

## ASPECTS REGARDING THE FINANCING OF HIGHER EDUCATION

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*ABSTRACT: This paper sets forth the issue of financing higher education in Romania according to the fundamental principles adopted by most of the countries of the European Union. Under such circumstances, the two components of financing State universities are minutely exhibited, namely basic financing and complementary financing. At the same time, the extremely important matter requiring the foundation of an efficient and competitive educational system demanded by the new environment also implies the providing of financing resources and the implementation of a management that allows a good administration and an efficient use of the funds.*

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Article 2 of Education Law no. 84/1995 stipulates that “*In Romania, education is a national priority*”. Moreover, Romanian public higher education is free of charge during the whole duration of the studies. This duration is settled by the decision of the Romanian Government, at the recommendation of the Ministry of Education, according to the proposals of public universities and of the national academic councils (Drăgulănescu, N., 2003).

Until 1990, the main source of financing Romanian higher education was the budget allocation meant for this field. Due to the changes that appeared at the level of the system of higher education, during the period 1990 – 1996, modifications at the level of the principles of financing Romanian public higher education have also come out (such modifications resemble those of the OECD countries): a complex funds allocation system, the increase of universities’ financial autonomy, the diversification of financing sources, the division of education costs due to introducing school taxes; a clearer separation of education funds and research funds. Even under such circumstances, according to the data at the level of the Ministry of Education and Research, according to the data and analyses made after 1990, budget allocations still represent the main financing source for Romanian public higher education.

International experience has shown the fact that the financing of the system of public higher education has a mixed character in order to be able to face present demands:

- Basic financing, out of budget allocations, capable of providing the free access to education, the quality and consistency of the educational process;
- Complementary financing obtained by higher education institutions owing to their own efforts and resources others than those belonging to the State budget. (<http://www.worldbank.org/data/>, 1998).

Moreover, an important stage of the reforming process has been the replacement of financing budget items by global financing of the universities according to an institutional contract with the Ministry of Education and Research. This change has been a manner of getting improved performance in education and research owing to a better management of financial resources. Accordingly, the level of financing a public university is going to be also determined by

performance and efficiency criteria. Beginning with 1999, the manner of financing higher education changes and shifts to a repartition methodology of distributing budget allocations according to a formula (*the quantitative component*), and is founded upon the fundamental principle stipulating that “*resources are determined by students*”.

Subsequently, beginning with 1999 the financing of Romanian higher education is done according to certain fundamental principles adopted by most of the countries of the European Union. The new financing philosophy, developed after 1999, coherently integrated within the ampler process of systemic reform, has been developed starting from the premise that the State does not allocate funds for the deployment of educational process, but in order to finance its results.

Consequently, each State university yearly draws out an institutional contract with the Ministry of Education and Research according to which it gets a yearly global budget allocation made up of two distinct components: the basic financing of the university (that includes employees expenditures and current expenditures) and complementary financing (that has in view the other items of expenditures specific to the activities taking place at the level of a university). The responsibility of administrating these allocations belongs to the higher education institutions (according to Article 92 of Education Law: “*At a financial level, university autonomy is implemented as an administration right, according to the law and personal responsibility, of the funds allocated from the national public budget or from other sources, including the incomes coming out of foreign currency taxes from foreigner students, observing the criteria mutually settled with the Ministry of Education.*”).

Beginning with 2002, the methodology of distributing basic financing budget allocations to universities is completed by a qualitative component, continually updated during the period 2003 – 2007.

The following data come out of the information taken into consideration for the period 2006 – 2007:

- The share of the funds allocated for education out of total GIP: 4.79% (2006), 4.96% (2007);
- The share of the funds allocated for higher education out of total GIP: 0.67% (2006), 0.68% (2007);
- The share of the funds allocated for basic financing out of total GIP 0.34% (2006), 0.39% (2007).

The main responsibilities of the National Council for Financing Higher Education (NCFHE) regarding the financing of higher education in Romania are the following ones:

- Settling proposals regarding the budget financing of State higher education institutions for the next financial year;
- Settling proposals regarding the yearly distribution of budget funds per State higher education institutions;
- Elaborating and publishing analyses and researches regarding the condition of financing higher education as well as formulating proposals of actions to be undertaken which are submitted to the minister of Education and Research.

The main principles of formulating proposals regarding financing are the following ones:

- The priorities of strategically developing higher education;
- The fundamental principle according to which “resources must be determined by students”;
- The specific indices of the activity deployed by higher education, especially those regarding higher education acts.

The financing of Romanian State universities is structured according to two components: basic financing and complementary financing.

