

A SWOT analysis of the financial decentralization strategies for the Romanian pre-university education♦

Emilian-Constantin MIRICESCU

The Bucharest University of Economic Studies, Department of Finance and CEFIMO

Lucian ȚĂȚU

The Bucharest University of Economic Studies, Department of Finance and CEFIMO

ABSTRACT

The paper focuses on Romanian experiences regarding the financial strategies used by managers from pre-university education. In Romania, local public authorities provide funds to pre-university institutions. Given the sharp economic recession and the austerity measures imposed by Romanian government, the public executives had to find solutions in collecting additional funds and in spending wisely the existing financial resources. Therefore, our paper aims at examining several practices regarding: (i) employees' wages, (ii) EU funds implementing, (iii) self-financing activities, (iv) public procurement and (v) balancing strategies for the budgets, which could improve the financial management of public institutions. This also can contribute to the increase in the efficiency of spending at micro-level within public administration.

Keywords: Decentralization strategy, Pre-university education, EU funds, SWOT analysis

JEL codes: H41, H75, I22

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1. Introduction

The fulfilment of population needs represents a challenge for public authorities. Therefore, when citizens' needs cannot be satisfied through the use of private goods and services, the states are forced to provide them public goods and services. It is well known that peoples' needs cannot be satisfied entirely by market. Therefore, governments have to provide some of the goods which generally are named *public goods*. The Romanian government provides public education to a large group of people. While higher education institutions can raise money both from public and also from private sources, pre-university education is financed to a large extent through public revenues.

Many studies have focused previously either on higher or on post-secondary education, or investigated the decentralization process. The originality of this paper is the analysis of the financial devolution strategies in the pre-university education from Romania and the use of SWOT matrix to assess internal and external conditions. We will abbreviate strengths using **(S)**, weaknesses using **(W)**, opportunities using **(O)** and threats using **(T)**.

Public education is not a pure public good in the sense of Samuelson (1954). Even if it is non-competing it may be excludable for people due to some constraints imposed by the existing law of each state. For instance, Moşteanu et al. (2004) explained that pure public services are non-competing and non-excluding. The authors indicated that the non-competing pure public services are produced for one or more individuals and a large number of people can benefit of them without registering an additional cost of production or supply. We think that in the case of education service there is an additional cost for each pupil, because the classes have specific limitations. Văcărel et al. (2003) stated that meeting people's needs for education varies depending on the preferences or financial constraints of individuals. Regarding the local autonomy, Roman (2011) asserted that 'since local administration does not have sufficient revenues to fund the local expenditures, then the central government have to provide funding in that sense. The Romania's case reveals that central government makes transfer payments to local authorities to finance the pre-university education.

Regarding the local decentralization, Manor (1999) stated that 'since the early 1980s many countries have undertaken some form of decentralization' and he estimated that in about two decades after the beginning of this process, approximately 80% of the countries performed decentralization in different fields.

In our opinion a proper definition of decentralization was formulated by Litvak and Seddon (1999) as the transfer of authority for decision-making, finance, and management to quasi-autonomous units of local governments. Devolution Strategy for Pre-university Education (2005) defined it as the transfer of authority, accountability and resources from central authority to local community and to educational institutions. We consider that financial decentralization is an essential component of this process **(S)**, but the shortage of cash resources may lead to the failure of the final goal, which is to provide quality services in pre-university education. Gherghina (2010) also emphasized that the devolution process will lead to a quality educational system.

Stanef (2013) stated that 'the degree of inclusion in pre-university education (...) does not depend mainly on the provision of schools and number of teachers but rather of household income and education level of the parents'.

In Romania, pre-university education includes the following levels according to the National Education Law no. 1/2011: (i) early education, (ii) primary education, (iii) secondary school and high school, (iv) vocational education and (v) post-secondary education. Early education includes children since birth to 6 years old. Primary education includes preparatory form and I-IV forms. Secondary school includes V-IX forms and high school X-XII/XIII forms. Vocational education lasts from 6 months to 2 years. Post-secondary education lasts from 1 year to 3 years.

The aim of this paper is to investigate the allocation of local public expenditures for pre-university education. For this purpose, we will conduct our analysis using annual data provided by Romanian Ministry of Regional Development and Public Administration and Romanian Ministry of Public Finance. By applying the SWOT analysis, our investigation identifies good practices regarding financial strategies for decentralization in pre-university education.

