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FINANCING EDUCATION AND TRAINING
IN CENTRAL AND EASTERN EUROPE:
A NEW SOCIAL CONTRACT

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IN CENTRAL AND EASTERN EUROPE:
A NEW SOCIAL CONTRACT
This document is one of a series of reports prepared for the Conference on Education and the Economy in Central and Eastern Europe which has been organised by the Directorate for Education, Employment, Labour and Social Affairs (DEELSA) and the Centre for Educational Research and Innovation (CERI) within the framework of the programme of the Centre for Co-operation with European Economies in Transition (CCEET).

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1. The political and economic transformations which have taken place in Eastern and Central Europe over the last two years have major implications for the provision and financing of education and training services. In the context of an unprecedented fiscal crisis, the need to retool the human capital base to sustain the shift to a market economy has become a daunting challenge for governments across the region. Central to this challenge is the need to redefine the responsibilities of the main economic agents and to forge a new social contract. Just as it is important for the main partners in the productive sector to accept the principle of wage moderation, so it is equally important for the State, enterprises and individuals to agree on their respective responsibilities with regard to the financing of education and training services.

2. This paper argues that in the absence of major policy reorientations, the State is not in a position to mobilise adequate financial resources to preserve the quality of existing education systems and to adapt them to the new realities of a market economy. The strategy proposed is a three-pronged approach. First, there is a need to increase accountability of institutions by introducing more transparent and flexible systems of allocation of resources which reward efficiency and innovation. Second, the policy environment in which institutions operate needs to be improved so that it can be more responsive to the needs of enterprises and individuals and become more efficient. Third, there is a need to diversify sources of financing based on the principle that enterprises and individuals are responsible for the cost of education and training services which benefit them directly.

3. Section 1 of the paper analyses the changing roles of the State, enterprises and individuals during the transition. Section 2 examines the major policy implications for the State. Section 3 looks at means to diversify sources of financing through mechanisms involving either enterprises or individuals. For additional clarity in judging the merits of alternative approaches, the discussion focuses on strategic issues and policy options, rather than giving a detailed account of the existing system and its reform in each country.

1. Redefining the role of the State, enterprises and individuals
A. General principles
4. The most fundamental aspect of the move towards a market economy is the change in the division of responsibilities it implies. In the past, the economic functions of the State and enterprises overlapped. The two together were responsible for ensuring the well-being of the workers and their families. That meant, among other things, providing and financing social services such as education and training. Individuals had access to free education and enjoyed considerable job security. At the same time, they had limited choice with regard to the type of education they acquired or the type of job they obtained.

5. In a market economy, enterprises are responsible for efficient production and profit maximization. This means that enterprises have a direct interest and responsibility for investing in human capital, just as they invest in physical capital. At the same time, enterprise losses are no longer subsidised out of the State budget and there is no attempt to protect the general structure of wages or to give complete job security. Individuals have the primary responsibility for selecting the type of education they want and for finding a job or income-earning opportunities. The role of the State in this regard is to protect vulnerable groups, through the cash benefit system as opposed to wages, and to subsidise basic social services such as education and training.

6. There are many economic justifications for subsidised education and training services. First, benefits flow not only to individuals but also to the society at large. A highly educated and trained workforce contributes to increases in productivity and economic performance. A literate and educated population is able to maintain higher nutrition and health standards. Second, economies of scale can be achieved in the provision of education for large segments of the population. Third, in the absence of comprehensive information about the quality and the cost of education, consumers cannot always make rational decisions about their education, let alone about the value of their education in the future.

7. For these reasons the State is called upon to play a significant role in the financing of education. However, given the competing claims on tax revenues, the State is not in a position to assume alone the financial burden. A system largely funded by taxpayer subsidies will tend to lead to rationing in the form of limited access and/or poor quality at the higher education level. At the same time, limited taxpayer funding, if not sufficiently redistributive, will deter students from lower-income backgrounds from applying. Since education is not homogeneous, the role of the State will differ from one level of education to the next.