#### ***Basic financing***

In order to determine the level of basic financing the main calculating index is the one called “net unitary allocation per equivalent student, financed from the budget”. The settling of the number of equivalent students belonging to a certain specialization depends on the number of

physical students of that specialization and on the forms of education (full time, evening courses, etc.) that characterize the specialization. Other indices specific to education are also taken into consideration, according to Education Law, especially those regarding the quality of the act of education. Subsequently, the amount of basic financing of a higher education institution is yearly determined according to:

- The form of education: full time, evening courses, etc.;
- The level of higher education: college, faculty, thoroughgoing studies, other post-university budget-financed forms, doctorate;
- The specialization and professional field;
- The quality of didactical process and of the university scientific research;
- The total amount of the budget allocation approved by the Ministry of Education and Research.

The amount allocated to an institution is correlated according to the rectifications of the national budget.

Basic financing represents funds employed for:

*Employees' expenditures (EE):*

- Salaries, health insurances, unemployment;
- Internal and international missions

*Current expenditures (CE):*

- Administration expenditures;
- Materials and functional services;
- Inventory items;
- Current repairs;
- Books and publications;
- Staff perfecting, protocol, labor protection, etc.

In short, since its first variant, the Methodology of financing has been conceived as a flexible instrument capable of providing the optimum implementation of sector policies owing to its continual adaptation to the changes witnessed by the system and owing to its correlation with the efforts made by the other institutions that target the same goal. As a result the present variant of the Methodology can only be analyzed from the point of view of this developing process that began in 1999 when, at the proposal of NCFHE, a new, objective, and transparent methodology of financing universities was adopted. Built as a mathematical formula based upon the fundamental principle stating that "resources are determined by students", it equally supports both university autonomy and the entitled demands of central institutions for a most efficient use of allocated funds. Beginning with 2002 a qualitative component was introduced; it plays a complementary and corrective part determining a continual striving and, at the same time, it supports the efforts of the universities regarding the maintaining of a high quality standard. Qualitative component permanently extended; in 2006 it gained a development coordinate (MMSSF, the Operational Sector Program of Developing Human Resources, 2007 – 2013).

### ***Complementary financing***

It targets the covering of those expenditures complementary to direct expenditures determined by didactical process; they are important both in order to support its deployment under optimum circumstances and its development (allocations for laboratory equipments, capital repairs, investments and research), and in order to achieve other goals or services of a university (research, micro-production, administrative services for students, etc.).

Higher education's incomes for complementary activities include: public incomes (sums allocated from the State budget), and universities own incomes (interests, donations, sponsorships, and taxes received, under law stipulations, from Romanian or foreign, natural and juridical persons, or other sources); the latter ones have a higher share according to the universities' implication in the field.

Complementary financing targets various categories of expenditures; it requires specific procedures of sizing and distribution towards universities, for each category: social expenditures for students – scholarships and other forms of support, board and lodging subsidies, urban transport facilities for students, etc.; funds allocated according to priorities and specific norms for equipments and other investment expenditures and capital repairs; funds allocated for university scientific research according to competition (the National Council for Financing Higher Education, 2007).

The main index of establishing the funds that cover the social expenditures for students is the number of students attending full time courses within State higher education institutions. Board and lodging subsidies are calculated according to the number of full time students and to the real expenditures estimated for each period of a calendar year during which students are lodged in hostels.

Complementary financing includes funds targeting:

- a) Board and lodging subsidies;
- b) Funds allocated according to priorities and specific norms for equipments and other investments expenditures and capital repairs;
- c) Funds allocated according to competition for university scientific research (according to article no. 169/ (6) of Law no.151/1999) ([www.cnfis.ro](http://www.cnfis.ro)).

The proposals formulated by NCFHE bring a new approach with a view of improving the use of complementary financing; such elements being noticed at the level of other European countries too:

➤ Complementary financing for scientific research should rely upon competition, but not only according to research projects, but also according to:

- The results of the evaluation of the level of scientific research, focusing upon the reduction to practice of the results of university research;
- The financing of a research component through projects targeting the development and/or improvement of material foundation;
- The support of universities with a view to enlarge the applicability of research activity and its results (financing publishing houses/ well-known publications; annals, scientific publications, conferences organized throughout the country, subscriptions to publications, on-line access to data bases and scientific articles, etc.);

➤ Complementary financing for institutional development too: in order to achieve university strategic projects, with a view of professors' and lecturers' sabbatical year, in order to professionally and scientifically develop academic staff, in order to improve educational systems (LAN, ROEDUNET, and informatics management)

➤ Complementary financing to support the students: financial support for students' mobility (complementary to Erasmus); financing programs for master, doctorate, and post-doctorate (Clark R. B., 2000).

An important part in stimulating and supporting universities' management of social and administrative services for students is played by the index of quality employed in order to basically finance "the quality of social and administrative services for students". This quality index has a complex structure and a calculation formula different from that of the other quality indices; it is made of a list of criteria where each criterion is associated with a score; they are grouped as follows: criteria regarding lodging services for students; criteria regarding students' partial financial support through scholarships and money aids; criteria regarding the services of professional and psychological guidance, and criteria regarding administrative and secretariat services that should provide the rapid informing and solution of the students' problems.

