

Education Finance in Romania: A Legacy of Incomplete Reforms

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FDI CEE Conference, March 21-22, 2005, Sofia

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Introduction

In early nineties, all transition countries faced significant problems in developing new management and financing structures for their education systems, and Romania was not exception. Economic decline was severe, and recovery much delayed. Turbulent political processes did not create stability necessary for measured and rational devolution of authorities from a highly centralized education system characteristic of communist regimes. In those adverse circumstances, Romania did make remarkably determined efforts of modernizing, streamlining, and decentralizing its education. It is nevertheless not surprising that those efforts were not fully consistent or coordinated. Today's reformers of Romanian education have inherited a deeply fragmented management and financing system, embedded in a confused decentralization framework. Their task is to review the results of 15 years of incomplete reforms of the sector, and to design a realistic and forceful strategy complete those reforms. The present note, in part, aims at helping the Ministry of Education and Research (MER) achieve the first of those objectives.

The identification of stages of education reform in Romania is subject to discussions (see for instance Velea and Botnariuc 2002, Halasz 2002, Berryman et al 2006), and is largely dependent on the focus of the specific research¹. However, the focus of education finance, adopted in the present report, justifies the following periodization:

- 1990 – 1995: *preparatory phase*, during which most of the reforms were reactions to the excesses of the Communist period, including de-communization and removal of overly ideological education content; the focus was the adoption of an interim curriculum; the reforms were introduced in legal documents of GOR (Ordinances and Decisions) and of MER (Orders), and implemented by the Ministry and by ISJ, the preparatory phase concluded with the adoption of the Law on Education 84/2005 (it reduced the obligatory schooling to 8 years); the school finances were still completely centralized through deconcentrated offices of MER.
- 1995 – 2000: *reform phase*, based on the new education law, and supported by World Bank projects² and by EU³; a new coherent national curriculum was defined (including a balance between the compulsory and elective courses), and multiple textbooks introduced (three or four textbooks per grade and subject); the implementation of the reforms was in part delegated to a number of National Councils working alongside the Ministry; in 1999 the compulsory education was extended at 9 years of education; the financing of school maintenance was devolved to local governments, while a principle of per student financing was put into 85/1995, although never implemented; in 2001 the funds for school staff salaries were channelled through local budgets, this creates some tensions since they are still fully controlled by the Ministry.
- 2000 – 2004: *slowing of the reforms*, with a reduction of the elective courses in the school curricula, and suspension of further moves towards the increased autonomy of

¹ This difficulty of periodization of reforms of Romanian education points in itself to the turbulent nature of the process.

² The *Education Reform Project* financed textbooks and supplementary materials, equipment, computer hardware and software, technical assistance, external and local training, preparation of studies, and non-salary operating costs.

³ Phare supported vocational education reform.

schools; introduction of an incentive mechanism to attract qualified teachers in the rural areas; transfer of capital expenditures at the level of local governments⁴.

- In 2004, Romania introduced a new framework of education finance and management, described in some detail in Section 2; the framework foresees increased school autonomy and a new financing system based on standard costs, but its implementation is still only partial.

The incomplete character and slow implementation of reforms of the education sector did not allow Romania to tackle effectively the difficult external problems, which it shares with its neighbours in the region. Following Voicu and Begu (1999), Halasz (2002), and Herczyński (2005, 2006), we can propose the following list of the main problems, of direct importance for the institutional and financial arrangements in education:

- The demographic decline of student population. Between the school year 1996/97 and 2003/2004, the number of students of primary schools fell by 16%, and the decline will continue at a higher rate. The decline will soon hit the secondary education as well. While in the cities this process may bring improvements in the class size and allow better access of students to teachers and to other school resources, in the rural areas this threatens the financial viability of providing education and will significantly increase the per student costs without any improvement in quality.
- The urban-rural divide in education, namely small rural schools, providing education of insufficient quality, lacking qualified teachers and proper equipment. Although 40% of school age population lives in the rural areas, only 6% of general academic secondary school students and 1% of university students come from villages (see World Bank 2001). The operation of those schools threatens equity of the education system, and is a source of serious inefficiencies. Average school size is 53 students in rural areas and 345 students in the cities, and over 1,300 rural schools have under 10 students (Voicu, Begu 1999).
- Insufficient level of transition from primary to secondary education. In the school year 2002/2003, 96.5% of 7-10 years old children were enrolled in schools, 94.1% of 11-14 years old ones, and only 73.7% of 15-18 years olds (Institutul National de Statistica INS 2004). This means that over 20% of graduates of primary schools do not continue their education at all, not even in basic vocational schools.
- Excessive share of vocational education students in secondary education. In 2003, the professional schools taught 26% of secondary school students, and the vocational schools (including liceul tehnologic and liceul vocational) 38%, with only 36% of students attending general academic schools (liceul teoretic). This national average hides significant regional variation. While in Bucharest 47% of students attend general academic schools, in Ilfov judet only 13% (see Annex, Table A1).
- Vocational education has excessive number, namely over 31 of students per teacher, compared to 12 students per teacher in general academic schools (see Voicu, Begu 1999). This must significantly impact the teaching quality of vocational schools, and reveals inherited preference for high quality, elite general academic schools.
- Low teacher salaries force many teachers to seek additional part time employment. This is a common problem in the transition economies, where the governments are afraid to

⁴ Through the Annual Budget Law of 2000

undertake more active policies with respect to teachers, by increasing their teaching load to the Western European standards, decreasing the teacher employment, and raising their salaries. While this is a difficult strategy to design and implement, without such a strategy it will be difficult to ensure that all teachers treat their work in schools as the main employment.

Each of those significant problems requires careful analysis, and each has significant impact on the management and financing of Romanian education. Moreover it is clear that decentralization limits the range of available policy options, and influences the costs and manner of implementing those policy options.

In December 2004, a new Government was elected and administrative and fiscal reforms in Romania were accelerated, in part in response to the challenge of imminent accession to the European Union. MER was among the most active participants in the new reform movement, pressing among others for far reaching decentralization of the education. The new initiatives and programs are however beyond the scope of the present report, since their full implementation has not yet really begun.

Accordingly, the structure of the report is as follows. In Section 1, we review the education law of 1995 and the fragmented managerial and financial system it has created. In Section 2, we discuss the revised framework introduced in 2004, which tried but failed to complete the reform process. In Section 3 we describe some key open issues of education finance in Romania, and in the final section we conclude with some recommendations.

Acknowledgements.

Section 1: Reform efforts 1990 – 2004

The Romanian centralized model: Inspectoratul Scolar Judetian

In the early nineties, as successive political leaders tried to steer the economy away from collapse, Romania continued to maintain a highly centralized system. This system was based on regional representatives of the central government in 42 counties (judete), directly nominated and controlled by the central government. The education sector was no exception, and the county level deconcentrated offices of the Ministry of Education and Research, called Inspectoratul Scolar Judetian (IJS, County School Inspectorates), were responsible for implementing national norm concerning employment conditions, enrolments, curricula, graduation examinations, budgeting, class sizes, and other functions. They planned the detailed budgets of all their schools, and executed those budgets in the difficult conditions of scarcity and poverty. The inspectorates also controlled the division of students into classes and the teaching plans of every school, and paid all their expenses, including the salaries. The inspectorates not only nominated school directors, but also organized the selection process for the employment of teachers and, effectively, employed all teachers in the country. Thus the school directors had little influence on the selection of their teaching staff. This unique feature of Romanian education is still operational in 2005, and will be discussed in some detail in our report⁵.

⁵ The present report does not take into account the new wave of reforms, initiated in late 2005, aimed at changing the managerial practices in Romanian education.

This prolongation of the centralization had both fortunate and unfortunate consequences. On the one hand, during the period of contracting economy, and decreasing allocation for all social functions, the government patronage provided some measure of support and protection, and helped ensure some basic standards across Romania. For instance, the schools were the only national level institution able to distribute to all students across the country the fixed monthly allowance. This has become a major social assistance program, still managed by MER, accounting for over 15% of MER budget⁶. On the other hand, the retention of centralized governance slowed down the development of local governments and of more autonomous and accountable schools. The school staff, especially school heads, their deputies and accountants, were not learning responsible management of institutions, or the budgeting procedures. It also promoted the attitude that pedagogical, organizational and financing norms defined in Bucharest are the main guidelines for operations of the schools, and impeded moves towards more rational use of school resources.

The managerial and financial tasks of the inspectorates, exercised in so difficult conditions, also made it difficult for them to acquire new skills and capacities, such as monitoring teaching quality and education outcomes, in preparation for a different future role in the decentralized education system.

The education law of 1995

Year 1995 is generally considered to represent the first significant step towards education decentralization in Romania. The work on a new law governing the education sector was initiated in 1993 and the process was finalized in July 1995. Abrogating the old education law 28/1978, the new law put Romanian education on a sound legal basis, guaranteeing education for all children free of charge and free of ideological distortion. For the pre-university education there were several innovations. The law established administration boards (councils), which could be involved in the administrative decision making process. The councils had to include 5 to 11 members⁷. Preparatory groups at the level of pre-school education were also established to ensure the continuity between pre-school and primary school.