8. In the case of primary and secondary education, because of large externalities, there is a public interest in ensuring that the right quantity and quality of education is being produced at the right price. Therefore, the government has to ensure adequate supply of education (either directly or through the private sector), control the quality and enforce mandatory school attendance. Since imperfect information leads to under-consumption, particularly by the lowest socio-economic groups, a subsidy needs to be applied either to prices (free education) or to incomes (education vouchers).
9. The case for government support for vocational training is less strong. External benefits of training will often justify government intervention in central activities such as policy, planning, and quality control, as well as in subsidising the provision of skills critical to growth strategies, to the development of new technologies, or to labour mobility in the case of retraining of workers. However, the costs of providing skill-specific training should be borne to a large extent by enterprises, which enjoy substantial benefits in the form of a more productive labour force, and by individuals who are rewarded by higher wages. In the apprenticeship system which is common across Europe, the apprentice accepts lower wages in return for training provided by enterprises.

10. Finally, it is widely acknowledged that the proportion of benefits internalised by individuals rises with the level of education. In market economies, where the structure of wages is at least partially influenced by the marginal productivity of labour, there is a large discrepancy between the private and social returns to investments in higher education. This is particularly the case in predominantly publicly-funded systems, where a large fraction of the costs is supported by the State and a large fraction of the benefits accrues primarily to individuals in the form of higher wages. For both efficiency and equity reasons, a shift of part of the financial burden from the State to individuals and their families is not likely to deter them from investing in higher education. This is not the case, however, for students of poor families who should be eligible for financial assistance.

B. The State -- the fiscal predicament

11. Two years into the transition in CEE countries, the economic reform package aimed at macroeconomic stabilization, structural change in the production sphere, and comprehensive institutional reforms has not generally delivered in terms of growth and improved living standards for the majority of the population. Most of the CEE economies have entered protracted recessions, where the decline in output and employment threatens political stability and the pursuit of structural reforms.

12. The dramatic decline in fiscal revenues, owing to the drop in output, has resulted in significant budgetary cuts in all sectors of the economy. In addition, social safety-net expenditure required to protect vulnerable groups during the transition have been crowding out expenditure on traditional social services such as education and training. As a result, many CEE countries have experienced significant reductions in their education budgets.

13. Public expenditure on education and training in CEE countries currently represent between 3 and 5 per cent of GDP, which is lower than in most OECD countries. International comparisons suggest that some CEE countries overspend on income maintenance programmes which do not add much value to human capital, and underspend on education, science, technology and research which are vital to human capital formation. However, macroeconomic projections point towards even tighter fiscal restrictions in general and to increased spending on reactive programmes within the social sectors to accommodate increasing levels of unemployment. Adjusting the
structure of cash benefits and improving targeting will become increasingly important to avoid further reductions in the provision of social services such as education and training.

14. At the same time, the demand for education and training services is increasing. This is due to the need to retrain a large number of workers who have lost their jobs as a result of the restructuring of the economy -- in some CEE countries the unemployment rate has already reached the 10 per cent mark. It is also due to the need to provide training to both managerial and technical staff in line with investments in new organisational and production processes. Finally, it is also due to the pressure to expand access to higher education and bridge the gap with the rest of Europe -- enrolment rates in higher education range from 10 to 15 per cent, or between one third and one half of what they are in Western Europe.

C. Enterprises -- the right type of human capital investment

15. Faced with hard budget constraints, enterprises are progressively getting out of the business of education and training. This is particularly true at the level of secondary education, where technical and vocational schools, operated and financed by enterprises, are being closed. It is also true at the post-secondary education level, where transfers from enterprises to higher education institutions for research and training activities have all but dried up.

16. While it might not be appropriate for enterprises to continue to provide social services such as health and education, they have a direct responsibility for investing in human capital. International experience suggests that the failure to invest in training by enterprises leads to an ever-declining level of skill in the workforce. This in turn leads to lower productivity, loss of competitiveness, and lower levels of income nationally.