Five directions of changing the universities can be employed as a result of entrepreneurial efforts:

- a) A well consolidated decisional centre that includes both employees belonging to the central administration of the university, and of the academic departments capable of providing the

management of the institution with a view of improving and making more flexible the answers to the demands of the environment;

b) An extended dynamic periphery framework that includes flexible units capable of sketching a diffuse character of the borders of the university space; such units provide knowledge transfer towards the outside space, functioning as an interface between the institution and external environment;

c) A varied financing basis; under the circumstances of diminishing the percent belonging to the budget allocated to higher education, universities enlarge their financing basis; accordingly, they enter the competition for grants and contracts, identifying tertiary sources (industrial companies, local authorities, philanthropic foundations), turning to good account intellectual property, perceiving school taxes, administrating the campuses, resorting to donations;

d) A well stimulated academic nuclei represented by traditional academic departments (research and teaching centers) based upon certain specializations, either old or new, as well as upon interdisciplinary fields; such units represent the place where most of academic work deploys;

e) An integrated entrepreneurial culture best represented by a labor culture extremely favorable to change; such a culture is born and develops according to the following stages: idea of institutional change – set of principles – generalized culture within the entire university – institutional identity-reputation (Education & Training 2010, the Council of European Union).

For Romanian universities that are in the middle of a restructuring process regarding curricular offer, and especially of re-directing and re-analyzing financial problems as well as those of financial management, insistently denounced by improper budget financing, the creation of a flexible, and efficient financial system represents the single viable solution through which they can face an uncertain economic environment where expenditures control, owing to the use of certain costs normative, is a truthful alternative.

Although the policy of diminishing costs is more relevant at the level of companies, representing the means of getting competitive products and services on the market and the accomplishment of higher profits, the reason of controlling costs and higher education expenditures comes out of the need of identifying and avoiding resources waste according to illegal and non-economical expenditures, of creating a responsible attitude of all the factors implied in the process of funds expenditure (Dougherty, K. J., 1997).

The shift, especially after 1999, from a mainly governmental financing to multiple financing where universities own incomes tend to surpass budget financing, demand the development of a financing mechanism founded upon criteria of efficiency according to the model of companies.

Out of these reasons, the manager of the State higher education institution who, in Romania, is not a manager by training, should rely upon a package of instruments and indices able to allow the objective analysis of the real circumstances, defeating inertia (a general characteristic of the mechanisms of university functioning), capable of certifying financial decisions and obtaining the best results.

In order to provide the required financing sources one can observe two directions:

- a) Maximizing incomes;
- b) Maintaining and controlling expenditures.

Maximizing incomes implies the elaboration of certain models of financing capable to allow higher education institutions:

- The obtainment of the maximum score for those indices that represent the ground of determining the amount of basic financing so that such resources result in maximum profit;
- The creation of their own financing sources; *the index of the share of their own incomes within total budget* represents the "barometer of the condition" of health of the institution;
- The creation of a varied basis of financing in order to avoid negative consequences coming out of single financing source dependence.

The maintaining and control of expenditures implies the relying of the financing mechanism and of the actors that contribute to its functioning upon the following bases:

- The elaboration of certain costs calculated per student that allows their comparative analysis with achieved costs; drawbacks analysis, especially where norm costs have been surpassed; hence measures capable of observing framing within normal costs;
- Internal accountancy (administration accountancy) – well structured in order to allow the emphasizing of expenditures per generating place (cost centers). This fact determines the detailed analysis of expenditures up to the chair or department level, facilitating the focusing upon the huge resources consumers, upon the areas that determine outgoings of resources (expenditures higher than incomes), and subsequently upon the measures of improving paid university services;
- The foundation upon economic criteria of the taxes perceived for paid university services so that their level allows the retrieving of expenditures as well as the achievement of that “plus” necessary in order to re-start, according to enlarged bases, the activity that actually proves “education’s efficiency”;
- The creation of an organizational culture based upon savings;
- The giving of certain rewards and popularizing those who contributed to savings;
- The foundation of an adequate system of indices in order to evaluate managerial performances in the financial field;
- The structuring of a competent, responsible, and motivated managerial team.

The most important problem of Romanian State higher education and not only of it is the human factor. Without a competent, responsible, and motivated managerial team that permanently acts in order to improve future conditions and not only when financial resources prove to be insufficient one cannot talk about a creative and efficient financial management. The habit of the last years built upon a passive attitude regarding the administration of financial resources where the efficiency of the activity represents a completely accidental problem, is a noxious factor that should be replaced by the responsible and efficient action based upon a set of measuring instruments of determining the results of this action.

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