However, while the law laid the basis of school-based management structures, it gave them little decisions power over the critical issues such as personnel policies. Recruitment of the director and teachers remained with the central government, through IJS. According to the law, the inspectorate appointed directors of primary schools for a four-year term, while the ministry appointed the directors of secondary and vocational schools⁸. Typically, the director was a teacher, who was paid a supplement for undertaking limited managerial responsibilities, for which he/she had no specific training or professional accreditation. Only later, in 2004, the school manager position was institutionalized and the director was released from his/her teaching duties.

The new law also introduced two important new elements, aimed at far reaching reform of management and finance. The first was to transfer to local governments the responsibility for

⁶ See J. Herczyński (2006).

⁷ The council included the school director, his deputy, chief accountant, representatives of teachers (elected by the teacher council), of parents, of local government unit, and also of students (for secondary and postsecondary schools). The administration board could also include representatives of the local business community.

⁸ In theory, for both primary and secondary schools there was a competitive process where credentials and professional experience are requested. In practice, however, director appointment was very often a result of the political bargaining among local politicians.

financing of school maintenance. Art. 167 (2) clearly states that “The repair and maintenance costs of physical and material facilities of pre-university education units are financed by local councils from specific State Budget appropriations and from local budgets, as well as from their own resources”. This certainly represents a serious step in education finance decentralization in Romania. Its actual scope and its consequences evident today, in the form of substantial *fragmentation*, are analyzed below.

The second new element was the requirement that the allocation of funds to each school be based on a per student amount. Art. 169 (5) says, somewhat cryptically, that “The basis for the calculus of allocations to each education unit and institution represents the amount from the state budget that is decided per pre-schooler, schoolchild or student in respect of level and specifics of the educational process, as well as other indicators specific for education, especially those concerning the quality of education.” There is some lack of clarity here, namely it is not obvious who is obliged to determine the amount allocated from the *state budget per schoolchild*, and what is the range of *other indicators*. It is possible, indeed, to imagine an allocation procedure using the state mandated basic amount, but incorporating a large system of additional indicators and weights (both positive and negative), so that the actual allocation will bear little resemblance to that basic amount. However, this more fundamental discussion is not really necessary here, as this norm of the Law 84/1995 remained unfulfilled until now, and no such *calculus of allocations* is used in practice. Moreover, the amendments to this law adopted in August 2004 introduced a new scheme of education financing and made the provisions of art. 169 irrelevant (see Section 3).

Devolution of school maintenance costs

Maintenance costs include all the material expenditures of schools, such as heating, electricity, water and garbage collection, and also the materials used by schools for their operations. Maintenance also includes small repairs necessary for running of schools. Those costs are covered by local governments. Local governments do not receive from the central budget any specific grant for those expenditures, as they are considered *own responsibilities* of local governments. Local governments have to use for that purpose non earmarked revenues, of which the principal are own revenues and shared taxes, that is a proportion of national taxes retained at the local level. This is certainly highly decentralized system.

The main of those, the personal income tax (PIT) was shared in the following manner: 63% stays at the local government, while 37% accrue to the state budget⁹. Since the introduction of flat tax rate, the amounts staying at the local level were increased to 82%. Those fund are further distributed as follows.

Beneficiary	Purpose	Old PIT share	New PIT share
County council	Own expenditure needs	10%	13%
County council	Rebalancing to equalize local budgets	17%	22%
Local council	Own expenditure needs	36%	47%

The distribution of the local share of the taxes is important, because it shows clearly two problems: politicization and inequity in financing system, as described below.

⁹ Based on discussions with the Ministry of Finance. A review of local government finance is provided in S. Caraman (ed.), *The status of fiscal decentralization in Romania*, 2003.

Firstly, about half of PIT income of local councils is collected by the county and redistributed among the local budgets according to rules and priorities of the county council (there are some national criteria for county level equalization, but those are often ignored and there is room for informal contacts and preferences)¹⁰. The rebalancing is applied to help local councils deliver public services, such as education, health, transport and so on. This politicizes the budget process, in that one level of local government (county) decides on the budgets of other local governments (local councils) in the areas in which it has not managerial responsibility (such as education). Additionally, it is worth noting that the county council does not have sufficient data to analyze the sectoral needs of the local councils and therefore has to work in close collaboration with the School Inspector¹¹. This implies that the deconcentrated MER apparatus has some influence over the allocation of maintenance funds, but it is indirect and is not governed by a clear division of responsibilities.

Secondly, the other half of the PIT shares, retained at the local level, provide very different amounts depending on the wealth of the jurisdiction. Consequently, rich jurisdictions from the Western part of the country have significantly more funds at their disposal and can spend much more on school operations than poorer municipalities in Moldova. The same applies to the equalization through the rebalancing component of shared PIT. It has a rather limited impact, because it is localized. Indeed, there will be many relatively rich counties, which will have at their disposal quite significant funds for rebalancing of budgets. At the same time, the poorer counties in Moldova, for instance, will also have their own equalization funds, but much smaller.

We note that Romania has also a second equalization system, a national one. This system allocates the funds again to the counties, leaving them the right to distribute those funds to local governments. It used about 7.3% of PIT in 2002, which is about half of the total of county-wide equalization funds¹².

The proper equalization system must include the whole country, and has no need of counties as intermediaries in distribution. Instead, it should be operated by the central administration using a simple equalization formula, and must be applied uniformly and transparently to all local governments. It is clear that the neither the county level systems of rebalancing nor nation-wide equalization system meet those criteria.

The uneven distribution of PIT shares, and of PIT-based equalization formula, is fully reflected in severe regional differences in per student maintenance expenditures. At the level of counties, those expenditures for primary education range from 464 Lei to 4,755 Lei, over tenfold difference (see section 3 and Annex). Neither the Inspectorates nor MER, monitor those differences, in part because they have not been assigned any administrative tools and responsibilities to do this. The responsibility for determining the maintenance and materials part of school budgets thus rests exclusively with the local governments, and they seem to enjoy remarkable freedom in this area. For instance, in a complex of vocational schools, the own income generated by the school is quite considerable, because the school has turned an

¹⁰ The public administration reform package, proposed by the current government and debated in the parliament, excludes the counties from the equalization process.

¹¹ Based on interviews with ISJ and county councils.

¹² Criteria used by the national system change from year to year and are a part of the budget laws. A very focused discussion of both equalization systems is provided by S. Ionita *Halfway there: Assessing Intergovernmental Fiscal Equalization in Romania*, 2003. The nation-wide system is also reviewed in S. Caraman (ed.), *The status of fiscal decentralization in Romania*, 2003..

unused student dormitory into a type of low cost hotel and is allowed to keep all the income generated in this way. Therefore the local government decided not to assign any maintenance funds from its own budget to that school. Leaving aside the question of whether this is a rational decision¹³, we note that this is in sharp contrast with other schools, which for their maintenance funding depend completely on the local council budget. This also shows that there are no uniform financing standards that local governments need to follow.

Nevertheless it is worth pointing that in many schools there were clear signs of recent (the last two years) investments by the local governments. Since no capital investment funds are allocated for education in the central budget, all those local improvements in the school equipment must have been financed from local resources. Thus the local councils must have analyzed their options and budgetary possibilities, and must have decided on their priorities in the sector. This means that even with very limited managerial responsibilities in the sector, local councils already begin to behave as committed owners of their schools.

Salaries of education staff

The salaries part of the school budget, in contrast, is strictly controlled by an elaborate system of employment norms. Indeed, every year all the pre-university schools submit to IJS their enrollment plans. The enrollment plans include the numbers of students, class, teaching positions, and other non teaching staff (administration and technical), and should be verified by the School Inspectorate concerning proper applications of the norms. The norms include:

- class sizes (10 to 20 for preschool groups, 10 to 25 for grade 1, 10 to 30 for grade 5, while classes in the intermediate grades will simply continue from the previous school year),
- teaching time for class (maximum 30 hours per week),
- teaching load for a teacher (18 hours per week),
- norms for non teaching staff.

The School Inspectorate aggregates enrollment plans of individual into a county enrollment plan sent to MER. It is clear that it is no longer possible to verify whether the employment norms are applied correctly at this level of aggregation. Instead, the aggregated enrollment plans serve as an employment plan for the county, and its main purpose is budgetary planning. Finally, MER constructs the national enrollment plan through aggregation of county level plans, and the national plan is approved through a government decision. In theory, this should provide a comprehensive system of checks and balances, in practice however we note dilution of responsibilities. Indeed, while it seems clear that the main managerial authority rests with the School Inspectorates, their decisions are not final and are in theory subject to verification and approval by higher authorities, up to the government itself.

Once enrollment plans have been approved, they are used to determine the salaries part of the education budget of counties. Here again, the Ministry of Finance depends on the data provided by School Inspectorates, namely the data required to establish the salaries of

¹³ This assessment would have to include a comparison of all the maintenance budgets of the schools in the area and determination whether the degree to which the needs of different schools are fulfilled is more or less similar. If the maintenance budget of that specific school is markedly higher or markedly lower than the maintenance budgets of nearby schools, and moreover if that difference is not part of a conscious policy of the local government recognizing different needs of individual schools, we may argue that the arrangement reached is not justifiable.

individual teachers (education levels, seniority, professional qualifications). The national budget determines specific expenditures needs of the counties on education salaries.

