

## THE CURRENT STATUS OF ACADEMIC EDUCATION FINANCING IN ROMANIA

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**Abstract:** *At the moment academic education is imperative for any society based on knowledge or which tends to it. Academic education can be treated as the "engine" of the society development as it contributes to the individual development of citizens and the development of the community as a whole. Therefore, the amounts for academic education should not be treated as burdensome expenses, but as true long-term investments for the community development. However, the Romanian academic education funding has always been a sore spot and a highly controversial topic of debate for members of the political class and civil society. For a long time it has been searching for the optimal solutions in university funding as an essential lever for shaping and sustaining a high quality education system. Over time, academic education has been funded from multiple sources: not only from public funds and financial resources from individuals or companies, but also from its own resources. Although efforts have always been made to sustain academic education from public funds, the recent research in higher education funding reveals a decrease of the amounts allocated by the state. The economic and financial crisis has clearly made its mark even on public funding of state universities. In this pessimistic context, in order to carry out their missions, universities have been forced to find new sources of funding. In this paper we propose, by a persuasive presentation from a theoretical perspective, to illustrate key aspects of current funding of academic education in Romania. In this purpose we will analyze the funding mechanism for state universities and private universities and we will try to provide answers for the following questions: To what extent could the current system of financing academic education in Romania be improved and what can we do to improve it? Could new sources of funding be identified as to support the educational process?*

**Keywords:** *academic education funding; basic funding; additional funding; complementary funding; own incomes; financial university autonomy.*

**JEL classification:** *H52; I22.*

### 1. Introduction

Academic education is particularly important in the development of any society because it creates long-term effects both in terms of human resources development and in the creation and dissemination of knowledge.

At the moment, in our country education is being considered and treated as a priority of national interest and its development is a public responsibility (Eurypedia, n.d.). Higher education is organized in state universities and in private universities. In

2012 in Romania were operating 57 state higher educational institutions and 51 private institutions of higher education accredited or provisionally authorized (CNFIS, 2013: 7).

For strengthening and upgrading the academic education, investments in higher education should be a priority for each state. Investments in academic education refer to *the process of financing higher education institutions*, namely all the ways in which universities get their resources and funds necessary to carry out the educational and research activities.

In time, higher education institutions from our country have been funded from public or private sources, but mostly from mixed or public-private funds. The adherence of Romania to the European Union has brought significant changes within each sphere of activity and implicitly in education. Regarding higher education, the rallying to the European Higher Education Area Standards was compulsory.

Universities funding, regardless of their type, is settled by the National Education Law (2011: 79). The current system of financing the Romanian higher education combines the traditional version in which the allocation is based on input (such as the number of students, number of ranking domains) with funding in relation to qualitative criteria such as excellence index, which depends on the class which are positioned in the hierarchy the curricula offered by each university. Higher education institutions enjoy *financial autonomy* in that the universities have the right to manage resources, but in compliance with applicable law.

## **2. Objectives**

Through this paper we intend to present an overview on Romanian academic education funding and to provide answers to the following research questions: To what extent could be improved the current system of financing academic education in Romania and what can we do to improve it? Could new sources of funding be identified as to support the educational process?

## **3. Methodology**

The research methodology that we used to develop this paper was not only the study of national legislation and specialized articles and studies, but also the study of reports and views issued by professional bodies regarding Romanian academic education and its financing. The scientific instruments used in elaborating this article were: data and information analysis, the synthesis, the interpretation and the deductive reasoning. Also, we used comparative analysis for comparing, in terms of financing, higher education institutions from public and private sector.

## **4. Financing public higher education institutions**

Analyzing the case of public institutions of higher education, the financing system represents the essential lever by which the government pursues its strategic objectives and ensures the implementation of national academic education policies. The academic education funding methodology is developed by the Ministry of National Education, in accordance with the methodological recommendations of the National Council of Higher Education (abbreviated CNFIS) as an advisory structure (CNFIS, n.d.). In turn, CNFIS is assisted by The Executive Agency for Higher Education, Research, Development and Innovation Funding (UEFISCDI), through the Directorate for Funding Higher Education (UEFISCDI, n.d.).

In terms of financing are mainly pursued the following objectives: the continued growth of the academic education quality, ensuring the efficient use of the allocated resources, respecting university autonomy, ensuring the compatibility with the European Area, ensuring equal opportunities for all citizens in academic preparation, satisfying the requirements of the labor market and of the society in general.