The paper is organised as follows: Section 2 describes the relations between pre-university education institutions and local governments. Section 3 analyzes the most important financial strategies in pre-university education and Section 4 concludes and formulates policy recommendations.

2. The relations between the pre-university education institutions and local governments

The contribution of our research is the focus on financial devolution strategies in the pre-university education from Romania, compared with previous papers that conducted similar investigation, but for higher education.

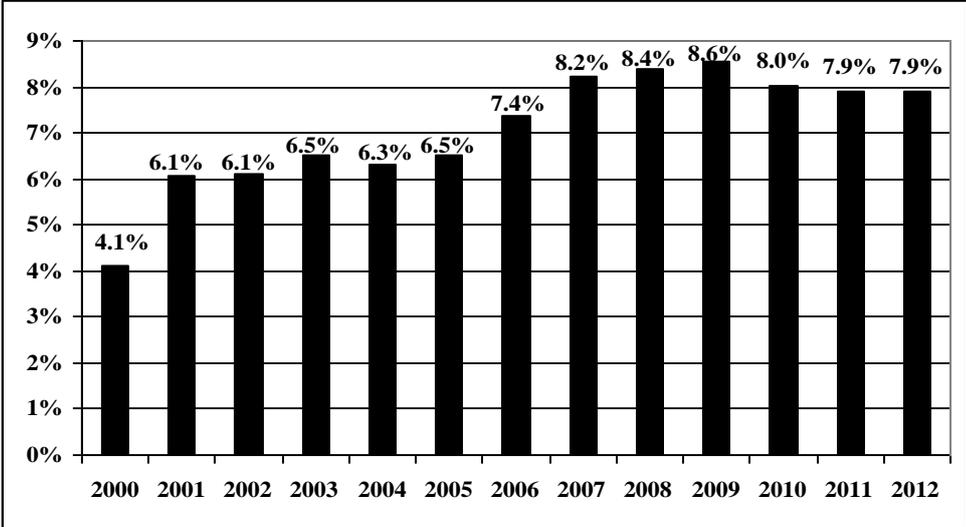
According to the Ministry of Regional Development and Public Administration, in 2014 Romania has 3228 local governments which are classified in: counties, cities, towns, communes, and districts of Bucharest. In the decentralization process, the transfer of new responsibilities from the central government to local administration is also connected with an increase in the financial resources. Otherwise, the local public authorities are forced to cut the spending or to borrow money.

Starting from 2001 Romanian local governments issued bonds on financial market. In this circumstance, there are cities like Bucharest, Oradea and Brasov that received local ratings from specialised rating agencies.

Corsetti and Roubini (1991) stated that a growing public debt is often associated with widespread concern over the ability of the government to sustain its current fiscal and financial policy, the same issue also applying for local authorities. We consider an opportunity that the public decision makers concern improving local rating (**O**) by an effective financial management.

We consider that in Romania, there were two major moments in the decentralization process: (i) in 2001, the decentralization was performed in the pre-university education and (ii) in 2010 the process was also accomplished in the healthcare system.

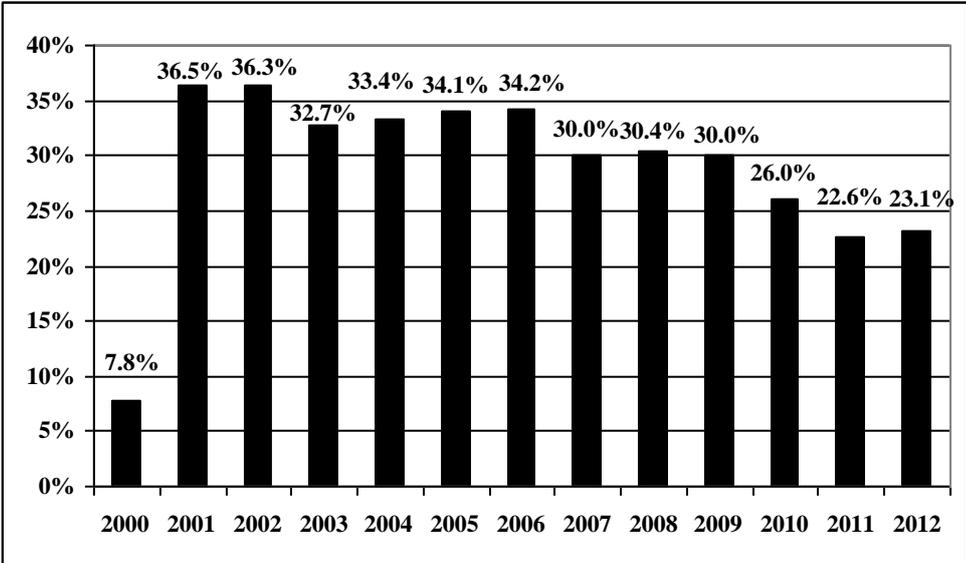
Figure 1 Local public administrations' expenditures to GDP ratio