17. Although enterprises benefit from investments in human capital, they may under-invest for one of two reasons. First, the new owners and managers may be unaware of the benefits of a skilled and flexible workforce in their enterprises. Second, they may believe that by poaching staff from other enterprises, skilled labour can be acquired more cheaply than by investing in their training. This is essentially a free rider problem -- namely, an employer is able to lure an employee away from another employer who has sponsored general training before the employee has repaid (through earnings below marginal productivity) the cost of his or her training. This situation is described as "market failure", and its correction requires the intervention of the State.

18. In order to persuade enterprises to invest sufficiently in training, governments could adopt two approaches: moral exhortation, or incentives. Typically, the moral exhortation approach fails to extract a suitable response from enterprises, and an incentive system is generally more effective. In many countries, training levies have been used to that effect (also discussed in Section 3).

D. Individuals -- responding to market signals and incentives
19. In a market economy, individuals have to make decisions about careers and education. This means having access to relevant information to respond to market signals, or alternatively, to incentives introduced by the State. This in turn requires far-reaching changes in the attitude of individuals who are expected to think for themselves, analyse and synthesise complex situations, and make rational decisions. It also requires access to relevant information and academic and professional counseling.

20. Individuals are expected to invest in their education because of the substantial benefits they may enjoy throughout their careers. However, just as in the case of enterprises, they may not invest as much as is desirable. First, they may be uncertain about the benefits they derive from their investment. Second, they may lack the current resources necessary to finance their studies.

21. The willingness to invest by individuals depends to a large extent on the perceived benefits associated with particular forms of education and training. Market signals are beginning to emerge in CEE countries, and individuals are already investing a significant amount of resources in training for certain skills where the salaries offered in the private sector are high. This is particularly true for foreign languages, office technology, and management skills. In Romania, for instance, a number of private higher education institutions have been established over the last twelve months. It should be noted, however, that individuals might be reluctant to pay fees in public institutions when programmes are either not relevant or of poor quality.

22. The willingness-to-pay by individuals also depends upon the level of income available. The change in relative wages and relative prices during the transition has brought a widening of income distribution, and a large segment of the population has experienced declining real income. At the same time, the price of education inputs such as textbooks and supplemental materials is rising, making it more difficult for students and their families to afford education.

2. Policy implications for the State

23. Faced with increased demands for education and training services and declining resources, the State needs to introduce radical policy changes. The strategy calls for increasing accountability, creating incentives for institutions to operate, and diversifying sources of revenue.

A. Increasing accountability

"A movement to a market economy implicitly assumes a corresponding move toward political freedom and the establishment of democratic government. While there are variations on the theme or the budget in a democracy, its two essential features are transparency and accountability for results. The former ensures that funds are appropriated for projects approved by the legislature... Accountability imposes a set of tasks on the executive in that it has to ensure delivery of goods in an economic, efficient and effective manner." (Tanzi, 1992)
24. In the majority of CEE countries, a significant amount of resources are wasted in the provision of education and training services because technical processes are ineffective and/or management methods inadequate. Inefficiencies are pervasive throughout the system, and resources spent do not achieve the desired result.

25. One of the most striking examples of inefficiency is the deployment of teaching staff. By any standards, student/teacher ratios are extremely low (in primary and secondary education the ratio is about 18:1 in Poland, 16:1 in Romania, and 15:1 in Hungary). The solution to this situation is to adjust the three underlying causes: low teaching loads, over-specialisation of subjects offered, and single-subject teachers. But this is a particularly sensitive issue and there are many social and professional matters at stake, including the low salaries of teachers which results in many teachers undertaking additional paid employment within and outside education.

26. Significant inefficiencies also exist at the level of higher education. The system is generally characterised by a very large network of small teaching and research institutions, which is very inefficient in terms of utilisation of staff and facilities. For instance, the Technical University in Warsaw includes about 50 research institutes and 15 faculties and teaching institutes. A restructuring of higher education institutions, with a view to consolidating the number of institutions, would also reduce waste. This consolidation should also aim at strengthening the links between research and teaching activities, which have traditionally been kept separated.

