



# Financing vocational education in Russia: issues and options<sup>1</sup>



**Ivo Gijsberts**  
Principal Consultant,  
B M B Management  
Consultants for Development

## Introduction

In striving towards the creation of a market economy and civil society, the Russian Federation is characterised by deep economic, political and social reforms. This process has repercussions for the education system, a system that helped transform Russia into an industrialised nation with a very strong sense of cultural identity. The challenge is to preserve the strong elements in the Russian education system, while at the same time introducing flexibility and adaptability to meet the demands of a market economy and of individuals.

In this respect the position of vocational education and training is extremely important. In a typical developed economy, vocational education and training caters to requirements of between 60% to 80% of the labour force.

Today, the Russian system of vocational education and training (see Box 1 for a brief description) faces many problems stemming from the era of central planning. The deficiencies in the system of vocational training during central planning have been explained elsewhere (Heyne-man, 1994; ILO, 1996; OECD, 1997).

Under the old system one objective was to provide the majority of school leavers with formal, entry-level qualifications to prepare them for the world of work. There was little choice for young people other than the formal education system. Alternative routes to the labour market did not really exist and this resulted in a vast network of uniform schools, with too many teachers training too many people for too long.

A second objective was to attain a close match between the training provided and the requirements of the job. This resulted in the 'vertical' organisation of vocational training, where sector ministries controlled the state-sponsored training for that sector. In the past, a typical basic vocational or technical school was built to prepare trained workers for a given enterprise. This was reflected in the training curriculum with students being trained in skills specific to a particular job performing a specific function. This led to the multiplication of vocational and technical training programmes.

Vertical training separated schools by sector, assuming, generally, that skills and people remained within their sector for life. This assumption might have been safe under the circumstances of a planned economy, but is no longer relevant in one based on market competition. To make a positive contribution to a market economy, the system of technical and vocational training needs to be adapted and become more flexible.

Two recent trends can be distinguished in analysing Russia's current vocational education and training system. The first is a disturbing one of sharply declining resources and financial support, worsening the overall conditions of the educational process and jeopardising the continuation of existing educational establishments. The second is a more positive trend towards educational diversification and innovation, strongly linked to the process of decentralisation and a move towards more school autonomy. With decentralisation, the sources of finance have become more diversified, but overall the system is still facing a serious resource crunch.

**The Russian Government has played a major role in the financing of vocational education and training. Pressed by budgetary problems, it is seeking to develop arrangements to share the financing more widely, primarily with those that benefit from training: students and employers. In addition, the present mode of financing, based on enrolments or inputs, does not provide any impetus for change. A new budget allocation system, based on outputs, is required to trigger financial incentives to institutions to change their behaviour.**

1) This paper was written while on assignment for the EU-funded project 'Addressing the Social Impact of Economic Restructuring and Privatization in the Russian Federation'.



## Box 1: A brief description of the Russian VET system

The Russian vocational education and training system can be divided into three parts: a **school-based system** for youth; an **enterprise-based training system** for workers; and a **retraining system** for unemployed adults.

Traditionally, the **school-based system** was the largest of the sub-systems, providing the majority of Russian youth with entry-level qualifications. It consists of two streams:

- **basic vocational education**, provided in institutions that are called 'professional-technical schools', or PTUs; and
- **technical secondary education**, provided in specialised higher vocational institutions, called 'technicums' or colleges.

Basic vocational education aims to continue general education and to promote specific vocational skills. Basic tuition is free. Traditionally, PTUs are under the Ministry of Education and obtain their funding directly from the federal budget. In 1996, the system comprised 4,200 educational institutions with a student population of 1.7 million (see table 1).

In contrast, technicums prepare students for middle-level specialists and technician occupations. Approximately 40% of the technicums are controlled and financed by sector ministries, while the remainder are under the Ministry of Education. In 1996, there were 2,600 institutions with a student population of almost 2 million (see table 1).

The **enterprise-based system** of upgrading and re-skilling workers has virtually collapsed. The Enterprise Law of 1990 eliminated the statutory requirement for enterprises to invest in training of workers. Prior to 1990, each enterprise was required to train and upgrade its workers. Having a training institute of its own was the norm for large Soviet enterprises. The process of enterprise restructuring, which started after 1990, has largely caused the demise of enterprise training.

A **re-training system for unemployed adults** did not exist prior to 1991. Retraining of the unemployed became the task of the Federal Employment Service and its network of regional offices spread around the country. It is interesting to note that the Federal Employment Service does not have any training institutions of its own, but buys training for the unemployed making use of the available material base of the PTUs and the technicums.

budget finance and non-budget finance. The article then presents an alternative form of financing to provide incentives to schools to change.

