

From Capacity to Presence: Public Expenditure on Higher Education. State and Private Romanian Universities

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Romania's education system is at a cross-road. The important sector reforms initiated after the fall of communism – including curriculum changes, student assessment, teacher training, finance and governance - need to continue the improvement of education outcomes. However, Romania's integration into the European Union (EU) will determine new demands on the country's human capital, creating new challenges for this sector. This paper presents the main characteristics of the financing system in higher education, focusing on the example of two Romanian universities: one, a state – owned university (ASE), and the other, a private – owned university (Spiru Haret). The conclusions reflect the need for increasing both financial and material resources in order to improve the quality in Romanian higher education.

Field of research: Economics, Privatisation

1. Introduction

The system of education, in general, and the system of higher education, especially, holds a central place in the development of mankind and of the modern contemporary society. Human capital is considered to be one of the most important assets of the society and higher education has a major contribution in increasing people's creativity. The Communist regimes abolished all private education, wishing to provide free access to all the education levels. Under the centralized system, the higher education was supported by the state and the students didn't need to pay any. After the Communist regime collapsed, the market economy principles started being applied to higher education system. Larger autonomy was given to the universities and private universities were allowed to function on the market.

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In the recent years, Romania went further reforming higher education as a consequence of competition pressure during the integration into the European Union. The first “Bologna” student graduated in 2008 and the legislation continues to adapt to the European regulation. Students from approximately 70 foreign countries attend Romanian universities, mostly in the fields of economics, arts and medicine. State universities are doubled by a network of private universities. This paper focuses on higher education sector reforms in Romania, with the accent on the public – expenditure on education which is a key element for the future Romanian economic growth.

2. Literature Review

Recent higher education sector reforms in Romania aim to promote a public-private partnership to complement the existing national efforts to expand and improve educational facilities in our country. Thus the national actions suggest a move towards an environment in which there is national infrastructural support for implementation of an agreed action based higher education (Mihailescu, 1996, Dinca & Damian, 1997, Romanian National Development Plan 2001 – 2013, 2007). The main policy-oriented messages in higher education can be summarized as follows: (Mwabu,G., Ugaz, C., White, G.,2005):

- The public provision of education may be considered using rights-based and needs-based approaches. Owing to the limited resources of Government, the universal provision of education is impossible. However, basic education commands general support under a rights-based approach. The public provision (free or subsidized) of other education should respond to the needs of marginalized and disadvantaged groups.
- Huge financial resources are needed in most regions to expand education and improve quality.
- Generally, the education provided by the public sector are either free of charge or carry a nominal fee.
- Private sector participation raises the quality, efficiency and supply of services, which allows the enhanced allocation of public resources to rural and remote areas as well as slums in urban areas where they are most needed. Therefore, the participation of the private sector should be encouraged.
- Education indicators based on national averages are not satisfactory in a lot of regions of our country. The situation of the poor is likely to be much worse , since the poor tend to have limited access to education.
- By improving governance, resources can be saved and utilized to improve access to and the quality of education.
- While better education contributes to economic growth, the reverse causality is also true. Financial resources are better available in a growing economy.

3. Methodology

This paper uses descriptive methods in order to present the main characteristics of the financing process in higher education. A comparative study is offered in order to underline some common features of state and private higher education, as well as differences between these two systems. We have chosen to compare two representative universities: ASE, which is the most important economic university in Romania and Spiru Haret, a private university, the largest one in Romania. Statistical official data were used in order to highlight common features and differences.

4. Major Findings

Romania has made major steps towards the European Higher Education Area by reorganizing the entire higher education system. University autonomy is fully guaranteed by the provisions of Romania's Constitution, art.32 (6), which stipulates that "the autonomy of the Universities is guaranteed" and those of the Education Law no.84/1995 (Section 7), article 92 (2) "academic autonomy refers to institutional management, structuring and operation, teaching and scientific research activities, administration and financing", consolidated. (Vlasceanu, 1997). According to education law no. 84/1995, private accredited higher education institutions are included in the national education system and are covered by the same regulations as public higher education. Private higher education represents an alternative and is complementary to public education. It is subject to an accreditation process. (Vlasceanu, 1997) These institutions are autonomous in content of organizing and functioning in accordance with the education system legislation. In private higher education tuition fees are established by each institution or unit according to the law.