However, at present Romania lacks any system of sectoral transfers¹⁴ from the central budget to local governments, apart from investment grants. This makes it impossible to correctly account for the transfers for education salaries at the central level. The solution adopted by the Ministry of Finance is to use negative accounting entries in the VAT revenues of the central budget, in other words the funds determined for teacher and non teacher salaries are booked as negative amounts in the budget line defining the revenues from VAT¹⁵. The so called *sume defalcate* (retained amounts) are defined separately for each county, and are a part of the yearly budget laws. This is a very peculiar accounting practice indeed, and it falsifies the overall budget revenues figures since the totals for VAT revenues are significantly less than actual revenues. At the same time it underestimates the expenditure side of the central budget by the same amount. While one can argue that this accounting system is a practical solution to a lack of proper system of categorical grants in Romanian local public finance legislation, it is also clear that this solution is a temporary one and that this systemic problem should be resolved through improving the law on local government finance. That law must define different possible transfers to local governments (categorical grants, general grants, investment grants, equalization grants), and the budgetary procedures and reporting requirements for them. In the absence of such a law, the system of retained amounts becomes a type of per teacher grant to local governments.

Once the state budget is approved, the counties then determine the education budgets of all their local councils. This is more or less a mechanical exercise, since the allocation for education salaries was based on submissions of the counties (together with the School Inspectorates). The local government also merely transfers those funds to schools (they are paid in cash to the employees). Since the local councils have no influence on the payment amounts, their role in this part of the school budgets seems to be purely technical. We can say that the devolution of school staff salaries to local governments in Romania has a purely accounting character.

Consequently, while the maintenance part of education finance has been excessively decentralized, without proper monitoring mechanisms, the salaries part remains strictly centralized.

Section 2: New legislative framework of 2004

In 2004 the Government of Romania committed itself to decentralize the finances and management of the education system, under the conditionalities of the Programmatic Adjustment Loan (PAL) with the World Bank. It also adopted a new Strategy for the Reform of Public Administration, promising larger sectoral and fiscal decentralization. The Ministry of Public Administration introduced a separate Framework Law on Decentralization, which also made room for future reallocation of sectoral responsibilities (such as education). The Ministry of Education and Research adopted a new legislative framework intended to reform

¹⁴ Those sectoral grants are based on some measures of need, specific to the sector (for education, the number of students is commonly used), and are either categorical (conditional) or block (unconditional) grants. Both PIT shares and existing equalization systems are non-sectoral.

¹⁵ The VAT revenues were chosen for simplicity and because this revenue stream is sufficiently robust to support such negative accounting. Nevertheless there is no budgetary link (beyond accounting) between the VAT revenues and the education allocation, contrary to what many education stakeholders in Romania believe.

and simplify the education management and finances¹⁶. Unfortunately, those reform initiatives were not well coordinated¹⁷.

The legislation adopted by the Education Ministry in 2004 reflects the fragmentation in policy making described above. There was no official strategic document drafted by the Ministry of Education and Research (MER) to target decentralization specifically. The reform document for the pre-university education¹⁸ mentions an objective that is related to decentralization: “the reform aims (...) the progressive decentralization of decisions and responsibilities in forecasting, allocating and using financing sources and the material base of the education units”¹⁹. Nevertheless, as we discuss in some detail below, the new legislative framework remained inconsistent and did not resolve all the tensions apparent in the fragmented management and financing system²⁰.

We first discuss how the new legal framework defines the managerial issues (allocation of responsibilities to institutions), and what are the proposals for the financing system.

Institutional arrangements

There are many accounts in the literature of the two basic options for devolving new responsibilities – to schools or to local governments²¹. The debate about the target of decentralization has been fierce in the region, given the strong and oftentimes opposed interests of the central and local administration, as well as the schools and other education professionals. Romania is no exception, with its strong labour union market and coming out from a highly centralized pre-1990 education system.

The primary and secondary legislation adopted in 2004 shows that the previous government chose a costly and ineffective combination of both options. On one hand the legislation seems to confirm the central role of the school and gives leverage to its management bodies. An amendment to the Law of Education²² provides that “the school is run by the administration council. The director of the school is the chairman of the administration council”. This is a clarification from the old version of the law that nominated the director for running the school with the help of the teacher and the administration council. Further on, the strengthening of the administrative council with some managerial responsibilities, the change in the role of the school director from teacher to manager held accountable through a managerial contract signed with the inspectorate²³, the introduction of school budgets with revenue and expenditure sides, all imply the transformation of the school into a self-managing institution. This is very much in line with decentralization to schools.

16 Law 349/2004, which amends the Law 128/1997 on teacher status, passed by the Romanian Parliament on July 14, 2004; Law 354/2004, which amends the Education Law 84/1995, passed by the Romanian Parliament on July 15, 2004; and the Methodological Norms for Financing and Administration of Pre-University Education Units (Methodological Norms), approved by the Government Decision in November 2004.

17 Even more surprisingly, they were not harmonized with Ministry of Finance plans for fiscal decentralization. 18 “Strategia dezvoltării învățământului preuniversitar în perioada 2001-2004”, document of the Ministry of Education, 2002. It can be downloaded at www.ro.edu

19 p. 22

20 The new education decentralization strategy, approved by GOR in December 2005, provides a much clearer vision of future system. It falls however outside the scope of the present report.

21 See Halasz (2002) and Herczyński (2004) for a discussion in the context of Romanian education

22 Art 13 of Law 354/2004

23 See Art. XXX of the Law 128/1997 regarding the teacher statute, as amended by Law 349/2004.

On the other hand, the same body of legislation sets the financing responsibilities with various levels of government. Art. 28 of *Methodological Norms* clearly states that at the local level the local council establishes the quantum of funds allocated to each education unit, based on a long list of indicators, namely “number of pupils at each level of education, type and specialty, enrolled in the respective education units, the standard costs per gymnasium pupil, in urban areas, correctional coefficients for each level of education, type and specialty, in urban or rural areas²⁴, the possible number of pupils to be enrolled in a classroom determined solely by demographic causes, share of pupils belonging to other nationalities enrolled in the education unit, and the volume of local councils’ own generated income and their quantum, that can be allocated to education.” This makes local councils ultimately responsible for defining the budgetary allocations of all the schools on its territory. In addition, the system of national, county level and commune level commissions for education finance are tasked with defining per student costs at each level of the system for the schools in their jurisdiction. This is consistent with decentralization to local governments.

However, despite moving towards both school-based and local governments-based model of education decentralization, the new framework retains significant powers of the inspectorates. The present system of teacher nominations by ISJ with no role for the school director is not changed. As a result, law 354/2004 maintains the consultative and advisory role of the administration council, and does not increase the autonomy of the school in the pedagogical process, for instance by allowing some freedom in the use of teaching time.

The Inspectorate continues to have significant power: they set up public education units such as kindergartens, primary schools, middle schools, vocational and apprenticeship schools²⁵. The director of the school signs his/her contract with the inspectorate, not with the local government, so the relationship between the school and the local community is considerably weakened. Thus the director is less accountable to the community he/she severs, and more to the inspectorate, as the inspector evaluates his/her performance in managing the school. This is a complicated situation, given that, according to the *Methodological Norms*, the inspector decides on the level of payment for the director based on some objective criteria (e.g. number of students, the size of the school), and also on some which are less objective (such as performance evaluation run not by an independent body, but also by the inspectorate)²⁶.

Financing arrangements

We will discuss the following education finance issues as regulated by the new legislation:

- determination of financial flows for education (own income or education grant),
- fragmentation of the new financing system,
- the basic per student amount,
- the allocation procedures

²⁴ It is worth noting that Art. 20 allows the range of acceptable corrective coefficient to be really large. Besides the factors such as rural/urban location, level of education and profile of the school, corrective coefficients may include socio-economic conditions of the school population, school performance, and specific technical conditions of each school

²⁵ Education Law, art 142, para d)

²⁶ Methodological norms, art. 13, para 2

Determination of financial flows for education

The new legislative framework does not resolve clearly which education function or service is financed from own income or from an education grant. Art. 167 par. 1 of the Education Law as amended by Law 354/2004 states that pre-university schools are financed from “funds allocated through local budgets (...) from the state budget and other sources, according to the law”. Later in the law the central funds source is specified: “financing is ensured (...) from the shares deducted from some incomes of the state budget and from other incomes of the local budgets²⁷”. The issue is, will those shares be defined as fixed percentages valid across the country, making this similar to own revenues financing, or will they be determined as amounts separately calculated for each municipality (based perhaps on standard costs), similar to a grant from the central budget²⁸.

In the first case the education finance would be firmly based on own income²⁹, in accordance with Art. 167, paragraph 8. However, in this case the system of standard costs elaborated in the *Methodological Norms* will remain relevant only for the setting of budgets individual schools. This would create an unclear situation, when the deducted shares may differ significantly from the sum of individual school budgets in a locality. For many rural jurisdictions this certainly will become an unfunded mandate, when their own revenues will not be sufficient to cover the costs of school budgets determined through a formula.

In the second case the standard costs would be used to calculate the required expenditures of schools, and the resulting funds would be deducted from some revenues streams of the central budget. An open question then becomes how to account in this system the financing of maintenance, presently based on fixed shares of PIT.

