

The Impact of the Global Financial Crisis on Education Services in Economies of the Former Soviet Union

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The global economic crisis has created new challenges for education systems all over the world. On the one hand, there is a need to ensure/initiate reforms in education in view of fiscal constraints, and on the other hand, there is a need to train new specialists for post-crisis development. The FSU countries were confronted with an urgent issue, not necessarily specifically related to the crisis: to formulate and introduce new educational curricula, standards, and delivery models in order to adjust to the challenges imposed by the transition to the post-industrial stage of development. In middle-income countries like Russia, Ukraine, and Belarus, this implied, above all, a radical improvement in education quality in order to meet the needs of a knowledge-based economy. In lower-income FSU countries, this meant adjusting their educational systems to meet specific priorities within their development strategies.

The available data allows us to conclude that during the crisis, the education systems of FSU countries were not dramatically affected by overall budget cuts. In fact, total education spending increased both in % GDP and in real terms in all countries except for Belarus and Ukraine. At the same time, the rigidity of education spending resulted in downward adjustments of public education funding (relative to GDP) in some countries (Russia and Kyrgyzstan) in 2010 (though not in 2009 - see Table 1). On the other hand, in countries like Belarus and Ukraine, government education spending was reduced in absolute terms during the crisis but it resumed its growth in 2010. Teachers' salaries were protected everywhere except Belarus. Professional education (at all levels) and capital investments have become the main victims of expenditure cuts. Overall, the crisis initiated a dialogue about efficiency-oriented policy reforms and contributed to the greater commercialization of secondary specialized and tertiary education.

Table 1. Public education spending in pre-crisis and crisis period, % GDP

	2007	2008	2009	2010
Belarus	5.7	5.1	4.9	5.1
Moldova	8.0	8.2	9.4	<i>10.3</i>
Russian Federation	4.0	4.0	4.6	4.3
Ukraine	6.2	6.4	7.3	<i>7.1</i>
Kyrgyzstan	6.5	5.9	6.2	<i>6.2</i>
Georgia	2.3	2.2	2.7	2.3

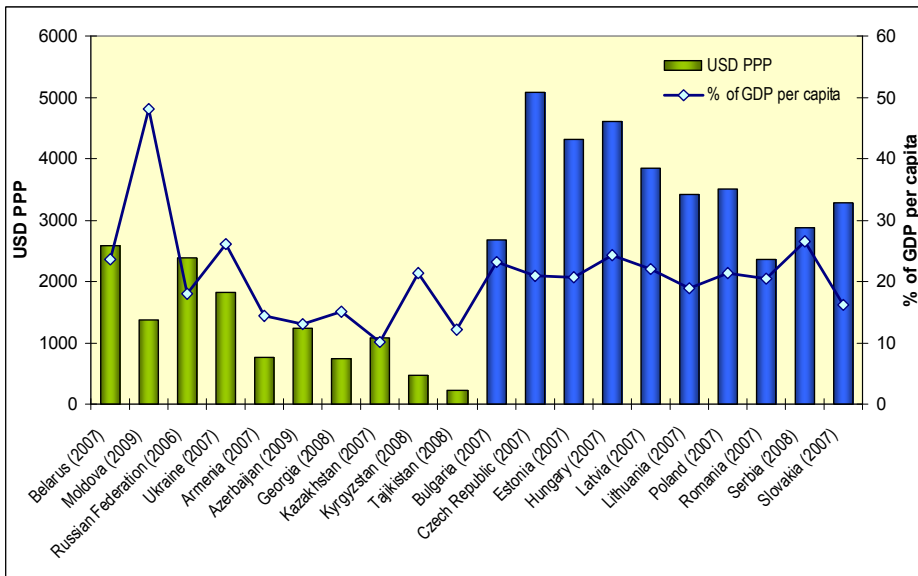
Note: Figures in italics are 2010 budget appropriations or 2010 budget execution preliminary estimates

Sources: national ministries of finance/national treasuries of the respective countries

In all countries, the state remains the major provider of education at all levels. Private provision of education services generally continues to be negligible, with non-public schooling covering only a marginal fraction of students, except for higher education. In tertiary education, the share of fee-based enrolment (both in private and public institutions) is much higher, varying from about 50% in Ukraine to 71% in Moldova.