The annual budget of state universities consists of incomes from: budget financing and own incomes (extra budget incomes and incomes from other sources).

*Budgetary funding* of public institutions of higher education consists of amounts allocated from the Ministry of National Education and includes: institutional funding and complementary funding.

*Institutional funding* is allocated according to the institutional contract, signed annually for the current year between the Ministry of National Education as a financier, and each higher education institution, as beneficiary of funding. As can be seen in Figure 1, the institutional funding includes:

- *Basic funding* which is allocated on the three cycles of higher education (Bachelor's, Master's and Doctorate), depending on the number of unitary equivalent students and on the number of doctoral grants. This source of funding is multiannual in that it is provided throughout the entire cycle of study (Bachelor's, Master's and Doctorate). Basic funding is granted to cover the main categories of expenses related to teaching such as: personnel costs (*not only* wages of teachers, auxiliary teaching staff and research staff and related contributions, *but also* internal or external displacements), material costs (maintenance costs, costs for materials, for inventory, for functional services, for current repairs, books and publications, labour protection, staff training, protocol, etc.) and overheads (*The Methodology of Budgetary Allocation for Basic Funding and Additional Funding for Public Higher Education Institutions in Romania*, 2012: 1).

In order to determine the allocation for basic funding for each university, it is necessary to establish firstly the financing per student. Therefore, taking into account the above-mentioned allocation methodology, the next steps are followed: firstly, we determine the number of equivalent students for each hierarchy domain of an university; secondly, we determine the number of unitary equivalent students for each university; thirdly, we determine the total number of unitary equivalent students (overall universities funded); fourthly, we determine the allocation (financing) per unitary equivalent student as follows:

$$fb_s = \frac{FB}{SEU}, \text{ where}$$

$fb_s$  = the allocation per unitary equivalent student;

FB = the allocation for basic funding;

SEU = total number of unitary equivalent students.

At this point, we can determine the basic funding allocation for each university, as follows:

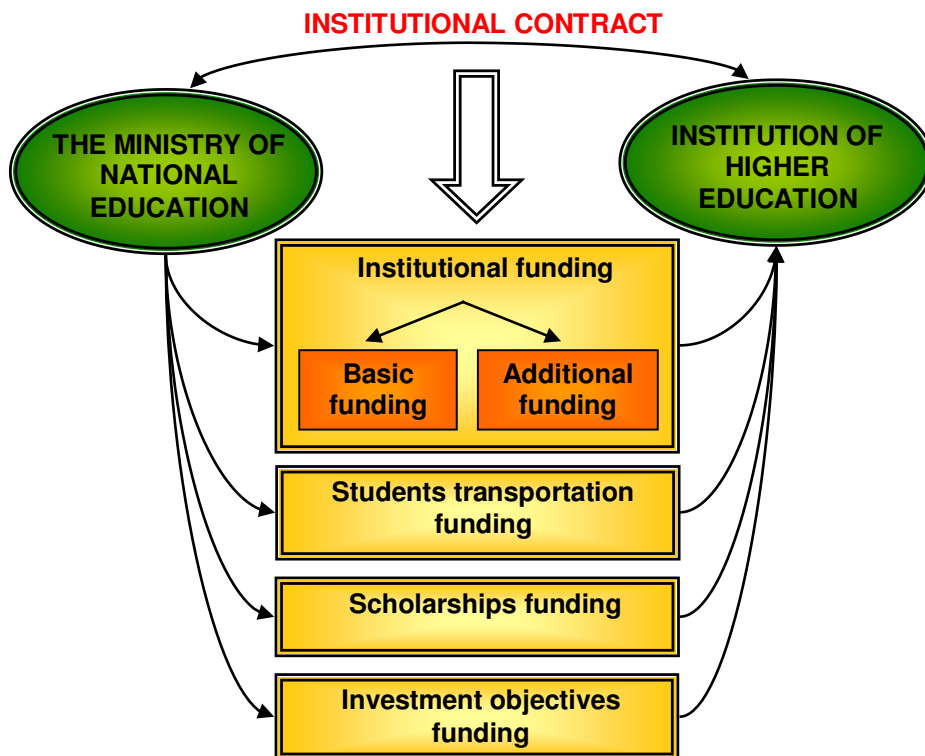
$$fb_U = fb_s \times SEU^U, \text{ where}$$

$fb_U$  = the basic funding allocation for the university U;

$fb_s$  = the allocation per unitary equivalent student;

$SEU^U$  = the number of unitary equivalent students of the university U.