The fragmentation of the new financing system

The financing mechanism, as defined in Art. 167 of the education law amended by Law 354/2004, is a two-pillar system that includes global (proportional) financing and complementary financing. Global financing covers staff salaries, materials and services, and teacher in-training. Remaining expenditures, such as dormitories and cafeterias, student assessment, scholarships and student transportation, medical check-up of employees and school contests, investments and major repairs are part of complementary financing. Global financing will comprise over 95% of recurrent school budgets. It will be calculated through a formula, using the standard costs. Those funds are supposed to be “deducted from some incomes of state budget”, mostly from VAT revenues. Funds for complementary financing will come from local budgets, and their level will reflect the possibilities of localities.

The new legislation decreases the fragmentation of the present financing system by including the school maintenance in the global financing. Some issues however remain.

One problem concerns auxiliary education expenditures, such as student transportation, dormitories and cafeterias. Those expenditures, unlike investments and major repairs, are recurrent expenditures, cannot be postponed, and need to be financed in a stable, regular way,

²⁷ Same Law 354, art. 167, para 3

²⁸ And to the current system of retained amounts from VAT, except that those are calculated on a per teacher basis

²⁹ Here we use the classification of shared taxes as own income of jurisdictions, even if the tax base, rates, and exemptions are beyond the control of local governments. This classification is common in transition countries, but is rejected by OECD (XXX), because it blurs the distinction between shared taxes and undisputed own income of local governments, such as property taxes.

usually throughout the school year. The level of those expenditures should depend on the number of users, for instance where there is a need to transport students or to locate them in dormitories, due to low population density and difficulties of maintaining dense school network. If the level of this expenditure depends on the availability of funds in the local budget, access to school in remote, poor areas, especially in the mountains may be threatened.

There is also a *free-rider* problem related to the use of own funds to finance dormitories. The users of dormitories are students coming from outside of a given locality. When allocating their own revenues to fund the dormitories, the local council is in fact using local taxes to provide better education for children from another city or village. Local councils may be reluctant to financially support education of outsiders. From their point of view, closing a dormitory would significantly reduce the cost of education in the city, without a negative effect on the people most important to the local council, that is the voters.

Basic per student amount

According to the *Methodological Norms*, the allocation formula should be based on a number of correction coefficients for the type and level of schools, for urban and rural areas etc., as well as on the basic per student amount, namely the per student cost of gymnasium student in urban area. The determination of that basic per student cost may prove to be difficult politically and technically.

The difficulty lies in the need to reconcile two requirements: that the per student cost reflects the actual minimum cost of providing education for one student, and that the total funds for education should not exceed the ability of the national budget to support education. Those requirements are in conflict and their resolution is far from easy.

The *Methodological Norms* build the budget using a bottom-up approach³⁰. The cost of providing education is calculated according to the required inputs, of which the most important are the teacher salaries. The main danger of this calculation is that the overall budgetary request from the Ministry of Education and Research to the Finance Ministry may turn out to be unrealistically large, which may cause political difficulties and controversies. Indeed, the calculations performed by National Council for Financing of Pre-University Education (CNFIPS) are based on the legal norms governing the employment of teachers and non-teachers (including curriculum, class sizes, the national pay scale), and on other relevant norms (such as for heating). The calculations also use some assumptions (class and school size, teacher education level). The standard costs resulting from those calculation are invariably higher than historical costs of specific types of school³¹. This means that they cannot be used for the allocation process, as this would lead to allocation of significantly higher funds than those available for education in the State Budget. There is a risk that the

³⁰ There is also a top-down approach in building the formula, where the ministry defines the coefficients to be used in the allocation process and then simulates the effects of various values of the coefficients. This calculation is also open to some criticism, namely that the basic per student amount obtained in this way is insufficient. On the other hand this approach guarantees the compliance with the budgetary process at the central level and removes the negotiated nature of the per student amount.

³¹ See Dogaru (2002), Annex to chapter II. Recent versions of the standard costs were typically 30% to 40% higher than actual costs of providing education in schools (based on interviews with CNFIPS).

whole financing system proposed by the *Methodological Norms* cannot be implemented, unless some new calculations produce much lower values for the standard costs³².

The allocation procedure

According to the *Methodological norms* the allocation procedure is performed in three steps: central to county budgets, county to local budgets, local budgets to schools. At all the three steps a formula with some correction coefficients will be employed.

The *Methodological Norms* are not clear about how this will work. Art. 28 (b) and (c) say that the allocation at the county and local level will be accomplished using standard costs and the correction coefficients to reflect local conditions, and that those coefficients will be “calculated and registered in the calculation methodology. This seems to imply that those coefficients will be valid for the whole country. However Art. 33 says that county and local councils will approve the levels of per student costs on their territory. This implies that different formulas will be used, with possibly different basic per student costs.

Officials of the ministry of education and research state that they plan to use a national formula applicable at all the three steps, with the same nationally defined coefficients, but with the right to alter the coefficients at the local level. This will mean that the Ministry will take full responsibility for the funding level of each school, with the corresponding political burden (the role of the local governments will be reduced to the approval of the structure of the schools’ budgets). The financing system is likely to become very rigid. With the limited and not always reliable information about the individual schools, the decisions made by the Ministry may lead to serious problems for some schools. As a conclusion, while it represents a significant departure from the traditional and arbitrary financing, this choice limits severely the influence of local governments in the sector. If this will happen, the Ministry may require some additional financing mechanisms, such as an education reserve fund, to deal with any serious discrepancies between the new rigid formula and the existing financing levels.

The allocation system is complicated even more because of the three-step procedure and the involvement of two levels of government: the central level and the local level. The central level (the Ministry) defines the overall level of funding and the allocation principles, while the local level is responsible for administration of individual school budgets. However there is also responsibility at the middle level, the county, which is less clear and may lead to significant politicization of the system. The principle that is usually applied is that of direct funding, that is of allocating the funds for the function directly to the administrative organ executing this function. Since the county has no direct managerial authority in the operations of individual schools (apart from special schools), the passage of the education funds through the county budget is both unnecessary and dangerous. It is unnecessary because the same formula at the national level can allocate the funds for special schools to the counties and the funds for regular schools to the communes. It is dangerous, because it will increase room for covert negotiations and for intergovernmental disputes. From the education financing formula point of view the removal of counties from the allocation procedure would contribute significantly to its transparency and simplicity.

³² Generating lower standard costs does not seem likely. For instance, the CNFIPS calculation of the standard cost for rural primary school assumes the schools size of 500, while in general rural school are much smaller and have therefore higher costs per student.

Section 3: Structural issues of Romanian education finance

In the present section we discuss a number of structural issues, which are a consequence of the peculiar system of financing of Romanian education described above. We discuss the under-financing of Romanian education, the budgeting vacuum, the external efficiency of the system. Those are long term problems which have been inherited from the successive previous governments of Romania and require similarly long term, difficult solutions.

Budgeting vacuum

We have described above the specific feature of financing of Romanian education, namely that school maintenance is fully decentralized and exhibits dramatic disparities across counties, while the salaries are still fully controlled by MER, although technically are the responsibility of local councils³³.

This very unusual approach³⁴ to decentralization has resulted in a sort of *budgeting vacuum* in the budget process: the Ministry most interested in the level and manner of financing of schools is not fully involved in the budget process for any part of school budgets. For school maintenance, towns and cities are fully responsible, and neither need nor request any involvement of the Ministry. For the salaries, the main responsible institution is Ministry of Public Finance, who does not need to consult either MER or the local governments, and introduces changes from year to year without prior discussion with MER. Moreover, the funds flow through the budgets of local governments, but municipalities, towns and localities have no influence at all on the school employment, or on the setting of salaries, and therefore are similarly not involved in the budget process.

The budgeting vacuum is the single most important problem of the budgeting process of MER and impacts not just the budget issues, but all aspects of managing and steering the Romanian education system. Indeed, the Ministry cannot be politically responsible for efficient use of resources devoted to education, if its influence over the ways the funds are allocated and spent is so limited. This is especially important for the use of teacher resources. The employment of teachers is strictly controlled by the ISJ through applying national class size norms and curriculum requirements. However, there is little incentive to save money by consolidating schools in face of declining student numbers (and declining system efficiency). In fact, consolidation of schools is always a painful process, with resistance from both the parents and the teachers. The main argument for school consolidation is that the funds saved by more efficient school network will provide improved education for larger, consolidated schools. But at present, if MER goes through the difficult process of consolidation, the savings will not accrue to the sector and will disappear in general budget because retained amounts from VAT for the salaries will be simply become smaller. Similarly, MER finds it difficult to plan and cost any major reforms of the sector, like lengthening of obligatory education or increased enrollment in general academic secondary schools. This is because the present budget process does not use data which can be the basis of projections under various reform scenarios. Moreover, no policy making institution at the central level is responsible for taking into

³³ The discussion in the present section draws on J. Herczyński (2006).

³⁴ In decentralized education systems, like in UK or in Poland, the funds flow from the center to lower levels (to schools in UK, to local governments in Poland) according to a formula designed by the Ministry of Education. In other countries (Flemish Belgium), the funds for salaries are sent from the Ministry directly to school staff, while the school director retains considerable autonomy in how she or he runs the school. In contrast, Romania keeps strong managerial control of school activities, but has decentralized the flow of funds.

account long term financial and managerial effects of demographic processes, of decisions about school networks, of curriculum changes, of changing teacher numbers.