Fig. 1 presents a cross-national comparison of public expenditure per student (all levels) as a % of GDP per capita. FSU countries demonstrate diverse levels of public resources input per pupil, with Ukraine, Belarus and Kyrgyzstan close to the level typical for most CEE countries. An absolute measure of per student expenditures, controlled for differentials in the living costs (in USD PPP), allows us to assess whether or not the amount of public resources allocated to education is sufficient. By this measure, only Belarus and Russia are close to the lowest CEE results demonstrated by Bulgaria and Romania, while all other countries fall far behind.

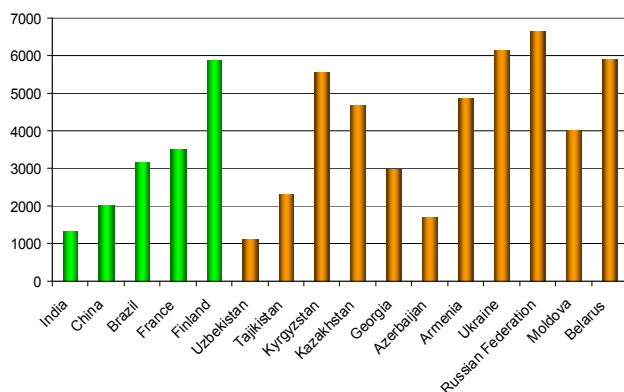
Fig. 1. Absolute and relative measures of public resources allocated to all levels of education per student/pupil in FSU and CEE countries (latest available year)



Sources: UNESCO Institute for Statistics

The structure of expenditures by cycle differs greatly between countries, with Moldova leading in terms of share of spending on pre-primary education. Moldova and Russia lead in terms of spending on secondary education and Ukraine leads in tertiary education. Recurrent spending (especially teacher salaries) prevails (90% of total sector expenditures and more), while capital investment in the sector is rather small. One exception is Kyrgyzstan, where higher indicators of capital investment reflect a more significant investment in infrastructure. In most countries, local budgets play a major role in the financing of primary and secondary education, while the responsibility for VET funding is usually split between local and central levels.

Fig.2. Number of students in tertiary education per 100,000 (2008)



Source: UNESCO Institute for Statistics

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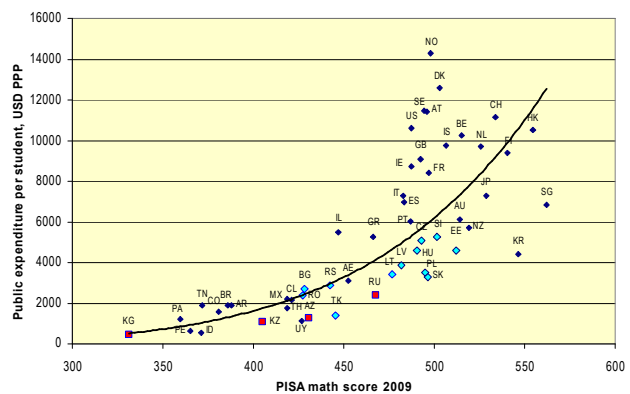
A shortage of public resources has resulted in a sizable increase of private resources channeled to education, especially to tertiary education. UNESCO assesses total educational expenditure from private sources at 0.5% of GDP in Moldova, 0.2% in Azerbaijan, and 0.8% GDP in Russia and Kazakhstan. However, the deteriorating financial status of households limits their ability to further engage in the financing of education. The absence of well-developed schemes of governmental education benefits such as direct, indirect and non-cash subsidies and loans for students noticeably limits access to tertiary education among the poor in most countries. A partial exception is Georgia, where about a third of the students receive public grants covering from 30% to 100% of their tuition costs. The capture of public education

expenditures by non-poor households is a widespread problem. Inequality in education spending contributes to inequities in education outcomes.