27. There is generally a lack of objective criteria and transparent processes for resource allocation. Historical budget allocations, expenditure patterns, and crude norms for staffing and physical resources predominate in allocation decisions, which are best described as elaborate bargaining. Managers have been conditioned to believe that the more resources garnered during the year, the better off the institution will be in next year's budget, regardless of the output achieved in terms of quality or efficiency of service delivery. The main task for most CEE countries is to formulate budgets in the context of the macroeconomic framework where there is an explicit understanding of the purpose of the outlays and the expected results.

28. Finally, there is a need to clearly define the respective roles and responsibilities of the various levels of government. Most CEE countries are moving very fast in the direction of decentralisation of certain types of education services. In Poland, for instance, kindergarten education is already under the direct responsibility of local governments, and primary education is gradually being transferred to them. Given the limited capacity of local governments to raise revenues, the amount of financial resources devoted to kindergarten has decreased, resulting in a decline in the provision of this crucial service. This trend is serious, since it could affect children’s future learning abilities as well as women’s participation in the labour force. In Hungary, local governments are responsible for both kindergarten and primary education, but the financing is shared with the central government which provides per-student grants, depending upon the level of education.
29. It is clear that local governments have a comparative advantage in providing basic social services such as education. They are in a better position to assess the preference and willingness-to-pay of individuals than the central government. However, given the significant differences in the tax base of individual local governments, they might not be in a position to finance an adequate level of service. Therefore, the role of the central government is to equalise funding and to ensure minimum standards across the country. During the transition in particular, a complete decentralisation of education services might not be appropriate, given the limited technical and financial capacity of local governments. In this case, local governments might act as agents of the central government, which remains the main source of financing.

B. Creating incentives for institutions

"Indeed, given the propensity of planners of all kinds to get things wrong, there is a strong case for allowing individual institutions latitude in setting their own judgement against that of the governors. It is a strong case also for allowing institutions to respond to the preferences of individual students: the way to reconcile the interests of governors and the preference of the consumer in this instance is through market mechanisms."

(Barnes and Barr, 1988)

30. In the majority of CEE countries, the lack of autonomy, coupled with rigid systems of allocation of resources, does not allow institutions to respond flexibly to the new economic environment. Expenditure in the education and training sector continues to be directed towards achieving outcomes which are no longer needed in the context of a market economy.

31. At the secondary education level, for instance, a significant amount of resources continues to be spent on very specialised and narrow vocational education programmes which do not constitute an appropriate basis for training the future labour force. Increased labour mobility requires a labour force with a sound general and technical basis, capable of adaptation throughout its career. The progressive phasing out of narrow vocational training programmes, as is happening now in Poland and Hungary, is likely to free resources for investing in more relevant secondary-level general and technical education programmes.

32. In higher education, resources continue to be channelled to programmes with little relevance to the needs of a market economy, and the real priorities are not taken into account. In line with the restructuring of secondary education in which specialisation is postponed to later stages in career development there is a need to develop specific occupation-related technician training at the post-secondary level. These short-cycle courses would allow expansion of post-secondary education, while at the same time offering an alternative to long and costly university programmes. There is also a need to expand certain subjects, in particular cutting-edge interdisciplinary fields in science such as biotechnology or micro-electronics, and modern empirical social sciences such as economics and management.

33. Ultimately, the capacity of institutions to respond to the challenge of the transition and to improve the relevance of their programmes depends
upon their capacity to control enrolments, to deploy resources efficiently, and to generate and retain revenues. In the majority of cases, however, institutions operate with little control over enrolments and financial resources. The existing systems of allocation of resources do not allow institutions to shift resources from one programme to another, or from one category of expenditure to another.

34. There is in general a lack of expertise and experience with regard to alternative ways to allocate resources, both at the central, regional and university level. Currently, funding formulae in higher education are mainly supply-driven -- on the basis of salaries in the case of Poland, and on the basis of courses offered in the case of CSFR. Over time, a greater proportion of public funding should shift towards demand-driven formulae which encourage greater responsiveness to the needs of enterprises and individuals and which are based on output rather than input. In addition, more flexibility should be allowed to make use of resources within institutions, by removing specific administrative regulations which impede internal reallocations and prevent administrators from rewarding efficiency and innovation.