The state higher education sector in Romania includes 56 public higher education institutions and other 53 private higher education institutions (27 accredited and 26 partial accredited) . In the academic year 2007-2008, there were enrolled 816.000 students in higher education institutions (National Institute of Statistics, 2007), of which 650.000 at day education, 3000 - evening education, 80.000 - part-time education and 83.000 at distance education. The investment in education is undoubtedly the Romania's most profitable long-term investment. Until 1990, the main investment source for the Romanian public higher education was given by the budgetary allocation. During 1990 and 1996, several changes took place as far as the financing principles of the Romanian higher public education are concerned (similar to the changes that occurred at the level of the OECD countries), such as: the increase of the financial autonomy of the universities, the diversity of the financing sources; the division of the costs paid for the education through the implementation of the school fees; a clearer separation between the funds allotted for education and those allotted for research. Even so, the budgetary allocations still remain the main financing source of the Romanian higher public education. (Ministry of Education, 2007)

In 2008, the Romanian education benefited from 26, 41 billion lei (6% of the GDP), with 24, 3% more than it benefited from in the 2007 when 21, 25 billion lei were allotted (5, 5% of the GDP). 2008 was the first year when education sector received 6 % of GDP. This was considered a proof of the fact that education is important in the Romanian long term government strategy. 40 % of these budgetary resources are funding the higher education institutions. (Ministry of Education, 2007). The growth in funding per student in higher education (HE) has been lower than that in schools and further education since the collapse of communism. However, total expenditure on HE has risen significantly over the time. There has been reached a 5% real-terms funding growth per student since 2000–01 to 2006–07 while the publicly funded full-time equivalent students number was increase by about 140.000 or 13%. (Romanian Statistical Yearbook, 2007)

However, financially speaking, Romania is placed way below the European average, with a sum allocated per student around 1 692, 29 EURO PPS (2007) versus the EU27 average of 6 451, 41 EURO PPS. (Romanian Statistical Yearbook, 2007). A second important element of the financing system of Romanian Higher Education System is the **complementary financing** – which is meant to cover those complementary expenses determined by the educational process (such as: allocations for laboratory instrumentations, thorough repair, investment and research), social expenses for students (student grants, subventions allotted for housing and meals) as well as in the purpose of carrying out other objectives or university services (research, administrative services for students, etc). (Neagu, 2005). The revenues obtained from the complementary activities of the higher education are composed of: public revenues (sums allocated from the state budget) and own revenues (interest receivable, donations, and sponsorships), the latter having a bigger impact, according to the universities involvement in this direction. (Neagu, 2005)

The research, development and innovation activity in Romania is based on a valuable existence which nowadays, covers, over 50 scientific and technological particular fields which maintain every year, a relatively stable level of the activities and results achieved. Nevertheless, the biggest part of the research-development activities is being deployed in the public sector (over 60%). In accordance with the European approach regarding the contiguity, by the end of 2010, the medium level of the total expenses made with the research are 3% of the de GDP, while 1% is obtained from the government securities, Romania took the responsibility to increase the expenses made with the research. (Vasile, V., Zaman, Gh., 2007) The government securities allocated in 2008 for Research – Development – Innovation will increase to around 0.75% of the GDP, and to around 0,9% of the GDP in 2009, so that it 2010, it is expected it reaches the percentage of 1% of the GDP as per the objectives of the Lisbon Strategy.

The diminishing of the pressure made over the public budget has been achieved also through the “**encouragement and development of the private education**” at all its levels. Though, on short-term, the encouragement and support offered in the purpose of development of the higher education can

also lead to a deterioration of the public education – significant differences appeared among the population as far as the access to the education is concerned – on the long-term, the result will be a positive one: the reduction of the public education system on one hand through expenses and their orientation on supporting the less favoured categories of the population, in order to facilitate the access to education, at all its levels, but especially to the upper level. (Constantin,2003). The Romanian education reached the maturity exam. More and more high school graduates choose to attend the courses of private faculties, to the prejudice of the offers made by faculties that belong to the public system. The number of students registered in private higher education institutions reached more than 30% of the entire number of students. One of the main reasons might be given by the better instrumentation, an easier access and a bigger number of specialization offering made by the private faculties. (*National Development Plan 2007-2013*)