- *Additional funding* which is allocated to stimulate the excellence of the universities and the study programs within them, depending on the fulfillment of the quality criteria and standards established by The National Council for Financing Higher Education. At national level, additional funding is allocated in quantum of at least 30% of the amount allocated as basic funding for public higher education institutions.
- *Scholarships and other forms of social protection funding* such as: scholarships for Romanian students and PhD, scholarships for students who live in rural areas, merit scholarships for international Olympians, scholarships for foreign students and PhD scholars of the Romanian state.
- *Students transportation funding* allocated according to the number of unitary equivalent students - full time students, on funded places.
- *Investment objectives funding.*

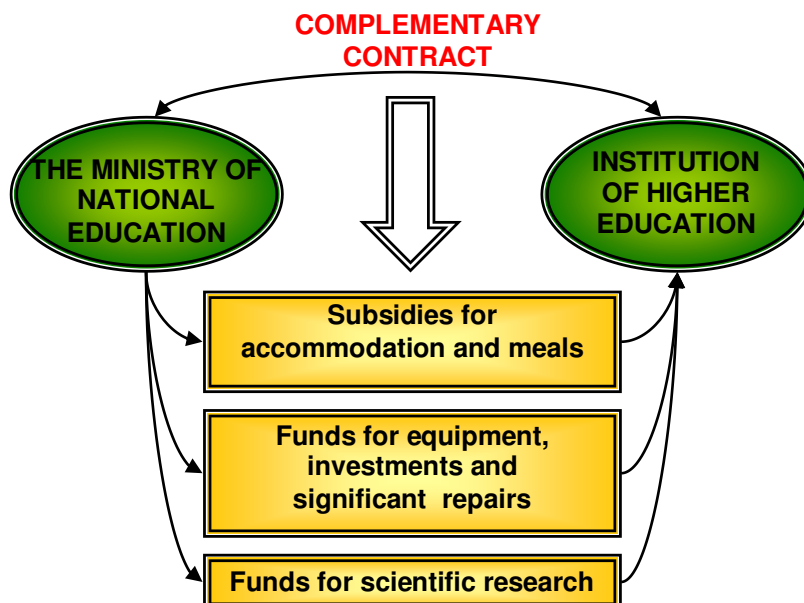


**Figure 1:** The scheme of institutional funding for public institutions of higher education

Source: Own processing of the National Education Law

By analogy, *complementary funding* is also allocated according to a contract, but this is the case of a complementary one, signed simultaneously with the institutional contract, between the Ministry of National Education as a financier, and each higher education institution, as the beneficiary of funding. Complementary funding is allocated for covering the overhead expenses of the teaching process, as can be seen in Figure 2, and it can take the form of: subsidies for accommodation and

meals, funds for equipment and other expenditures for investments and significant repairs, funds for scientific research.



**Figure 2:** The scheme of complementary funding for public institutions of higher education

Source: Own processing of the National Education Law

In fact, universities sign the institutional and the complementary contract early in the first quarter (usually in March) for the current year and then at the end of the year (in December) the renegotiated contracts will be signed.

Concerning the two previously mentioned funding sources (institutional funding and complementary funding), the National Education Law expressly stipulates the fact that by the agreement signed with the Ministry of National Education, *rectors of state universities are responsible for allocating the resources with priority to the most performant academic structures.*

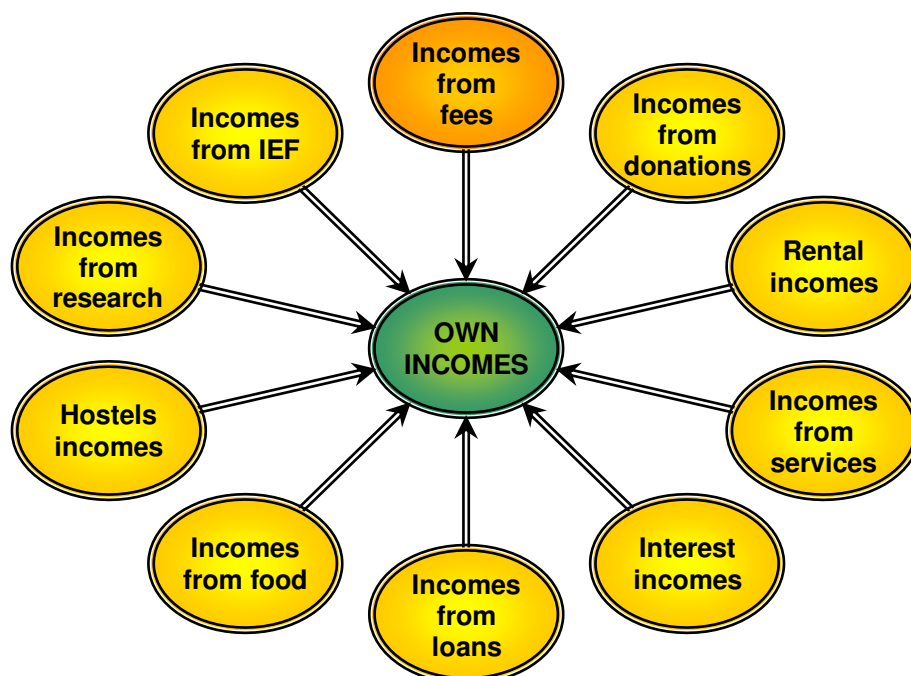
However, for Romanian universities, obtaining the necessary funds to carry out their activities has become a matter of financial management, aiming to identify the most efficient methods of using these resources. The autonomy of the universities in financial management has increased, especially regarding the collection and use of *own revenues*. Public institutions of higher education can obtain their own revenues from multiple sources.

