population to market re-

ality (as opposed to command economy institutions). At least the majority of households are familiar with the fact that they can address a commercial bank to solve the problem of solvency with regard to financing education.

Households from mid-income and high-income groups show less interest in using borrowings to finance higher education — the corresponding percentages in our regression sample are 65.4% and 49.2% respectively. This should be interpreted as a further manifestation of economic nature of households’ decision-making: more prosperous families do not have very tight liquidity constraint and, hence, are capable to secure the necessary sums without borrowing money.

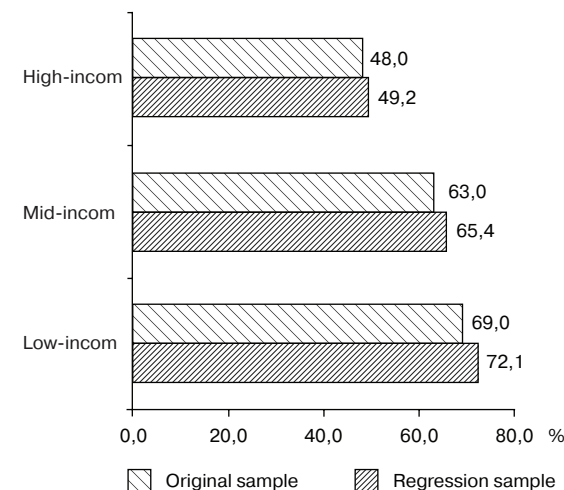


Figure 2. Propensity to apply for a loan to finance higher education (2005/2006)

Source: Survey of households, Economics of Education Monitoring, 2006.

Table 2. Regression analysis summary: marginal effects (2005/2006)

	Low-income	Mid-income	High-income
Higher education helps to find a well-paid job	0.080**	---	---
Higher education helps to make a good career	-0.065*	---	---
Important to have higher education in any case	---	0.068***	---
In 2005 the child attended school	0.084***	---	---
In 2005 the child attended preparatory courses, private lessons, etc. to apply to a college or university	---	-0.139*	---
In 2005 the child attended a university	---	-0.061**	---

Table 2

	Low-income	Mid-income	High-income
In 2005 the child attended foreign language courses	---	0.194***	---
In 2005 the child attended driving courses	---	---	-0.309*
In 2005 the child was on maternity leave	---	-0.256*	---
Income in thousands of U.S. \$	---	-0.279***	---
Parent's occupation — Specialist	---	---	0.171***
Parent with the highest income works in financial sector	-0.414**	---	---
Parent with the highest income currently doesn't work	---	-0.433***	---
Households' financial experience - Currency exchange	---	-0.094***	---
Households' financial experience - Used internet payment systems	---	---	-0.190***
Households' financial experience - Resorted to consumer credit	0.174***	---	0.240***
Households' financial experience - Invested into own business	-0.268***	---	---
Households' financial experience - Nothing	0.107***	---	---
Household did not need to borrow money during the last 3 years	-0.105**	---	---
Loans experience - Applied to commercial bank offices or to their representatives in malls	---	0.236***	---
Loans experience - Asked friends/relatives	-0.224***	---	---
Loans purpose - Home appliances with the help of consumer credit	0.166***	---	---
Loans duration - Less than a year	-0.148**	---	---
Loans duration - more than 3 years	---	0.119**	---
Cox-Snell R-squared	0.127	0.094	0.101

*** 1%. ** 2.5%. * 5%.

Source: Survey of households, Economics of Education Monitoring, 2006.

Propensity to take loans

Our regression analysis shows that of all the 127 available explanatory variables in our database only 24 exert significant influence on households' propensity to apply for loans in order to finance higher education and associated services. Representatives of different income groups appear to have various factors influencing their credit-related decisions. In order to describe and provide interpretation for our results we first depict the portrait of a typical household from each of the groups with regard to the variables which are included to the regressions.

A typical low-income household of this had a school-age. His parents thought that higher education helped to find a well-paid job, although the idea that it might help to make a good career did not appeal to them. Members of the household did not have profound experience in buying any financial services and confessed they had not had experienced any need in borrowing money during the previous three years. Nevertheless, some of the households had used consumer credit (1 to 3 years) provided by commercial banks in most cases to buy home appliances and consumer electronics. The portrait of a typical mid-income household does not have any significant differences, from a low-income household apart from perceptions of their wealth and overall acceptance of the fact that it is important to have higher education. The same can be said of a typical high-income household.

There are 4 groups of determinants, which influence households' propensity to resort to the loans: perceptions of the role of higher education, current educational status of the child, economic factors and experience with financial services including borrowing behaviour. In the following subparagraphs we provide detailed description of the corresponding relationships (see Table 2).

Perceptions of the role of higher education

Perceptions of the role of higher education on student's future have positive influence on our explanatory variable. In particular, low-income families are more concerned with the practical outcomes of higher education — namely, the fact that it helps to find a well-paid job. Mid-income families are more likely to be influenced by socially approved attitude to higher education: their propensity to take student loans depends positively on rather vague statement that higher education is important in any case. High-income households' propensity to apply for the loans is not affected by their perceptions of importance of higher education.