Source: Our results based on data provided by the Ministry of Regional Development and Public Administration and Ministry of Public Finance

The local public administrations' expenditures to GDP ratio had generally an increasing trend, from minimum 4.1% in 2000 to maximum 8.6% in 2009, reaching 7.9% in 2012. Although in 2010 the decentralization of the healthcare system was achieved, the ratio decreased compared to previous years, mainly due to the 25% reduction in the wages paid for the civil servants and to the decrease in total government expenditures as an effect of austerity measures.

Figure 2 Pre-university education expenditures as ratio to total local expenditures

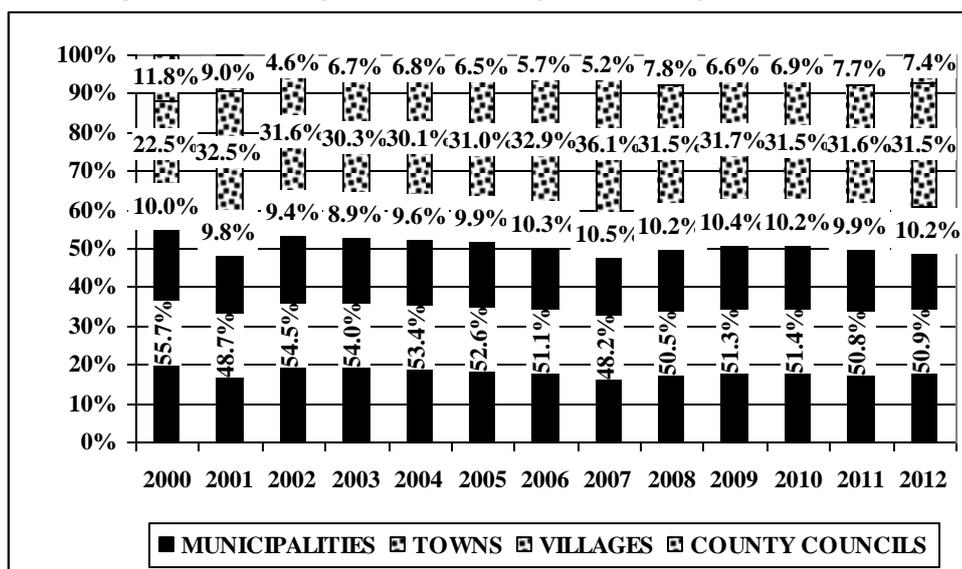


Source: Our results based on data provided by the Ministry of Regional Development and Public Administration and Ministry of Public Finance

Pre-university education expenditures as ratio to total local expenditures rose from minimum 7.8% in 2000 to maximum 36.5% in 2001 and then it had a downward trend reaching 23.1% in 2012. Dogaru (2002) declared that 2001 was a transition year to the new system of administration and financing of public education. We consider that this evolution also indicates a poor financing for pre-university education **(W)**.

Pre-university education is funded from: (i) municipalities' budgets – about a half, (ii) villages' budgets – roughly one third, (iii) towns' budgets – around one tenth and (iv) county councils budgets – the remaining amounts. Mainly, the county councils finance education for people with disabilities, provide milk and bakery in kindergartens and schools, and supply schools with fruits. There are pupils from rural area enrolled in schools or high-schools from urban area. Implementing the subsidy per pupil reduced the discrepancy between urban area and rural area **(S)**.