The most important source of own revenues is represented by *the tuition fees* collected by the universities from the students who aren't funded by the Romanian state. Also, state universities may collect fees not only for admissions, registrations, exceeding the tuition time established by the law, re-examinations and backlogs, but also for other activities not included in the curriculum. The amount for the tuition fees is approved by the Senate of each university depending on the faculties proposals.

Schneider and Cosma (*The Current System of Financing Public Higher Education in Romania*, 2011:393) identifies also other financing sources from private funds, such as: donations and sponsorships, amounts obtained by renting properties, amounts obtained from services (various courses, organising different events, consultancy services), interest income, amounts obtained from loans or overdrafts. In the category of own revenues we can also find *the irredeemable external funds* which can be classified according to their origin in: amounts received from the European Union (through European Regional Development Fund and European Social Fund) and amounts received from the state budget. In 2007-2013, academic education in our country has benefited from structural funds through three financing programs: POSDRU, POS CCE and Regio.

Another source of own revenues for universities are the *revenues from research contracts* signed between them and various private entities. Scientific research is an integral part of the mission of universities and aims to contribute to the overall development of higher education. The scientific research is based on: projects won in national competitions (research contracts excluding VAT) and projects financed by third parties (research contracts including VAT - business contracts).

State universities can also obtain financial resources not only from revenues in the form of taxes for accommodation in student hostels, but also from the canteens activity. The suggestive presentation of the main own sources of funding is shown in Figure 3.



**Figure 3:** The origin of own incomes of public institutions of higher education  
 Source: Own processing after the financial statements of the University of Craiova as a public institution of higher education

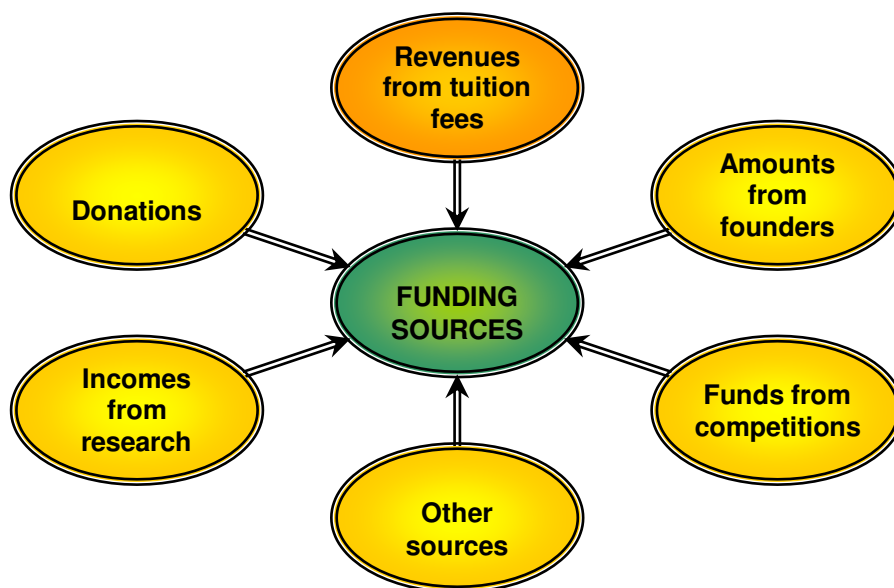
## 5. Financing private institutions of higher education

Concerning private institutions of higher education, firstly it should be noted that they operate as private legal persons and they are funded on the initiative and with the resources of a foundation, association or other education provider.