## Financing vocational education and training

The financing of the vocational education and training system is divided between several levels. The system has become rather complex due to the decrease in budget allocations to the education sector because of the fiscal crisis, and the current trend of decentralisation in the Russian Federation.

Basic vocational training institutes receive financing from:

- the federal budget, in 70 of the 89 regions of the Russian Federation
- the regional budget, in the remaining 19 regions of the Federation (this comprises 15 regions that have opted out from the tax-sharing arrangement making them no longer eligible for federal grants, plus 4 regions, that on an experimental basis, have taken over the legal ownership of the vocational schools and the resulting financial responsibilities<sup>2)</sup>).

Technical secondary education institutes are either financed from the regional budget (in case of the 15 "opted-out" regions), or financed from the federal budget, either through the Ministry of General and Professional Education, or through one of the sector ministries.

In principle, the financing of basic and secondary vocational education, either by the federal level or by the regional level, is based on student norms and the projected rate of admittance and graduation. The norms are meant to cover staff salaries, student meals and grants, as well as money for teaching materials, consumables, maintenance, renovation and utilities.

However, in 1996 the allocation for the basic vocational institutions from the federal budget was approximately two-thirds of the approved budget (see table 2). In practice, the federal budget only allocates

This article looks at the way the vocational education system is financed in the Russian Federation and will show how the present system of financing perpetuates the old situation. It argues that a revised system of financing, based on performance indicators or outputs, could provide the building blocks for the gradual overhaul of the system, so that it becomes more labour market relevant and more efficient.

The present VET financing system will be discussed, taking into account both

2) These four regions are: Novgorod, Nizny Novgorod, Samara and St. Petersburg city.



100% of the funds to pay for the so-called 'protected items', teacher salaries and student grants. Paying for meals, basic utilities, such as heating, lighting and water, have become highly problematic for vocational schools. Anecdotal evidence suggests that for the year 1997 approximately one third of the approved budget was transferred to vocational schools.

The Treasury of the Ministry of Finance transfers the funds to the regional Finance Departments, which co-ordinates with the regional Education Department how the funds should be distributed over individual educational establishments. Regional administrations are free to allocate additional resources to the schools from their own revenues.

There is considerable regional variation as the federal level cannot meet the norms. What a region receives from the federal level, ultimately depends on its past revenues. Regions rich in natural resources as financial donors to the centre with greater authority to negotiate a good deal, tend to receive substantially more on average per student. This contributes to the growing inequality of education expenditure across regions.

Nothing is budgeted for capital expenses or for the purchase of equipment. As a consequence, schools have been seriously under-funded. This was generally the case even before transition, making the vast system seriously out-of-date in terms of equipment, facilities etc.

How have schools survived under these dire financial circumstances? Several mechanisms have been adopted by school principals and regional education administrations to generate additional sources of revenue. These can be grouped under the following headings:

- administrative measures;
- the introduction of user charges;
- contract training; and
- production activities.

#### Administrative measures

Salary payments to teachers and staff are being delayed, utility bills for electricity, water and heating are not being paid, or the responsibility for paying these bills is

**Table 1a. Enrollment trends in basic vocational education (PTU) (budget and extra-budget funded)**

|                                  | 1991   | 1993   | 1995   | 1996<br>(projected) |
|----------------------------------|--------|--------|--------|---------------------|
| No. of institutions              | 4321   | 4273   | 4166   | 4214                |
| No. of students admitted ('000s) | 1306.7 | 1106.7 | 1121.7 | 1067.1              |
| - budget-funded                  | 1234.4 | 1007.1 | 928.2  | 882.7               |
| - extra-budget funded            | 72.3   | 99.5   | 193.5  | 184.4               |
| No. of students enrolled ('000s) | 1841.5 | 1741.6 | 1689.5 | 1703.9              |
| No. of graduates ('000s)         | 1210.0 | 1031.8 | 1034.1 | 955.0               |
| - budget funded                  | 1140.7 | 921.5  | 840.6  | 784.9               |
| - extra-budget funded            | 69.3   | 110.3  | 193.5  | 170.1               |

Source: Ministry of Education

**Table 1b. Enrollment trends in secondary vocational education (total of budget funded and extra-budget funded)**

|                                  | 1991 | 1991 | 1995 | 1996 |
|----------------------------------|------|------|------|------|
| No. of institutions              | 2605 | 2607 | 2612 | 2608 |
| No. of students admitted ('000s) | 732  | 644  | 665  | 662  |
| No. of students enrolled ('000s) | 2202 | 1994 | 1923 | 1976 |
| No. of graduates                 | 623  | 546  | 473  | 494  |

Source: National Observatory Report on the Vocational Education and Training System: Russian Federation, ETF, Moscow, 1997

taken over by the regional administration (e.g. in Astrakhan). In addition, renovation and maintenance of the schools have been postponed, and any money received for this purpose has been siphoned off to other uses. Procurement of teaching materials is limited.