Most FSU countries record above-average (as compared to countries with similar levels of per capita income) and growing enrolment in tertiary professional education (Fig.2). In 2006 – 2010, tertiary enrolment rates rose by 25-30 p.p. across all FSU countries except Georgia and Azerbaijan, due to the expansion of private higher educational institutions (HEI), increasingly lenient eligibility requirements at public HEIs for fee-based students, and more affordable tuition fees (often accompanied by declining education quality). However, there are profound qualitative and quantitative mismatches between the structure of specialists trained

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Fig. 3. PISA 2009 math scores and public expenditure per student, USD PPP



Sources: OECD, UNESCO Institute for Statistics

and what is required by the labor market. Obtaining a tertiary education has become a symbol of social status rather than an instrument for obtaining practical knowledge and experience within a chosen specialty.

On the contrary, vocational education and training (VET) systems, particularly their primary segments, shrunk¹ following the collapse of state-owned enterprises' potential to provide training for a specialized workforce. With declining investment, obsolete equipment, old curricula and aging teaching staff, this sector is losing its attractiveness.

A widely used indicator of education quality and efficiency is the pupil-teacher ratio (PTR). Most FSU countries, especially European ones, are characterized by lower PTRs (particularly in secondary education) as compared to OECD countries, reflecting inefficient resource allocation. Throughout the 2000s, the PTR declined in most FSU countries, reflecting a decrease of pupil cohorts not always accompanied by a proportional reduction in the teacher workforce. Teachers remain one of the most "overaged" and "underpaid" professions in FSU countries, with average wages ranging from 59% of the national average in Kyrgyzstan, 66.6% in Russia, 74% in Belarus to 84.5% in Ukraine. This hinders employment of more qualified and skilled personnel and prevents teachers from further developing their competences.

International assessment tests such as PISA measure certain dimensions of 15-year old students related to critical thinking and problem solving. 2003 – 2009 PISA results demonstrate that the differences between the OECD average scores and respective scores for Russia, a FSU leader in education, remain significant and do not tend to decrease. Azerbaijan and Kazakhstan demonstrate results in the lowest decile of PISA participants, with Kyrgyzstan closing the ranks. As Fig. 3 suggests, many of participating countries with moderate economic potential achieved higher results. Moreover, all four FSU countries taking part in PISA are located below the trend curve, which is indicative of below average resource use efficiency in education. No universities from the FSU are listed among top 200 of the Times Higher Education World University index. About 40% of firms in middle-income FSU countries are dissatisfied with the availability of skilled workers and report the shortage of skills as a major constraint to growth (second only to tax regimes), which is indicative of the declining education quality.

The education sector in the FSU countries is in need of further reforms aimed at delivering higher quality

education for the majority of students. An infrastructure adjustment (like reducing overstaffing and the number of schools), which used to be a major source of savings in the sector, cannot be continued infinitely. Further efficiency gains can come from the introduction of per student financing (PSF) schemes, an improvement in education standards, the introduction of teachers' performance appraisal systems, the establishment of governing boards at public schools, etc. Expanding independent quality control mechanisms on the basis of pre-existing independent testing systems and creating a link between the results of this testing and the amount of funding received by schools would increase both efficiency and quality.

The decentralization of the education system management down to the school level is a natural outcome of introducing PSF principles. It appeared to be a widespread model of education reform in CEE countries and is currently being implemented in Armenia and Georgia where, after 2003, school funding became independent from local authorities and is done through voucher schemes. It is believed that decentralizing power and increasing the autonomy of education institutions (budgetary, program and institutional) can improve competitiveness and quality of education, as well as establish closer interrelations with local labor markets.

Improvements in education spending require thorough planning, political will, and transparent approaches in order to implement/complete far-reaching reforms in the sector.

This E-Brief is a summary of Irina Sinitsina's chapter within the CASE Network Report No. 100 "The Impact of the Global Financial Crisis on Public Expenditures on Education and Health in the Economies of the Former Soviet Union": <http://www.case-research.eu/en/node/56152>

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¹ Belarus is an exception due to increased government funding.

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