These institutions also benefit from university autonomy according to the National Education Law (2011: 82), but they also have economic and financial autonomy under private ownership.

The private universities may be financed from the following sources, as shown in Figure 4:

- revenues from tuition fees and other school fees;
- amounts from founders;
- national and abroad donations and sponsorships;
- funds obtained from competitions;
- amounts from exploitation of the results of research, innovation and development;
- other sources.



**Figure 4:** Funding sources for private and confessional institutions of higher education

Source: Own processing of the National Education Law

## 6. Conclusions:

The strengths of the current system of financing are mainly the following:

- it provides transparency in budgetary allocation for higher education institutions as a result of the existence of a clear methodology in allocation based on a formula uniformly applied;
- it supports university financial autonomy;
- it encourages an integrated management in universities, based on strategical management and careful planning;

- it efficiently stimulates the use of funds, giving priority to the most advanced structures that contribute to achieving the strategic objectives.

However, it would be too much to say that the current system of financing Romanian academic education is efficient. Certainly, we must admit that the National Law of Education significantly improved the current system of financing universities from our country in the attempt to rally on the principles recognized and adopted by most EU countries, but it is still far from being fully efficient.

The main problems which the current system of academic education funding is faced with are:

- the chronic underfunding. For the academic year 2012-2013 Romanian Government allocated for education only 3.43% of GDP. Insufficient public funds allocated for academic education hinder Romanian universities to become competitive at Community level, even worldwide, and undermines the quality of the system and the development of the Romanian society;
- the impossibility to compensate the reduction of state funding by increasing the number of students with fees;
- the annual budgetary allocation per student is extremely low and scholarships are insufficient to support and stimulate the desired performance;
- the increase of the VAT percentage and higher utility prices were not taken into account to increase the subsidy for hostels and canteens, but on the contrary these increases have led to higher taxes of accommodation in hostels, despite the fact that, in recent years, investments in student hostels and canteens have not achieved the standards.

Although the current system is functional, obviously there are necessary additional measures to improve and modernize it, especially in terms of finding new sources of funding.

Our proposals for optimizing financing Romanian academic education are:

- increasing the absolute level of funding by increasing the budget allocated for education as a percentage of gross domestic product (GDP);
- increasing resources efficiency by prioritizing funding lines to academic structures considered important (for example: investments in research, libraries modernization and last but not least investments in hostels and canteens rehabilitation);
- identifying new funding sources.

In order to improve the current system of funding academic education, we support, firstly, the combination of funding by input criteria with funding based on outputs, such as number of graduates (as a quantitative element) employed during the year under specialization that followed (as qualitative element). This performance indicator would highlight the ability of universities to teach capable and well prepared graduates. Universities whose graduates are unable to access the labour market according to their specialization should receive lower budgetary funds in the next academic year.

Secondly, as a new source of funding, we support legislating the participation of employers in academic education funding (Schneider and Cosma, 2011:395). The university should be rewarded, once for each graduate employed according to his specialization, with the equivalent of a minimum wage. This amount would be paid 50% by the employer and 50% by the recent graduate employee from his wage. The amount paid would not be a burden neither for the employer nor for employee



since it involves reducing the wage for one month and the payment would be made once in a lifetime. But, for every university, this contribution would be very significant because it allows the funding of other students and the orientation of accumulated surpluses to finance other investments in academic education. Introducing this demarche would have the effect of encouraging universities to improve the quality of education in order to receive the proper reward after hiring trained and qualified graduates.

Another proposal that we support is introducing funding through *the system of educational vouchers*, a proceeding that respects the basic principle of funding "the resources follow the students". This financing system consists in providing vouchers to students that will decide in which university they will study. The vouchers could be used in any accredited higher education institution. The problem in this case refers to choosing which students may benefit from these vouchers and setting the methodology of allocating the vouchers. At the moment, we believe that the baccalaureate is not a criterion by which it could fairly distribute these educational vouchers, even if it is organized nationally. Therefore, we believe that the transition to educational voucher system should first be made for master's and doctoral cycles because in these cases it could be taken into account the results obtained during university years.

Given all the above mentioned considerations, we believe that the current state of academic education funding in Romania still needs significant improvements to complete the improvements brought by the National Education Law, followed by orientation to support private higher education only after the public higher education reform will be stabilized.

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