The most important negative consequence of the budgeting vacuum is that the budgeting process is seen as purely accounting activity. Thus for salaries, rather than considering various possible tradeoffs between school and class size and teacher employment, the process is based on checking how many school employees there are, according to the norms, and how large are their salaries. For textbooks provided free of charge to all students of primary schools, the process is based on assessing the numbers of textbooks available, and on how many are needed in the new school year. In general, the Ministry sees itself as running the sector system through a system of norms and methodologies, rather than as allocating scarce resource to achieve specific policy objectives.

It also seems that overall under-funding of education and inadequate response to demographic decline, as analyzed below, are at least partially due to limited role of MER in the financing of Romanian education.

Under-financing of Romanian education

Romanian education has suffered long term chronic under-financing. The total education expenditures in Romania as percentage of GDP, the most common measure of the effort made by countries to finance their education, lagged significantly below that of other countries in the region. The following table provides this information for years 1989 till 2000³⁵.

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	4,0	4,1	4,1	4,5	5,2	5,4	5,3	5,3	5,7				5,2
Bulgaria		5,0	5,1	6,1	5,7	4,8	4,0	3,2	4,0	3,8	4,3	4,3	
Hungary		5,7	5,8	6,3	6,6	6,5	6,4	5,5	4,9	4,3	5,2	5,2	5,1
Poland		4,8	5,1	5,4	5,3	5,2	5,4	5,5	5,8				5,6
Romania	2,2	2,8	3,6	3,6	3,3	3,1	3,4	3,6	3,3	3,3	3,2	3,1	3,1
Slovak Republic		5,1	5,6	6,0	5,2	4,4	5,1	5,0					4,0

The OECD average in the same years oscillated above 5% of GDP. The table shows that Romania stands out in the region as the country devoting least resources to education. This is especially worrying as Romania had relatively more pronounced economic decline following end of communism, and was very late to recover economically. Indeed, total public expenditures in real terms in 2000 were 80.1% of their 1990 level. The Education Policy Note by the World Bank talks about *budgetary collapse in the education sector*³⁶.

The consequences of this chronic under-funding are severe. Since salaries are the main component of education expenditures, we need to review the teacher salaries. The salaries of Romanian teachers are relatively low compared to the teacher salaries in the region, at the starting level and after 15 years of service³⁷. For Romania data are for November 2005, for other countries data for 2003, so Romanian data should be reduced by two year inflation rate for comparability.

³⁵ Sources: Halasz (2002), Berryman et al. (2006).

³⁶ World Bank (2002).

³⁷ For countries other than Romania, data are from OECD 2006, annual salaries in national currencies in 2003 converted to Euro using ECB annual reference exchange rates for 2003 (data for Poland seem seriously underestimated). For Romania, data for November 2005 were obtained from MER, converted to Euro using ECB monthly rate for November 2005.

	In Euro		% of GDP	
	start	~15	start	~15
Czech Republic	6 240	8 254	79%	105%
Hungary	5 569	7 103	77%	98%
Poland	2 614	3 953	54%	82%
Slovak Republic	2 311	2 927	43%	54%
Romania	1 887	2 667	53%	74%

The gross starting monthly salary of Romanian teacher in November 2005 was 566 RON, or about 157 Euro. After 15 years of service, on average the teacher earned 800 Ron per month, or 222 Euro.

The level of teacher salaries in Romania is really very low. In Bucharest, the basic salary of even an experienced teacher is not enough to cover basic expenses, such as apartment rent and utilities. Teacher have to rely on the income of other members of their families (parents or spouses), or engage in additional employment, most often in private tuition, which in some cases brings them more than the salary they receive from the school³⁸. We note that this relative pauperization of Romanian teachers has important impact on the teaching process and on school quality, not only on the lives of teachers. Teachers need to be able to participate in cultural activities, buy and read books, use new technologies such as Internet. Teachers who need to supplement the salary they receive in the school with additional income, for instance from private tuition, have less time for professional development and for good preparation for their teaching duties.

As we have seen, under-funding of Romanian education has a chronic character. This means that there must be some permanent reasons for the way Romanian society treats its schools and teachers. This is a difficult open issue, but two such potential reasons may be proposed here. The first is that in Romania, there is generally high opinion about the level of basic and secondary education, as witnessed for instance in successes of Romanian student in international competitions (especially in mathematics and computer science). The second potential reason is the lack of a clearly defined political champion for funds allocated for pre-university education in the state budget, as described in the previous subsection.

External efficiency

External efficiency of education systems is measured by indicators such as student teacher ratio STR and class sizes, and reflects the degree to which an education system uses efficiently the resources allocated to it. The main challenge to efficiency of education systems of transition countries comes from dramatic demographic decline, which over a period of a few years led to decrease of student population by 30% to 40%. The adaptation of schools to such changes is not easy. The economic difficulties make it very difficult to reduce teacher force, for both political and social reasons. Closures of schools in rural areas evoke passionate resistance. It is therefore not surprising that with a few exceptions the main efficiency indicator, namely STR, had worsened in the transition countries. On average, the student teacher ratio in the region decreased by over 9%, with the most pronounced decline occurring in Romania³⁹. This decline is documented in the following table, which provides the numbers

³⁸ Based on interviews with school directors and school teachers.

³⁹ See Halasz (2002).

of students and teachers, and calculates the student teacher ratio, for primary and gymnasium education in three selected school years⁴⁰.

School year	Students	Teachers	STR
1990 – 1991	2 730 306	163 865	16,66
1995 – 1996	2 541 945	172 147	14,77
2003 – 2004	2 122 226	150 510	14,10

We note that between 1990 and 1995, the number of students fell by 9%, but the number of teachers rose by 5%. Between 1995 and 2003 the number of teachers fell by 13%, but did not match the decline of the number of students of 17%. Throughout this period, student teacher ratio was consistently going down, altogether by over 15%. This is a serious loss of efficiency. Although those results may be partially due to increased number of part time teachers (unfortunately INS does not report on full time equivalent, or FTE teachers), they nevertheless show that the Ministry has not been pursuing an active policy to improve the efficiency of the sector, in the period of serious budget constraints.

Another approach to view the efficiency of education systems is by analyzing the class sizes. Indeed, each class must obtain the same amount of teaching, according to curricular forms, therefore small classes are a source of inefficiency. The following table places Romania among its regional neighbors⁴¹, and shows its class sizes lag behind.

	Primary	Lower secondary
Czech Republic	20,8	23,3
Hungary	20,5	21,5
Poland	20,8	24,6
Slovak Republic	20,2	23,0
Romania	19,1	21,5

The decreasing efficiency of Romanian education over the last decade shows that MER finds it difficult to prepare a coherent strategy to adjust the system to the demographic decline. It seems likely that one source of this difficulty is the excessive reliance on norms and methodologies, rather than on direct incentive systems, such as per student financing, to improve efficient use of resource.

Equity issues

The problems of equity in education finance are difficult to address because equitable education requires higher per student allocation for some students, such as coming from disadvantaged households or social backgrounds, or in the rural areas with their smaller class sizes. We approach equity issues by looking at county level (judete) disparities in per student spending, and correlating it with the class size⁴². Moreover we review regional disparities of per class personnel spending (mainly teacher salaries).

Due to the large size of the counties (on average 75 thousand students, see Annex, Table A1), the average class size across Romanian counties is not excessively varied (much higher

⁴⁰ Data are taken from *Invatamantul in Romania*, INS, Buchaest 2004.

⁴¹ For Romania data from Annex, Table 1, for other countries OECD 2005.

⁴² Class size is the key driver of per student costs.

variation appears between individual schools). This variation is summarized in the following table (for full data see Annex, Table A2).

	Min	Average	Max	% difference
Primary	15,81	19,06	25,04	158%
Gymnasium	17,42	21,48	25,00	144%
Lyceum	22,54	26,61	28,01	124%
Vocational	20,40	24,62	30,26	148%

The greatest variation is exhibited by primary education, due most certainly to small rural schools. The class size of lyceums is most closely controlled, probably because those schools are more similar to each other.

There is much more variation in per student spending on personnel (salaries of both teachers and non teaching staff). The summary of those variations is in the following table (for data for all the counties see Annex, Table A3). Data for vocational schools exhibit some errors, as minimum we take the fifth lowest per student spending.

	Min	Average	Max	% difference
Primary	4 080	6 981	9 600	235%
Gymnasium	5 847	8 732	12 009	205%
Lyceum	5 941	10 733	17 605	296%
Vocational	4 325	7 618	18 689	432%

We note much more significant variation compared to class size variation, especially for the lyceums. With similar class sizes, similar programmatic load (although Romania has three types of lyceum, the theoretical, technological and vocational), and uniform teacher salaries, the counties with highest per student personnel costs spend almost three times as much as those spending least. This is surprising and may signify preferential treatment of some special secondary schools. It is worth noticing that the highest per student spending is not seen in Bucharest, but in the counties SM, SV, VL. This is not due to small class sizes in those three counties, because the class sizes there are close to the national average (in VL even above this average).