35. Finally, contracting arrangements between funding bodies and institutions of higher education have become more and more popular in OECD countries. The traditional tendering of research contracts which has been in existence since the 1970s has been extended to mainstream teaching activities. The introduction of an element of competition in the funding of higher education institutions has forced them to be more responsive to the needs of the economy, as expressed by funding bodies, and to provide better value for their services.

36. Some CEE countries have introduced new funding arrangements for research. In the case of Poland, the National Committee for Scientific Research started in 1991 to operate a Western-style competitive peer review system for allocating funds for research, under the guidance of the commissions for basic and applied research. In the case of Hungary, a similar approach has been adopted for basic research, and competition has also been introduced for applied research under the auspices of the Office of Technology Development.

C. Reducing reliance on the State budget

"The movement towards market approaches to higher education funding has main motives: the first and more widespread is the hope that sector can be a source of supplementary funding and thus reliev of some of the cost burden... A second reason for advocating private funding is that many of the benefits accrue to individual enterprises that employ them... Third, ... is the belief that incentives provide a more cost-effective way of allocating institutions than either bureaucratic intervention or general Finally, there is the view that competition for funds will enco internal efficiency." (OECD, 1990)

37. The danger of excessive reliance on the State budget or general tax revenues for financing education has already become painfully clear to the majority of CEE countries. First, during this period of recession, general
tax revenues have been vulnerable, and significant cuts have been introduced in education budgets. Second, the lack of autonomy associated with publicly funded institutions has prevented them from responding to labour market demands. Finally, the lack of financial autonomy has often discouraged institutions from using scarce resources efficiently.

38. Current education systems in CEE countries are characterised by heavy public subsidies, and the proportion of social cost recovered from the users is very low. This has led to tremendous inefficiencies and misallocation of resources. Prices are low, regardless of the type of service or the willingness of individuals to pay. Increasing prices for some services such as higher education or enterprise-specific skill training, while keeping low the prices of other services such as primary education, could be justified on both efficiency and equity grounds.

39. There is a need to shift to a more flexible system of financing which relies on a diversification of funding sources. The following section examines some of the mechanisms available to CEE countries to diversify sources of financing such as private education, cost recovery and deferred cost recovery, payroll taxes, sale of services, and donations.

3. Exploring alternative sources of revenue

40. This section examines the potential for mobilising additional financial resources. In the short to medium term, the capacity of institutions to diversify sources of revenue will be limited. The willingness to pay for education and training services by enterprises and individuals depends to a large extent on the capacity of the State to restructure the system and to improve its quality. The proposed strategy therefore stresses the need to introduce first the necessary sectoral adjustments described above.

A. Private education

41. In many CEE countries the provision of education and training by the private sector is increasing. Private institutions operate under different arrangements, with varying degrees of State subsidies. In Poland, for example, there are now more than 300 "non-public" schools offering primary and secondary education (about 1 per cent of the total number of schools). "Non-public" schools can be classified into two groups, depending on whether or not they receive state subsidies: "private schools", which receive no subsidy, and "social schools", which receive subsidies equivalent to 50 per cent of the average unit cost in public schools. Private training institutions, providing training in languages, management and informatics, have emerged in all CEE countries.

42. Providing public subsidies for private schools offers many advantages. It increases the number of educational services available, it promotes competition -- thereby reducing costs -- and gives parents and students a wider choice of schools. However, the development of the private sector in education and training should not be considered as a panacea. The State needs to strengthen its regulatory functions, in particular with regard to the quality of services. Appropriate
accreditation and monitoring systems need to be put in place. In addition, the State has the responsibility to provide information on private institutions and their performance.

B. Fees in public institutions

43. The rationale for charging fees at the level of higher education stems largely from the fact that most of the benefits accrue to the individuals, and most of the costs to the State. It is also widely acknowledged that students consider more carefully their choice when they have to pay, and that students tend to complete their studies more rapidly. From an equity point of view, publicly-funded higher education systems in CEE countries have led to some form of rationing, as evidenced by rather low enrolment rates.