The fact that low-income households' propensity to apply for student loans depends negatively on whether households think that higher education helps to make a good career does not seem contradictory to our previous statements. If we compare educational strategies of the respondents, who agree with the statement and disagree with it (Table 3), we find that the former spent considerably larger sums of money on retaking the exams ("second tries" on exams), completed term pa-

pers, voluntary payments to finance university repairs. Students from these families attended universities with more signs of corruption than children from other families. These facts can be viewed as an indication of an attitude to studies of people who are more interested in the formal outcomes of higher education — diplomas, certificates, etc. They would transfer their children to another university if they had to pay a considerable sum of money for studies rather than apply for the loan.

Table 3. Untangling the negative influence of perceptions on propensity to apply for student loans (2005/2006)

Higher education helps to make a good career	Spending in 2005 in U.S. \$ on			Heard of non-official payments in the university
	“Second tries” on exams	Term papers	University repairs	
Agree	1144.54	119.04	40.86	11%
Disagree	152.14	75.89	32.29	7%

Source: Survey of households, Economics of Education Monitoring, 2006.

Although the influence of the variables of this group is statistically significant, their effects on households’ propensity to apply for student loans are relatively weak, changing the corresponding probability by 6.5–8 percentage points.

Current occupation of the child

Our regression analysis indicates significant influence of variables concerning current occupations of children. For low-income households the propensity to apply for the loans increases in case their children attended school. This fact can be interpreted in the following way: such households believe that higher education is quite expensive and understand that they may need to finance it only with the help of borrowings.

Table 4. Monthly income of mid-income households’ (per person in U.S. \$, 2005/2006)

	Child attended		Child was on maternity leave
	Preparatory courses, private lessons, etc.	A university	
Yes	287.9	267.8	179.1
No	219.1	208.9	221.4

Source: Survey of households, Economics of Education Monitoring, 2006.

For mid-income households the variables of this group indicate income- and socially-related aspects of borrowing behaviour. In particular, as it follows from Table 4, mid-income households, whose children attended preparatory university courses or studied at a university, had larger monthly income per family member.

Therefore, they had less economic incentives to apply for student loans. On the contrary, households with children on maternity leave had less monthly income per family member, so it is quite natural that they were more willing to resort to the loans if needed.

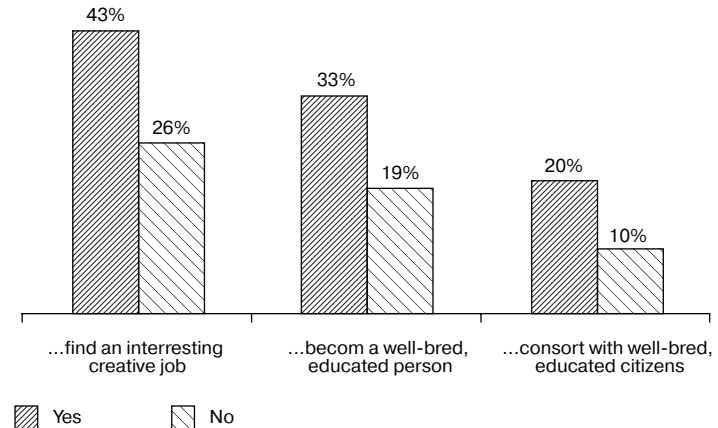


Figure 3. Mid-income family with child attending language courses (Education helps to...) (2005/2006)

Source: Survey of households, Economics of Education Monitoring, 2006.

As to foreign language courses students, they should be thought of as coming from “creative” class households. Figure 4 presents perceptions of higher education in such households: they are more than others interested in “cultural consumption”. On the one hand, they believe that education is important in this sense and on the other — they are limited with wealth as compared to the high-income families. Hence, they are willing to borrow to pay for higher education.

The effect of high-income households’ children attending driving courses on propensity to apply for loans can also be explained by income-related issues. In the families, whose children attended such courses, the monthly income per family member on average was about 830 U.S. \$ — two times higher as compared to other high-income households.

On average, the influence of the variables of this group on households’ propensity to apply for the loan is significantly higher than the influence of perceptions of higher education ranging in absolute values from 6.1 to 30.9 percentage points.

Economic factors

Under “economic factors” we imply the direct influence of income and parents’ occupations on households’ propensity to take the loan. For low-income house-

holds the corresponding effects shows up through whether the parent with the highest income in the family works in financial sector. For mid-income households, the effects can be traced directly by the negative significant effect of the “income” variable as well as by the parent with the highest income who at the time of the interview did not work. As to high-income families, their income-effects were insignificant except for those, whose parent with the highest income worked as a specialist. In such families monthly incomes per family members were slightly less as compared to other households of the group — about 390 and 440 U.S. \$ respectively.

The influence of these variables on households’ propensity to borrow money to finance higher education is relatively high. They alter the corresponding probabilities by 17 to 43 percentage points. However, the direct income effect for mid-income families turns out to be as low as 2.8 percentage point for 100 U.S. \$ increase per family member per month (the mean value is 221 U.S. \$).