Figure 3 Financing structure of the pre-university education



Source: Our results based on data provided by the Ministry of Regional Development and Public Administration and Ministry of Public Finance

Education institutions in Romania are generally organized as legal entities having one or more schools or kindergartens in the same district. According to the National Education Law no. 1/2011, in order to receive legal personality the schools must have the minimum number of pupils: 300 pupils or 150 preschool pupils or 100 pupils and preschool pupils – in the case of people with disabilities. In the recent years, the minimum number of students had increased as schools received legal personality, but the number of pupils in Romania declined. In the last seven years, almost 5000 schools especially in rural areas were closed **(T)**, and in 2012 were only about 7000 active schools, according to National Institute of Statistics.

Mainly in rural areas, there are cases when schools don't have legal personality and the mayor has in charge their financial resources management. We believe that a good method to meet the school's interests is to obtain legal personality **(O)**, in the case that they fulfil the legal requirements. As example, for goods and services of a small value, schools having legal personality can perform rapid public procurement by direct allocation. In our opinion, the school's manager usually knows the problems better and he has the opportunity to manage effectively financial resources. The

requirement for a school to obtain legal personality is a special decision issued by the local council. The next steps are the school's registration at the Financial Public Administration and the employment of an accountant.

3. Financial strategies

We consider that financing strategies in the pre-university public education must take into consideration the regulations and use the opportunities regarding: the employees' wages and the European funds implementing, in the context of balancing schools' budgets. Implementation of integrated financial management strategies in schools should imply the maximization of social satisfaction for services beneficiaries and meet staff motivation and compliance with laws in force.

3.1. Financial strategies regarding the employees' wages

In order to employ an efficient cash management, Gyorgy et al. (2011) emphasized that it is important that, the wage payments should be done only between the 5th and the 15th of each month, according to Romanian regulations in force. Nowadays, the funding of pre-university education is reforming according with the National Education Law no. 1/2011. Starting from 2012, the expenditure on goods and services was included in the subsidy per pupil (**O**), along with salaries that have been included since 2011. The subsidy per pupil is determined for each specialization, and they depend on the number of pupils, on urban or rural area and on other specific teaching indicators.

The calculation of funds for pre-university public education is made by multiplying the number of pupils with the subsidy per pupil. In order to have the same salaries for the same responsibilities, teachers and auxiliary teaching staff are paid since 2011 on the basis of the Law no. 63/2011 regarding the teacher and auxiliary teaching staff salaries'. According to current legislation, the schools' employees are not allowed to receive bonuses, except one specific bonus named 'gradation of worth'. According to the National Education Law no. 1/2011, the gradation of worth is granted for five years to 16% of the school inspectorate teaching positions and represents 25% of the basic salary. Teachers who receive gradations of worth cause higher wage costs, without any additional support for the school from the local authority. We suggest that the subsidy per pupil be increased proportionally to the weight of teachers who gained gradation of worth considering all the teaching staff of a certain school. Otherwise there is a risk that school management hires only the teachers who do not have gradations of worth, in order to sustain the wages cost. Another method to increase the teachers' salaries is the hourly payment system for supplementary classes.

The schools' principals in charge are allowed to hire only a person for seven administrative employees who ceased the labour relationship with the school. This restriction does not apply to teachers' employment. The school cannot outsource public servants, but it can outsource the contractual employees.

3.2. Financial strategies regarding the European funds implementing

In Romania, the schools implemented projects financed by the European Social Fund (ESF) for Human Resources Development. We consider that the schools' involvement in such projects should be

a priority for their management staff too, in order to increase the school's reputation by helping the local community development. Thus, the teachers could improve their skills and they could gain additional revenues. Gyorgy et al. (2011) stated that EU project payments can be made during the entire month without supplementary restrictions.

Since 2011, the pre-funding received from ESF has declined from 30% to 10%, hence, increasing the difficulty of implementing such projects. Usually the educational institutions have to spend 2% to co-finance these projects, which are funded from school limited financial resources, until recovering the money from the management authority. For this reason, schools have focused on smaller projects. The use of separate accounts for European projects has generated difficulties for educational institutions, because some authorizing officers did not understand the need to finance the projects.

We believe that in the context of insufficient funds for implementing European projects, schools have the opportunity to use the amounts resulted from self-financing activities, donations **(O)**, given that they are not allowed to borrow money. However, the Mayor is allowed to borrow money and he should strive to improve local rating in order to obtain lower interests.