44. The notion of cost recovery is not foreign to CEE countries. In the pre-communist era, tuition fees existed in many CEE countries. Since then, however, students have had access to largely free university education. The question today is not whether cost recovery should be introduced, but rather when and in what form. In Hungary the current plans for reforms in higher education includes the possibility for institutions to charge fees.

45. Governments should not impose uniform policies with respect to cost recovery. Institutions of higher education are increasingly gaining control over course offerings, admissions and financial resources. The extent of the demand for a particular service and the willingness to pay for that service can best be assessed by individual institutions. Different fees might apply to different institutions, based on the demand for a particular course and its cost.

46. Cost recovery for services such as housing and catering already exists in many CEE countries. User charges for these services might be easier to introduce in the short term than tuition fees. Full tuition fees might be charged initially for foreign students and for national students who would repeat a class. In addition, tuition fees might be easier to introduce when they are linked directly to pedagogical improvements, such as access to expensive equipment or facilities.

C. Cost recovery: deferred payment

47. In line with the introduction of cost recovery, many countries have established mechanisms for securing payment from the future incomes of students rather than their current resources.

48. A recent review of student loan programmes identified 14 programmes in industrialised countries, 20 in Latin America and the Caribbean, 8 in Asia and 7 in Sub-Saharan Africa. The majority of the schemes offer students credit in the form of a mortgage loan. Repayment is made over a specified period, usually with fixed monthly payments; interest rates and the maximum length of repayment are used to calculate the fixed periodic payment. In Chile the majority of the schemes allow graduated nominal payments: borrowers, for example, pay equal real (rather than nominal) amounts, thus ensuring that the first payments are not excessively large in real terms in relation to others. Income-contingent loans, in which loans
are repaid as a proportion of a graduate’s income each year, constitute another mechanism (Albrecht and Ziderman, 1991).

49. Establishing a student loan system represents a real challenge in the case of CEE countries. In the absence of functioning financial markets, it might be difficult to design a cost-effective scheme. Given the competition for funds during the transition, access to loans at reasonable interest rates would require subsidies to private lenders, which would be at odds with the restructuring of the economy in general and financial markets in particular.

50. Income-contingent loan schemes such as the one recently introduced in Australia might offer a real opportunity for CEE countries. According to this system, students are offered a choice between paying fees with a discount at the time of enrolment, or paying fees in annual installments after graduation. Graduates with above-average earnings pay part of their studies retrospectively, and those with below-average earnings do not contribute.

51. This system requires a well-developed tax system. Given the far-reaching tax reforms which are being introduced in all CEE countries, it might be appropriate to introduce such a system at a later stage. The introduction of cost-recovery mechanisms is a complex issue, and the international experience will be useful to guide policy makers. While actual decisions might not be taken immediately, a debate over the main options might usefully be initiated.

D. Payroll taxes

52. In a market economy, enterprises invest in human capital, just as they invest in physical capital, because they expect higher productivity and profits. However, from the perspective of the economy they might not invest enough in training, or might invest only in narrow enterprise-specific skills. In many countries, payroll taxes have facilitated the mobilisation of resources for training. A payroll levy set within an institutional framework to encourage and support training is a trademark of newly industrialised countries such as South Korea and Brazil. Several European countries have such a system in place.

53. Similar systems have been introduced in CEE countries as well. In Poland, for example, enterprises pay a 2 per cent payroll tax towards the Labour Fund, part of which is dedicated to retraining the unemployed. However, in this particular case, expenditures on unemployment compensation, which are also paid out of the Labour Fund, are crowding out proactive interventions such as training and retraining. In Romania, there is also a 4 per cent payroll tax which is used partly for unemployment compensation and partly for retraining unemployed. In the case of Hungary, a 1.5 per cent payroll tax is earmarked for training and another 5 per cent payroll tax is earmarked for the solidarity fund, which finances both unemployment compensation and proactive employment programmes.