Until three years ago, the Romanian private universities were seen more as an alternative for those who thought they had no chance in passing the entrance examination to a state faculty. According to the most recent report issued by the Ministry of Education and Research on the Romanian education, starting with the academic year 2006-2007, a rather spectacular increase was registered as far as the number of students registered in the private higher education system is concerned, which has registered an increase of almost 31% in comparison with the number of students registered a year ago. This jump was anticipated since the autumn of 2003, when, after three years of continuous diminution, the number of students registered by the private faculties started to raise again. Mainly, for the past seven years, the total number of the Romanian students has known a continuous and constant raise of almost 20% - 30% a year, which nowadays reached over 816 thousands. Practically, the raise of the number of students registered in the last year is due to the private universities. (*National Development Plan 2007-2013*)

The Academy of Economic Studies – Bucharest - one of the biggest Romanian state universities, founded in 1913 on the initiative of a highly specialized economists group, underwent after 1989 restructuration and transformations that allowed its functioning in accordance with the requirements of the market economy. In our present days there are 40,000 students and learners in the university out of which 16,000 in long distance education, over 2,500 doctoral students and over 1,000 learners in various forms of post-graduate studies. (Academy of Economic Studies, 2007). By presenting a situation of the revenues registered by the Academy of Economical Studies from Bucharest, we reached the conclusion that, except for the fundamental budget financing, a great amount is given by the own revenues which come from the private sector. We are referring to the national and international research contracts, the designing contracts that the private sector registers.

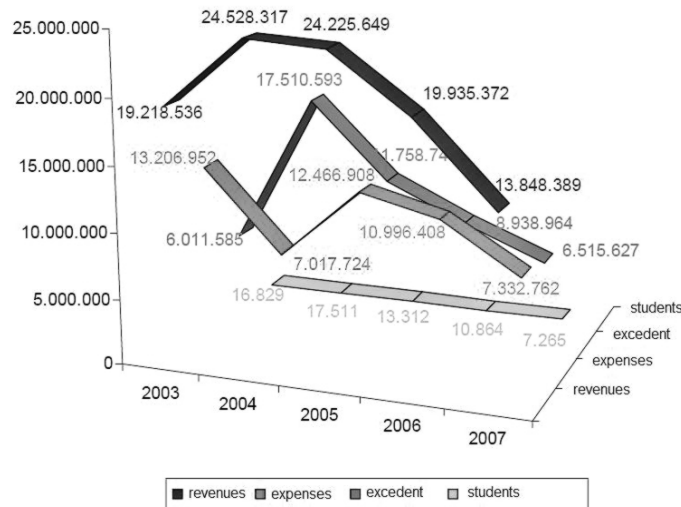
The revenues and expenses budget of ASE University – Bucharest approved for the year of 2007, was composed of the necessary financial resources

necessary for the financing of the expenses which regard the good development of the activities deployed by the institution. Thus, the revenues and the expenses were substantiated on the basis of the main particular indicators, which are: the number of students registered in the daily teaching form with budgetary financing, those paying a fee and those registered in the Distance Learning form; the students' number registered for graduate studies.

– master and PhD; the Academy teaching staff; the total wage fund and the material basis (educational spaces, hostels, eating hall, equipment and instruments). Thus, the evolution of the budgetary estimates for the 2007, are as it is presented below:

- **Total revenues** of 203.946.614 lei (56.183.640 euros), out of which, revenues that result from the basic financing which consists of 122.114.745 lei (33.640.425 euros) , and which represent revenues allotted by i.e. Ministry of Education and Research in a total amount of 50.200.393 lei (13.829.309 euros) and own revenues that result from school fees, donations, sponsorships in a total amount of 71.914.352 lei (19.811.116 euros). The revenues obtained from the research activity represented the amount of 16.988.010 lei (4.679.892 euros). The increment of the total revenues, including the surplus registered a year ago, was, in an annual average, of the same percentage of 26%. We also noticed an important increase in the last two years of the revenues meant for the financing of the investment projects.

Revenues and Expenses of the Academy of Economic Studies



Source: Academy of Economic Studies , Bucharest, 2007, Report on the Income and Expenses Budget Execution and the Checks and Ballances at the end of 2007. Another spectacular jump was registered in the achievement of the revenues obtained by the research activity. If the revenues registered in 2003 gathered 651 thousands lei, in 2007 they reached the level of 16,988 thousands lei, which means an increase by 26 times than in 2003. We also noticed a diminishing of revenues obtained from the scholar fees afferent to the students registered in the long distance educational form.