Nevertheless per student expenditures for personnel are in general aligned with the class sizes. For instance, for the primary schools, if three outliers are removed from analysis (SM which is spending less than expected due to class size, and Bucharest and SJ which are spending more), the class size and per student non personnel spending have correlation coefficient $R = -0.49$, which is negative (as expected, of course), and quite high in absolute value.

Of special interest is personnel spending per class. This reflects the teaching effort of the schools (number of lessons would be a better measure, but is not available). Since the teaching is governed by national curricula, we may expect that personnel spending per class reflects differences in teacher salaries and is not very differentiated between schools, and even less between counties. The data is provided in the Annex, Table A4, and exhibit unexpectedly high variation of per class spending. In particular, it seems that minimum values are not correct, and may reflect the weakness of data collection system.

When we turn to the non personnel spending per student, that is expenditures managed by the local governments, we note even higher variation, summarized in the following table (full data in Annex, Table A5). For vocational schools, again, we took the fifth lowest spending as the minimum.

	Min	Average	Max	% difference
Primary	464	1 627	4 755	1025%
Gymnasium	672	2 135	6 428	957%
Lyceum	1 205	2 744	4 695	390%
Vocational	533	1 697	4 116	772%

The discrepancies between the lowest and highest per student non personnel spending are quite remarkable. They are certainly dictated mainly by the level of own revenues of the jurisdictions. Moreover those discrepancies at the level of individual schools are certain to be more pronounced. We also note that there are counties with low or high per student non personnel spending for all the levels of education. The highest spender is of course Bucharest (for primary and gymnasium it is highest, for the other two it is close to the highest). The low spenders are the counties IF, SM, VS. This is quite remarkable, since SM is at the same time a county with high per student personnel spending.

If we review the correlation between the class sizes and non-personnel per student expenditures, we obtain the coefficient is $R=0.21$, not only small, but most surprisingly positive (in counties with larger classes non-personnel expenditures per student are higher!).

We can only formulate the hypothesis that the transfer of the responsibility for non-salary part of the school budgets to local governments, and at the same time absence of monitoring of those expenditures by the Ministry, led to serious equity problems in school maintenance.

Section 4: Conclusions

As we have indicated in a number of places of the present report, the new Romanian Government seems to be determined to take the necessary difficult steps and bring the long drawn out education reform to a completion. This is especially true of decentralization. Education decentralization is a policy objective which will structure the future functioning of the sector and will influence the financing mechanisms and the delivery of education. The Government has already adopted, in December 2005, an education decentralization strategy, formulating not only objectives and stages, but also inherent risks and risk minimizing measures.

Nevertheless, the challenges facing the education reformers in Romania go far beyond the decentralization problems, and in the present last section we formulate briefly some recommendations for further actions.

As is evident from the discussion of sections 1 and 2, the Ministry of Education and Research should accept the need to deal with the inconsistencies of the present, inherited legislation. Only a consistent, clear legislation supports a proper decentralization process. The region has seen examples of compromised decentralization efforts because of improper policy, as happened in Poland in 1997, when the selected 40 large cities returned to the Polish Education Ministry the secondary schools, for which they had earlier taken responsibility⁴³.

The Ministry should also review the framework law of decentralization elaborated by the Ministry of Public Administration, as well as plans for fiscal decentralization of the Finance Ministry. The framework law on decentralization will define how decentralization will proceed in other sectors, and MER should try to achieve some measure of harmony. Fiscal decentralization will define the available financial mechanisms, such as proper categorical

⁴³ The conflict was mainly over the financing of those schools, see Levitas, Herczyński (2002).

and block grants, which will be used to allocate the education funds to local governments. Close cooperation with other Ministries is therefore necessary.

The Ministry should address the problem of chronic under-funding of Romanian education, without fuelling inflation pressures. The teacher salaries should be increased together with the teacher workload, to bring Romanian education system closer to European standards.

MER must define the balance between empowering the schools and empowering the municipalities⁴⁴. While those two dimensions of decentralization are in many respects complementary, on a number of key questions they may clash (financing of schools, opening and closing of schools). Since the schools are now subordinated to higher level institutions, and much effort is necessary not only to allocate them greater autonomy, but also to increase their capacities. It seems that for some time to come, local governments in Romania should retain a large measure of control of schools, especially of school budgets. The Ministry should review and decide who will control, among others, the pedagogical process, the employment levels, the selection and evaluation of school directors, selection and evaluation of teachers and of non-teaching staff, the adoption of specific profiles by the schools, school development plans, linkage to the labour market, psychological services rendered to the schools. In general, school autonomy dictates that school itself should have most responsibility in those areas, but the skills and capacities required for those functions may not be there yet.

Conditioned on those decisions, the Ministry must define a stable and transparent system of financing. The regional experience (as well as Romanian legislation) tells us that this should be some form of per student formula. We do not believe that the standard cost calculations, as defined in the current legislation, may serve as the basic for such a system. Although many different solutions are possible, it is important to remember that the financing system will become the sphere of discussion and compromise in the debates on the development of the sector, held between the Ministry, the local governments, the trade unions, and other education stakeholders (including in particular professional associations of teachers and of school directors). Therefore the financing system should be sufficiently simple, and its basic parameters (numerical weights, buffers) should have a clear strategic role in education.

The Ministry must also reconcile the per student allocation formula with the nationally mandated pay-scale of teachers. This is the source of severe tensions in many countries. One of those problems is that the national pay-scale places some expenditure obligations on local governments, which the per student formula may be unable to satisfy, if the employment levels due to some specific conditions are much higher than average. The national pay-scale also limits the freedom of local governments in changing the structure of the costs of their schools. On the other hand, the national pay-scale is correctly seen by the teachers as the basic defence against perceived arbitrariness of local governments.

Finally, the Ministry should introduce mechanisms to measure objectively school performance and to assess the impact of education reforms on student outcomes. This is necessary if the Ministry wants to improve the unsatisfactory results of Romanian students in internationally comparable tests such as TIMSS and PISA, noted earlier.

⁴⁴ See Halasz (2002) and Herczyński (2005) for in depth discussion in the context of Romanian education.

Annex Education data by Judet

Remarks on data presented in tables:

The data used in the tables below come from CNFIPS and refer to 2003 year for expenditures, and 2002/2003 school year for enrollment. Expenditure data are in thousand Lei, except for Table where million Lei are used. The data are collected from schools and aggregated at the county level. This is at present the only source of data on both enrollment and expenditures by county and by education level, and gives an important insight into the regional patterns of education spending in Romania. A review of the following tables is provided in Section 3.

Secondary schools in Romania are divided into *liceul teoretic* (general academic), *liceul tehnologic* and *liceul vocational* (general academic schools with professional profiles), and *scoale arte si meseri* (vocational schools). In the tables below (with the exception of Table A1), we treat all types of *liceul* as one level of education.

Three difficulties with CNFIPS data need to be pointed out. One is related to vocational schools, it seems certain that spending for those schools is under-reported for many counties. It is not possible that in a judet on average the yearly per student personnel spending is 279 thousand Lei, or yearly per student maintenance spending 7 thousand Lei. The second problem concerns all school levels, and is related to maintenance expenditures. Since the data are collected from schools, and maintenance costs are covered by local councils, the schools often do not know exactly how much money was spent on heating, on electricity and similar. Finally, the personnel spending per class (Table A4) exhibit unexpected variation and may indicate underreporting of salaries in some counties.

Table A1: Students by county and by education level

	Primary	Gimnasium	Liceum	Lic teor	Lic tehn/voc	Profesional	Total
AB	17 059	20 264	13 808	5 674	8 134	4 371	55 502
AG	29 566	33 119	26 207	13 301	12 906	7 238	96 130
AR	21 056	22 010	14 163	5 662	8 501	3 951	61 180
B	62 030	89 617	90 936	52 690	38 246	21 520	264 103
BC	37 923	41 320	21 725	11 074	10 651	10 505	111 473
BH	29 604	31 326	23 724	10 654	13 070	4 698	89 352
BN	16 476	17 679	11 161	4 139	7 022	4 190	49 506
BR	15 406	18 260	11 371	5 549	5 822	4 165	49 202
BT	24 261	25 943	14 691	7 508	7 183	5 722	70 617
BV	24 525	29 475	22 796	9 602	13 194	6 821	83 617
BZ	22 673	23 855	16 240	7 497	8 743	5 183	67 951
CJ	26 348	31 439	25 427	13 001	12 426	6 653	89 867
CL	16 175	16 597	7 633	2 756	4 877	4 877	45 282
CS	15 058	16 789	10 182	4 924	5 258	4 382	46 411
CT	31 734	36 913	28 831	13 564	15 267	8 849	106 327
CV	10 598	11 231	6 581	2 604	3 977	2 845	31 255
DB	27 040	28 642	16 985	9 688	7 297	7 045	79 712
DJ	33 272	37 017	24 200	10 850	13 350	7 879	102 368
GJ	20 026	22 180	15 631	5 169	10 462	5 209	63 046
GL	30 509	32 753	18 906	7 653	11 253	9 312	91 480
GR	13 987	15 198	5 355	2 995	2 360	1 828	36 368
HD	21 777	25 600	19 150	9 676	9 474	6 450	72 977
HR	15 494	18 209	10 979	4 597	6 382	3 639	48 321
IF	12 896	14 531	6 003	1 021	4 982	1 754	35 184
IL	14 462	16 343	8 918	4 753	4 165	3 355	43 078
IS	41 331	50 536	25 674	15 775	9 899	12 374	129 915
MH	13 842	16 124	11 122	4 963	6 159	3 114	44 202
MM	25 781	33 327	19 253	6 356	12 897	7 017	85 378
MS	27 206	28 885	17 905	9 601	8 304	6 036	80 032
NT	28 051	32 837	17 063	8 224	8 839	8 609	86 560
OT	23 080	25 003	17 213	7 983	9 230	5 110	70 406
PH	35 675	39 825	25 075	12 733	12 342	11 061	111 636
SB	19 900	21 743	14 341	6 714	7 627	6 069	62 053
SJ	12 243	14 426	8 712	4 136	4 576	2 693	38 074
SM	18 545	23 029	10 349	5 175	5 174	4 883	56 806
SV	38 798	42 777	19 527	9 856	9 671	7 829	108 931
TL	11 311	13 586	7 240	3 543	3 697	3 953	36 090
TM	29 152	33 093	24 578	8 678	15 900	7 378	94 201
TR	18 708	21 104	12 810	7 125	5 685	3 746	56 368
VL	18 912	23 386	15 028	8 649	6 379	5 021	62 347
VN	18 605	19 261	11 041	5 208	5 833	4 197	53 104
VS	25 647	26 653	14 582	8 082	6 500	7 471	74 353
TOTAL	996 742	1 141 905	743 116	359 402	383 714	259 002	3 140 765