54. Possibly one of the strongest arguments in favour of a levy system is that in CEE countries it offers a means of broadening the tax base. In the context of the transition to a market economy, the payroll tax can be
used as an instrument for restructuring the labour force. In Singapore the 
proceeds were used to upgrade or retrain workers affected by restructuring.

55. The main criticism regarding payroll levies is that they tend to 
increase the price of labour. As a result, they may encourage enterprises 
to use more capital-intensive techniques, and may inhibit employment 
growth. In the case of CEE countries, the tax burden on enterprises is 
believed to be quite high already. The desirability of using payroll taxes 
needs to be studied very carefully in the context of the overall 
restructuring of the tax system.

E. Sale of services

56. The severe financial limitations placed on the budget of education 
institutions has resulted in administrators attempting to mobilise 
additional resources from non-public sources. Positive steps have already 
been taken in many universities in the region. These include: renting 
facilities, signing contracts with enterprises for research and practical 
applications of processes or techniques, and offering requalification 
courses for employees for a profit.

57. In order to encourage these revenue-generating activities, 
institutions need to be granted further financial autonomy. In particular, 
they should be allowed to retain the proceeds of the sale of these 
services. They should not be penalised for their ability to mobilise 
additional financial resources, through reductions in their budgetary 
allocations from the central ministries. Moreover, incentives in the form 
of matching grants might be provided in order to encourage institutions to 
generate revenues.

58. It should be noted that the sale of products and services by 
vocational training institutions at the secondary level presents some 
risks. In many CEE countries, vocational training institutions have 
developed commercial activities within their workshops, with a view to 
generating additional revenues. The development of services or production 
activities on school sites of a modest nature which promote pedagogic 
objectives will enhance the quality of training. However, experience 
suggests that a clear distinction needs to be made between education and 
related training, and activities which have profit as their objective. The 
blurring of this distinction is dangerous and the primary mandate of these 
institutions should be to teach students.

F. Donations

59. Voluntary contributions by parents and local communities are playing 
a significant role in the school systems throughout the region. They cover 
part of the cost of school maintenance, school supplies, supplementary 
books and even, in some cases, teachers’ salaries. Faced with tremendous 
cuts in their budgets, individual institutions have resorted to this type 
of local solidarity. While the level of resources generated might be low 
in comparison to the needs, this system strengthens the links between the 
parents and the school and increases their sense of ownership.
60. The potential for raising funds for universities in CEE countries needs to be investigated. The majority of universities in OECD countries have established endowment funds, and administrators raise resources from benefactors and from alumni. While the amount of resources raised might not exceed 5 per cent of overall financial resources, they could nevertheless represent a precious complement. In the case of CEE countries, it might be possible to tap the large community of alumni who are living abroad.

61. Finally, institutions should also be encouraged to seek donations from enterprises. Enterprises might be willing to sponsor institutions by providing grants or by donating equipment. Equipment manufacturers might also be willing to sponsor training institutions and to provide them with training equipment. This is particularly true for equipment which is relatively inexpensive, such as computers and printing equipment. Tax deductibility could be offered, within appropriate guidelines, to provide incentives to enterprises and individuals who contribute.

4. Conclusion

62. This paper underlines the need for a new social contract between the State, enterprises and individuals. The State is directly responsible and accountable for supplying basic education and training services. At the same time, enterprises and individuals can finance education and training services which benefit them directly if institutions are able to offer better value for money. This means that the State needs to undertake significant structural and qualitative reforms in the education and training system, aiming at improving its relevance and its performance. This can be done by introducing different allocative mechanisms and by creating appropriate incentives for institutions and individuals to respond to market signals and to behave responsibly.

63. Foreign aid can play a significant role in this process of transformation. However, a new contract is also necessary between CEE governments and the international community. A piecemeal approach to the restructuring of educational systems is highly questionable, and transferring additional resources into systems which are either irrelevant or inefficient will not contribute to a proper resolution of the problems that these education systems face today.

64. Technical expertise is required to assist in the preparation of comprehensive reforms. Financial assistance is also necessary to reward systems and/or institutions which introduce far-reaching reforms aimed inter alia at improving the relevance of the systems, increasing efficiency and diversifying financial resources.
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