- **Total expenses in amount of** 183.354.277 lei (50.510.820 euros). The revenues of the current activities exceeded the level of expenses with 444.369 lei (122.415 euros). The expense weight for the current activity during 2004-2007, represented the average of 78% of the total of expenses. For the last two years, the average cost per student grew from 2.400 lei to 2.500 lei (694 Euro). But, as pointed out above, the diminishing of the pressure over the public budgets is also being carried out through the support offered to the **private education form** at all its levels. (Academy of Economic Studies, 2007) The Romanian private education is in a full process of development both as far as the authorities are concerned as well as the population. The public perception towards this educational type is not a favourable one. However, its development tends to diminish, the pressure on the public budget, which finds it impossible to cover the costs generated by education. (Neagu, 2005)

The development of Romanian private education does not have a uniform character neither as far as the educational levels are concerned nor the territorial distributions are concerned. (Neagu, 2005) The network of the private education institutions at the university level, is being uneven distributed territorially, having a bigger distribution in the areas, districts, well-developed cities (Bucharest, Cluj, Iasi) and a lower distribution in other cities (Ialomița, Dâmbovița), while almost inexistent in other cities (Călărași, Covasna). This is simply the proof that the private education is mainly connected to the social-economic development level in the area, district and the financial possibilities of the population. This is particularly why we ask more than often the question whether the Romanian private higher education is ready to absorb the massive flux of aspirants to a university degree? At the first sight, the education, either public or private, may be considered a real business. On the Romanian market the level of school fees “makes the market” when it comes to private sector.

The “**Spiru Haret**” University is the biggest institution of private higher education in Romania. In 2005 it has registered a surplus of 6,33 de billion euros in revenues. The universities have various sources of revenues, except for the school fees. For instance, “Spiru Haret” obtains revenues that are brought by the research area, the university publishing house, the printing house or its private TV network. (Bondrea, 2008). Founded in 1991, the „Spiru Haret“ University, registers today 30 faculties that gather so far more than 50 accredited specializations. In the academic year 2007-2008 there were 123.000 of students registering to the university’s courses. More than 60.000 students joined the long distance educational form. (Bondrea, 2008) Taking into account the fact that during 2002 and 2007, 40% of the revenues should have been invested proves that the development and consolidation of the material basis is a major concern for “Spiru Haret” University. In 2007, the investments were 4.57 bigger than those made in 2004, summarizing a total value of 510 billion lei (14.049.586 euros) .

Though the investments have grown during 2004-2008, the funds allocated for the wages also raised. If in 2004, the wages fund of “Spiru Haret” University was 268 billion lei – which means 7.382.920 euros, by the end of

2007, the fund was of 625 billion lei (17.217.630 euros). (Bondrea, 2008). One of the main problem of the financial flow management of an educational institution is the fact that the school fees are cashed in semi annual instalments, and the wages for the staff must be paid monthly. The market is becoming highly competitive. In order to attend the courses of the Solvay Business School (Brussels, 137 place in top 500), the annual fee is of 719 euros. The annual fee for the Spiru Haret faculties is 1.200 lei (350 euros), while the Academy of Economic Studies of Bucharest charges 1.800 lei (530 euros). The quality of the university management is translated through the adaptability capabilities in a continuous changing market. However, the higher education services provided by the public sector are usually free of charge or are available at nominal charge. The people might be willing to pay some user charges for services of improved quality because the alternative to better-quality services is the private sector that are more expensive. Taking into account this limited empirical evidence, we concluded that in Romania the role of public expenditure in the provision of education is clearly dominant.

5. Conclusions

The student is the higher education's main objective. Without students, there is no university. Therefore, the funds we allocate must be channelled in two directions: the first one is given by the educational infrastructure: laboratories, libraries, work shops while the second important element is improving the quality of student's conditions (hostels, training facilities). Based on the findings, we conclude the financing of the public education is very important for Romanian educational system now. However, if the public education will reach a high modernization level, we believe in developing public-private partnerships that may be able to directly stimulate the education system. It is clear that the private and the public education sectors are and will be competing. This is advantageous for both of them, as well as for their 'subjects': the professors will be able to choose where where to lecture while the students will choose the most competitive educational institution. The national economy will also get a positive impulse as the human capital will encounter a quality growth. We should also note that the private higher education system is now based on a quantitative accumulation, as most of the investments are being made for extending facilities and absorbing a higher number of students. In order to increase their competitiveness, both public and private education institutions need to invest into their qualitative development. The conclusions have significant implications for policy makers, employers and students because understanding that the educational system must be characterized by better quality and efficiency is fundamental for our economic future.

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