3.3. Balancing strategies for the schools' budgets

The principal in charge of the educational institution having legal personality is responsible for complying with the budget approved according to the subsidy per pupil. In this context, we consider that a key element is that schools have an optimal number of pupils. In certain communities with a low number of population it is difficult to implement this measure (as all the pupils in the neighbourhood are enrolled in that school), but other municipalities can take action to lower the school dropout and have a fair distribution of the students among the schools in the same area.

We recommend to the principal in charge balancing the local budget allocations by an effective spending of public funds, giving priority to the salaries and student scholarships payments, as these payments represent essential revenues for low-income households and they foster performance.

Self-financing activities are related to the subsidiary activities carried out by schools, as: renting available classrooms and lands, cafeterias, boarding schools, continuous education activities, publishing books and journals, activities carried out in the school workshops. Miricescu (2009) proposed that wholly financed institutions from their own resources can use these amounts to stimulate the employees by providing meal vouchers. We suggest diversifying self-financing activities. In the case when the school performs taxable self-financing activities exceeding RON 220,000 per year, then generally it has to register at the Financial Administration for VAT purposes.

Goods and services can be paid starting with the 24th of the month. Generally, the schools with legal personality carry out public procurement for goods and services. For this reason, the share of public procurement of less than EUR 30,000 per year is often wide. This determines rapid public procurement that can be performed by direct allocation. The use of direct allocation mechanisms requires the school manager to be prudent **(T)**. As schools usually do not have specialized staff that can specify the details for advanced procurement, we recommend that the most important acquisitions be carried out by the upper authorizing officer.

Since 2011, the share of the income tax transferred to local authorities declined from 77% to 71.5%, in the context of introducing the goods and services costs in the subsidy per pupil. This way, the government will provide almost all the school resources, and the Mayor may provide from local council funds only additional resources to balance the schools' budgets.

3.4. SWOT matrix

By associating both the internal dimension - that identifies the strengths **(S)** and the weaknesses **(W)**, and also the external dimension - that identifies the opportunities **(O)** and the threats **(T)**, we composed the SWOT matrix.

Table 1 SWOT matrix on financial strategies for decentralization of pre-university education

<p>Strengths: (S)</p> <ol style="list-style-type: none"> 1. Performing decentralization process; 2. Similar funding methods for urban area and in rural area. 	<p>Weaknesses: (W)</p> <ol style="list-style-type: none"> 1. Poor financing.
<p>Opportunities: (O)</p> <ol style="list-style-type: none"> 1. Improving local rating; 2. Obtaining legal personality by schools; 3. Financing education through the subsidy per pupil; 4. Using self-financing and donations to finance EU projects. 	<p>Threats: (T)</p> <ol style="list-style-type: none"> 1. Closing about 5000 schools in the last seven years; 2. Public procurement by direct allocation.

The transfer of resources in the pre-university education from government to local communities it is an ongoing process.

In the context of declining the number of pupils enrolled in Romanian pre-university education system, we consider that closing almost 5000 schools, it is a real threat especially for rural areas, because these pupils should travel in other villages in order to attend the classes.

4. Conclusions and recommendations

In Romania, the decentralization process in the pre-university education started in 2001. Pre-university education expenditures as ratio to total local expenditures had a downward trend in the last decade. Poor financing represents a major problem for pre-university education. We recommend that public decision makers improve local rating in order to decrease bonds' interest rate.

In our view, an appropriate method to meet the school interests is to have legal personality, which may be obtained only through a decision of local council. We recommend that the schools gather more pupils in order to collect additional funds for the enrolled pupils but also for schools' employees. We consider that the subsidy per pupil should also include the additional bonuses for teachers' good performance.

In order to have an efficient cash management, the school payments, excepting the EU projects, should be distributed in certain days of every month. We consider that the most important change, which has been implemented in 2012, is the inclusion of the expenditure on goods and services in the subsidy per pupil and, along with the salaries that have been included since 2011.

By involvement in EU projects, the school reputation could increase, but also the local community and the teachers' performance could improve. We suggest the diversification of self-financing

activities, under the condition of asking a price related to the services or goods provided by the institution so that it exceeds the production costs.

We believe that implementing these financial strategies represents a challenge both for Romanian local public authorities and also for schools' principals in charge.

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