Table A2: Class size by county and by education level

	Primary		Gymnasium		Liceum		Vocational	
AB	16,72	87,76%	20,12	93,68%	27,13	101,95%	24,15	98,10%
AG	18,07	94,83%	20,38	94,88%	27,41	103,02%	23,27	94,54%
AR	19,23	100,90%	21,58	100,46%	26,87	101,00%	23,80	96,68%
B	22,73	119,27%	24,69	114,97%	27,79	104,45%	23,78	96,59%
BC	19,53	102,47%	22,40	104,26%	26,59	99,93%	25,62	104,08%
BH	17,84	93,64%	20,08	93,49%	27,39	102,95%	25,67	104,28%
BN	17,58	92,27%	19,71	91,76%	26,96	101,31%	25,24	102,53%
BR	19,14	100,42%	21,46	99,89%	26,26	98,69%	21,04	85,45%
BT	18,44	96,74%	20,43	95,10%	26,14	98,24%	26,61	108,11%
BV	18,87	98,99%	21,16	98,51%	26,57	99,85%	21,38	86,86%
BZ	17,63	92,51%	20,48	95,33%	26,62	100,05%	24,45	99,31%
CJ	18,06	94,76%	20,88	97,19%	26,54	99,75%	22,86	92,87%
CL	20,07	105,31%	23,25	108,22%	24,86	93,44%	26,51	107,67%
CS	18,57	97,43%	20,28	94,40%	27,67	103,98%	25,18	102,30%
CT	21,40	112,29%	21,75	101,27%	26,60	99,95%	24,24	98,48%
CV	16,01	84,01%	17,97	83,66%	22,54	84,70%	22,76	92,45%
DB	19,25	100,99%	21,58	100,49%	26,75	100,52%	26,69	108,40%
DJ	19,41	101,86%	21,21	98,76%	25,91	97,37%	25,01	101,60%
GJ	18,19	95,44%	21,33	99,29%	27,28	102,52%	24,46	99,34%
GL	21,76	114,19%	22,78	106,04%	27,16	102,08%	25,17	102,23%
GR	20,10	105,45%	22,38	104,20%	27,46	103,20%	23,74	96,44%
HD	19,25	101,04%	23,04	107,27%	26,52	99,68%	23,89	97,04%
HR	15,81	82,96%	19,13	89,05%	22,68	85,25%	23,94	97,25%
IF	19,57	102,69%	22,88	106,54%	26,68	100,27%	20,40	82,85%
IL	21,46	112,59%	24,03	111,89%	26,54	99,75%	25,81	104,83%
IS	19,51	102,40%	23,16	107,82%	26,50	99,57%	26,00	105,60%
MH	18,17	95,32%	21,10	98,25%	26,42	99,28%	24,52	99,60%
MM	17,78	93,30%	17,42	81,11%	25,77	96,86%	24,80	100,72%
MS	15,99	83,93%	18,66	86,87%	25,22	94,77%	23,95	97,30%
NT	19,19	100,68%	24,13	112,33%	26,70	100,35%	25,17	102,25%
OT	18,75	98,38%	20,54	95,65%	26,90	101,08%	24,93	101,26%
PH	20,83	109,28%	22,61	105,29%	27,71	104,13%	27,11	110,13%
SB	19,49	102,28%	20,91	97,33%	26,12	98,17%	24,87	101,04%
SJ	25,04	131,38%	25,00	116,40%	28,01	105,27%	30,26	122,91%
SM	17,58	92,24%	20,43	95,13%	24,70	92,82%	23,48	95,36%
SV	18,94	99,36%	21,75	101,25%	25,73	96,69%	25,42	103,25%
TL	18,60	97,62%	21,16	98,52%	26,91	101,15%	24,25	98,51%
TM	19,67	103,22%	21,74	101,23%	26,80	100,73%	23,95	97,31%
TR	19,31	101,31%	21,00	97,76%	25,47	95,71%	24,64	100,11%
VL	17,71	92,92%	20,68	96,26%	25,69	96,54%	24,14	98,06%
VN	18,24	95,71%	20,60	95,90%	26,04	97,86%	23,58	95,78%
VS	18,36	96,33%	21,65	100,80%	27,67	103,99%	25,94	105,38%
TOTAL	19,06	100,00%	21,48	100,00%	26,61	100,00%	24,62	100,00%

Table A3: personnel spending per student by county and by education level

	Primary		Gymnasium		Liceum		Vocational	
AB	8 037	115,12%	10 552	120,84%	10 237	95,37%	9 222	121,06%
AG	5 924	84,86%	12 009	137,53%	6 802	63,38%	7 377	96,84%
AR	5 743	82,26%	9 361	107,20%	8 812	82,10%	8 806	115,60%
B	7 526	107,81%	8 146	93,29%	8 749	81,51%	9 437	123,89%
BC	8 163	116,93%	8 163	93,49%	8 162	76,05%	8 183	107,42%
BH	8 052	115,34%	8 244	94,41%	11 805	109,99%	5 960	78,24%
BN	9 600	137,51%	9 603	109,97%	11 243	104,75%	4 035	52,97%
BR	7 270	104,14%	9 310	106,61%	11 182	104,18%	10 361	136,02%
BT	6 875	98,48%	8 948	102,47%	9 312	86,76%	6 458	84,77%
BV	8 392	120,21%	8 337	95,47%	14 874	138,58%	2 187	28,70%
BZ	6 415	91,89%	10 585	121,22%	10 915	101,70%	5 744	75,41%
CJ	8 113	116,21%	10 359	118,63%	9 281	86,47%	8 663	113,73%
CL	6 088	87,21%	6 631	75,94%	15 027	140,00%	1 028	13,49%
CS	5 940	85,09%	8 349	95,61%	11 141	103,80%	7 500	98,45%
CT	5 002	71,65%	8 862	101,49%	9 394	87,52%	10 156	133,33%
CV	9 026	129,29%	10 725	122,82%	12 612	117,50%	10 017	131,50%
DB	7 859	112,58%	8 162	93,47%	9 462	88,15%	8 473	111,23%
DJ	5 156	73,85%	6 779	77,64%	11 499	107,14%	18 689	245,34%
GJ	6 655	95,33%	8 344	95,55%	9 214	85,85%	7 868	103,28%
GL	6 320	90,52%	8 264	94,64%	8 809	82,07%	7 608	99,87%
GR	5 278	75,60%	8 137	93,18%	8 670	80,77%	7 759	101,85%
HD	8 103	116,06%	9 979	114,27%	9 201	85,72%	8 242	108,20%
HR	8 187	117,27%	8 997	103,04%	13 199	122,97%	7 623	100,07%
IF	4 671	66,91%	5 847	66,96%	5 941	55,35%	5 973	78,41%
IL	5 321	76,22%	8 299	95,04%	9 531	88,80%	4 525	59,40%
IS	6 356	91,05%	7 476	85,62%	13 133	122,36%	6 410	84,15%
MH	7 110	101,85%	9 871	113,04%	11 363	105,86%	7 221	94,80%
MM	6 364	91,16%	7 871	90,14%	13 997	130,41%	4 323	56,75%
MS	7 568	108,41%	10 499	120,23%	11 499	107,13%	8 276	108,64%
NT	6 770	96,98%	7 848	89,87%	14 370	133,88%	279	3,67%
OT	5 404	77,40%	11 207	128,34%	10 087	93,98%	6 914	90,76%
PH	7 903	113,21%	7 903	90,51%	7 903	73,63%	7 903	103,75%
SB	8 721	124,92%	8 308	95,14%	11 100	103,41%	9 068	119,04%
SJ	8 647	123,86%	8 077	92,50%	11 759	109,56%	13 177	172,98%
SM	4 080	58,44%	11 270	129,06%	16 664	155,25%	1 389	18,23%
SV	7 524	107,77%	7 744	88,68%	17 605	164,02%	13 930	182,86%
TL	7 855	112,52%	8 535	97,74%	12 088	112,62%	8 816	115,73%
TM	6 867	98,37%	8 191	93,80%	10 667	99,38%	9 194	120,70%
TR	5 891	84,38%	9 674	110,78%	12 103	112,76%	1 884	24,74%
VL	8 133	116,49%	7 955	91,10%	16 967	158,07%	6 837	89,75%
VN	7 819	112,01%	9 254	105,97%	9 248	86,16%	8 691	114,09%
VS	6 570	94,12%	8 702	99,65%	8 342	77,72%	5 112	67,11%
TOTAL	6 981	100,00%	8 732	100,00%	10 733	100,00%	7 618	100,00%