Financial services experience and prior borrowings

The variables in this group can be divided into two subgroups — financial services not related to borrowing behaviour (such as using different means of payment or investment behaviour) and loans-related experience. The former group appears to point out indirect income effects; the latter — the effects of experienced borrowers. Untangling the influence of the former effects we observe that low-income households’ propensity to resort to the loan diminishes if families invested into their own business; mid-income households’ — if they exchanged currency; high-income households’ — if they used internet payment systems.

As to the latter group of variables, their effects are quite predictable as well. For all households prior borrowing experience increased their propensity to apply for the loan. Low-income families who previously borrowed money from their friends and relatives were reluctant to borrow for higher education from a bank. The propensity to apply for the loan among both low- and mid-income households also depends on the length of loans they took previously — the longer the period the more likely they apply for it.

The effects of these variables on households’ propensity to borrow money to finance higher education are quite large. Nevertheless, ranging from 9.4 to 26.8 percentage points, they are not as huge as some economic effects described above.

Conclusions

Our analysis shows that low-income households are more likely to resort to loans to finance higher education and associated costs. Hence, student loans should be considered as an instrument, which attracts low-income families to higher edu-

cation and, therefore, gives an opportunity to retain and even increase enrolments when tuition rises. Our findings with regard to propensity to apply for the loans indicate that it decreases with the increase of households’ wealth. However, even though the propensity to apply for student loans among high-income families is not as low as among low-income families, it still can not negligible.

Regression analysis uncovers that households’ propensity to apply for student loans is formally significantly affected by perceptions of the role of higher education, current occupation of the child, economic factors and experience with financial services including borrowing behaviour. Our results point out the dominance of income-related motives with regard to loans decisions in all of our groups of households: the lower the income, the higher the probability to apply for the loan if needed. However, important role in the decision-making plays prior borrowing experience — it inclines households to take student loans. Perceptions of higher education and non-economic motivation for higher education exert significant but on average quite weak influence on households’ propensity to resort to student loans. Contrary to our expectations and prior results based on regression analysis of the pooled sample, family composition showed up with significant influence on propensity to use student loans in neither of the groups.

The fact that economic motives dominate decisions of households to apply for student loans can be thought of as an argument for scrutinizing the role of borrowing conditions. The experience of State University — Higher School of Economics emphasizes the necessity to cooperate with loans-providing organizations in order to negotiate for more favourable conditions for potential borrowers. The program during its first year gave a 15% increase in the first-year students’ body — they financed their education with the help of student loans. Perhaps, success of this program may be due to efficient “university-outlet” marketing. Nevertheless, lack of students’ interest to commercial banks loans programs, which were advertised both on SU HSE website and on reference boards of the university during preceding years may signify the prevalence of economic motives when demand for student loans is concerned.

Therefore, student loans can be an efficient instrument of competitive activity for Russian universities — may be used to extend the demand for higher education.

The fact that our results are generally consistent with findings of European and American researchers on the determinants of demand for student loans in their countries seems quite important. Some experts believe that the fact that Russian households are not used to dealing with market institutions curtails the potential for efficient system of student loans, and our paper refutes this point.

Concluding, we would like to emphasize the fact that we have studied the propensity to take student loans, rather than the practice of taking them: our results do not indicate the unconditional efficiency of such an instrument in Russia, but

rather illustrate its potential. It is very important to create “affordable” student loans programs with reasonably low interest rate, long enough grace and repayment periods. Numerous examples of student loans systems all over the world indicate the crucial role of appropriate legislation and governmental support with regard to that objective. So they should be taken into account in the discussions of the design and the potential role of student loans systems in Russia.

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Appendix A

Questions about student loans, which were used to construct explanatory variables

During the subsequent years costs of education for students will be determined by his/her Uniform State Exam achievement scores (USE). Those with high scores will be provided with an opportunity to study free in any Russian university (including the top tier institutions); those with lower scores will have to choose to attend either first tier universities and pay some tuition or other universities for free.

Question 1

Suppose, your child could not study for free at a good university, because of his/her not very high USE scores, but the grant provides his/her an opportunity to cover tuition costs at another (second tier) university. Which of the following variants would your family choose?

1. He/she would not apply to the university this year and re-take the exams next year
2. He/she would go to another (second tier) university, for which the amount of the grant is sufficient to cover tuition costs
- He/she would apply to a good university and we would cover the missing sum with ...
3. ... our savings
4. ... borrowings from relatives/friends
5. ... a loan from our employer
6. ... a special long-term student loan
7. ... a commercial bank loan (not a student loan)
8. ... other source of funds (which) _____
9. Not applicable

Question 2

If a member of your family had to pay a considerable sum for education, what would you do?

1. We would pay the necessary amount from our savings
2. He/she would abandon the studies we could not afford
3. We would sell our apartment, cottage, car or some other valuables and would pay for education
4. We would borrow from acquaintances or relatives
5. We would apply for a long-run loan with current employers
6. We would apply for a student loan with a commercial bank
7. We would apply for a non-specified purpose commercial bank loan
8. We would pay for education from other source
9. This situation is absolutely impossible
10. Other option (which?) _____
11. Not applicable

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