Table A4: personnel spending per class by county and by education level

	Primary		Gymnasium		Liceum		Vocational	
AB	134,4	101,03%	212,3	113,21%	277,7	97,23%	222,7	118,76%
AG	107,1	80,47%	244,8	130,49%	186,5	65,29%	171,7	91,56%
AR	110,4	83,00%	202,0	107,70%	236,8	82,92%	209,6	111,76%
B	171,1	128,59%	201,2	107,26%	243,2	85,13%	224,4	119,67%
BC	159,4	119,82%	182,8	97,47%	217,0	76,00%	209,7	111,80%
BH	143,7	108,01%	165,5	88,26%	323,4	113,23%	153,0	81,59%
BN	168,8	126,88%	189,3	100,91%	303,1	106,12%	101,8	54,31%
BR	139,1	104,58%	199,8	106,50%	293,7	102,82%	218,0	116,22%
BT	126,7	95,27%	182,8	97,45%	243,4	85,23%	171,9	91,65%
BV	158,3	119,00%	176,4	94,05%	395,2	138,37%	46,8	24,93%
BZ	113,1	85,02%	216,8	115,56%	290,6	101,75%	140,4	74,89%
CJ	146,5	110,12%	216,3	115,29%	246,3	86,25%	198,1	105,62%
CL	122,2	91,84%	154,1	82,18%	373,6	130,81%	27,2	14,53%
CS	110,3	82,90%	169,3	90,26%	308,3	107,93%	188,9	100,72%
CT	107,0	80,45%	192,8	102,78%	249,9	87,48%	246,2	131,30%
CV	144,5	108,61%	192,7	102,75%	284,2	99,52%	228,0	121,58%
DB	151,3	113,69%	176,2	93,93%	253,1	88,61%	226,1	120,57%
DJ	100,1	75,23%	143,8	76,67%	297,9	104,32%	467,5	249,28%
GJ	121,1	90,99%	178,0	94,87%	251,4	88,01%	192,4	102,60%
GL	137,5	103,37%	188,2	100,35%	239,3	83,78%	191,5	102,10%
GR	106,1	79,72%	182,1	97,10%	238,1	83,36%	184,2	98,22%
HD	156,0	117,27%	229,9	122,59%	244,0	85,45%	196,9	105,00%
HR	129,4	97,29%	172,1	91,75%	299,4	104,83%	182,5	97,32%
IF	91,4	68,71%	133,8	71,34%	158,5	55,50%	121,8	64,96%
IL	114,2	85,82%	199,5	106,34%	253,0	88,58%	116,8	62,27%
IS	124,0	93,23%	173,2	92,32%	348,0	121,83%	166,6	88,86%
MH	129,2	97,08%	208,3	111,06%	300,2	105,10%	177,1	94,42%
MM	113,1	85,05%	137,1	73,11%	360,8	126,31%	107,2	57,16%
MS	121,1	90,99%	195,9	104,44%	290,0	101,53%	198,2	105,71%
NT	129,9	97,64%	189,3	100,95%	383,7	134,35%	7,0	3,75%
OT	101,3	76,15%	230,2	122,75%	271,3	94,99%	172,3	91,90%
PH	164,6	123,72%	178,7	95,29%	219,0	76,67%	214,3	114,25%
SB	170,0	127,77%	173,7	92,60%	289,9	101,52%	225,6	120,28%
SJ	216,5	162,73%	201,9	107,67%	329,4	115,34%	398,7	212,62%
SM	71,7	53,91%	230,3	122,78%	411,6	144,11%	32,6	17,39%
SV	142,5	107,08%	168,4	89,78%	452,9	158,59%	354,1	188,82%
TL	146,1	109,84%	180,6	96,29%	325,3	113,91%	213,8	114,01%
TM	135,1	101,54%	178,1	94,95%	285,9	100,10%	220,2	117,45%
TR	113,7	85,48%	203,1	108,30%	308,2	107,92%	46,4	24,76%
VL	144,0	108,25%	164,5	87,70%	435,9	152,61%	165,0	88,01%
VN	142,6	107,21%	190,6	101,63%	240,8	84,32%	204,9	109,27%
VS	120,6	90,67%	188,4	100,45%	230,8	80,82%	132,6	70,71%
TOTAL	133,0	100,00%	187,6	100,00%	285,6	100,00%	187,5	100,00%

Table A5: non-personnel spending per student, by county and by education level

	Primary		Gymnasium		Liceum		Vocational	
AB	878	53,99%	1 407	65,34%	1 752	63,86%	1 225	72,18%
AG	1 366	83,98%	2 241	104,08%	1 633	59,50%	962	56,69%
AR	990	60,89%	1 791	83,20%	2 001	72,95%	2 031	119,72%
B	4 755	292,29%	6 428	298,60%	4 173	152,09%	3 534	208,30%
BC	2 252	138,46%	2 252	104,63%	2 252	82,08%	2 258	133,09%
BH	893	54,88%	914	42,46%	1 205	43,92%	533	31,39%
BN	1 500	92,23%	1 501	69,72%	3 247	118,34%	986	58,11%
BR	1 270	78,08%	1 708	79,34%	4 695	171,11%	1 968	115,96%
BT	574	35,26%	1 040	48,32%	1 611	58,73%	793	46,71%
BV	2 181	134,07%	2 167	100,65%	3 913	142,62%	568	33,49%
BZ	1 496	91,96%	1 619	75,21%	1 935	70,52%	1 047	61,72%
CJ	1 828	112,37%	2 390	111,04%	3 715	135,38%	4 116	242,58%
CL	1 042	64,07%	1 380	64,10%	3 845	140,15%	618	36,44%
CS	614	37,75%	1 087	50,49%	2 281	83,12%	1 219	71,87%
CT	1 990	122,32%	2 194	101,91%	2 258	82,28%	1 920	113,14%
CV	2 161	132,82%	1 785	82,90%	2 582	94,11%	2 624	154,66%
DB	1 490	91,61%	1 626	75,52%	2 529	92,19%	1 967	115,95%
DJ	541	33,26%	730	33,89%	1 313	47,86%	1 093	64,39%
GJ	1 214	74,66%	1 804	83,81%	3 042	110,86%	1 524	89,84%
GL	1 180	72,54%	1 666	77,40%	2 501	91,16%	1 870	110,22%
GR	944	58,04%	2 082	96,71%	2 138	77,93%	379	22,34%
HD	1 988	122,19%	2 514	116,78%	2 482	90,45%	2 005	118,18%
HR	1 125	69,17%	1 330	61,80%	4 501	164,04%	1 404	82,77%
IF	464	28,53%	672	31,20%	1 449	52,81%	2 230	131,43%
IL	1 127	69,29%	1 222	56,75%	4 158	151,56%	1 044	61,50%
IS	1 579	97,07%	1 739	80,78%	3 116	113,56%	1 525	89,89%
MH	761	46,76%	1 176	54,61%	2 661	96,98%	1 298	76,50%
MM	769	47,29%	832	38,67%	2 989	108,93%	647	38,12%
MS	1 373	84,39%	3 364	156,28%	1 881	68,55%	1 170	68,94%
NT	2 040	125,40%	2 175	101,04%	2 589	94,38%	309	18,20%
OT	2 563	157,53%	1 083	50,29%	2 406	87,71%	656	38,64%
PH	1 863	114,55%	1 863	86,56%	1 955	71,25%	1 957	115,36%
SB	1 456	89,53%	1 387	64,45%	2 071	75,49%	1 967	115,94%
SJ	1 227	75,45%	1 291	59,99%	3 618	131,87%	1 788	105,37%
SM	769	47,29%	3 795	176,31%	2 571	93,72%	7	0,41%
SV	2 360	145,10%	2 605	121,02%	2 443	89,04%	2 931	172,76%
TL	1 362	83,74%	1 823	84,69%	3 302	120,35%	2 906	171,25%
TM	1 337	82,20%	1 444	67,07%	2 618	95,42%	2 767	163,08%
TR	633	38,89%	2 738	127,17%	1 867	68,03%	256	15,06%
VL	1 416	87,07%	1 631	75,79%	3 233	117,82%	986	58,12%
VN	2 343	144,04%	2 607	121,09%	3 765	137,23%	2 266	133,53%
VS	599	36,84%	934	43,37%	1 819	66,29%	974	57,38%
TOTAL	1 627	100,00%	2 153	100,00%	2 744	100,00%	1 697	100,00%

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