#### Introduction of user charges

Although the constitution makes basic vocational education free to the population, this does not prevent schools from offering a number of commercial courses through evening classes and short-programme certification courses. Popular programmes include computer classes, preparing for road tests (theoretical part), and courses in cutting and fashion design.

***"There is considerable regional variation (...) What a region receives from the federal level, ultimately depends on its past revenues. Regions rich in natural resources as financial donors to the centre with greater authority to negotiate a good deal, tend to receive substantially more on average per student."***



**Table 2.**  
**Federal funding for PTUs in 1996 (in billion Roubles)**

| Expense item                | Approved for 1996 | Actually realized in 1996 | % Realization |
|-----------------------------|-------------------|---------------------------|---------------|
| Payroll and related charges | 996.3             | 996.3                     | 100.0         |
| Purchase of clothes         | 303.7             | 59.8                      | 19.7          |
| Food                        | 1,056.3           | 512.7                     | 48.1          |
| Training expenses           | 35.5              | -                         | -             |
| Utility payments            | 306.2             | 276.0                     | 90.1          |
| Student stipends            | 211.1             | 211.1                     | 100.0         |
| Other transfers             | 199.0             | 35.3                      | 17.7          |
| Other expenses              | 107.1             | 3.8                       | 3.5           |
| Total                       | 3,224.2           | 2,095.0                   | 65.0          |

Source: National Observatory Report on the Vocational Education and Training System: Russian Federation, ETF, Moscow, 1997

Technicums have even more freedom and resources to exploit commercial activities (see *table 3*). First of all, they are allowed to accept fee-paying students in their regular programmes, albeit limited to a maximum of 25 % of total enrolments to avoid fee-paying students dominating the institution's training programme. Secondly, because of their more qualified teachers, they are in a position to offer commercial courses in high demand such as in accountancy, marketing, information technology, either as evening courses or as distance learning programmes. Thirdly, they offer short-term preparatory courses to would-be applicants in those subjects tested in entrance examinations.

It is interesting to note that schools have not yet started to charge for other services, such as board and lodging, meals, use of textbooks, tools and protective clothing. It is not clear if the concept of free education, as spelled out in the constitution, prevents charging for these services. Anyway, schools attach importance to providing free education to their students, who mainly come from poor families. The ability to pay for certain services, even at nominal fees, is rated as very low, if not zero. For this reason, schools attach importance to the meals they provide to their students.

### Contract training

Contract training, or the design and conduct of a customised training programme at the invitation of a third party (e.g. enterprise or employment service) forms a third source of additional revenue. The impression is that direct contracts with enterprises have been quite limited. The facilitatory role between, on the one hand, the enterprise and, on the other hand, the training provider is being played by the regional Employment Service departments (ES). The ES engineered contract training for the unemployed, based on job guarantees given by enterprises. Training usually lasts between 3-6 months and is financed from the budget of the ES.

Some 50,000 unemployed people benefited from this kind of job-oriented training in 1996. This dropped substantially in the first half of 1997, to only a few thousand owing to the budgetary squeeze faced by the ES as a consequence of increased contribution collection problems.

It should also be noted that the ES has been selective with the signing of contracts with schools. Because of the strict labour market orientation of the re-training programme, only selected schools can offer a tailor-made programme geared to the requirements of the future employer. Not all vocational schools qualify. Some operate in a branch of industry for which there exists very little effective demand. Others have not yet adapted to the market environment, still conditioned by the habit of following and implementing only instructions from above.

### Production activities

This is by far the most widely used mechanism to generate additional revenues. All schools employ some way to capitalise on the resources they have, either by selling the products the trainees produced in the course of the training programme or by engaging in outright commercial activities to produce saleable goods or services outside training hours. Some schools also have facilities (a banquet hall, an auditorium, a guest-house) that can be leased or rented to outsiders to host special occasions, or be exploited commercially.



Most of the proceeds the schools obtain from these commercial activities are being retained by the school to increase their resources. In some regions, a small percentage of the revenues is being siphoned off to the regional Education Department. The advantage of these activities is greater financial autonomy for individual establishments, allowing them to cover up any deficits in the federal (or regional) financing, and to invest in new facilities and equipment (such as computer laboratories). The downside is that it can divert them from their main mission and distort their training agenda, a fact keenly acknowledged by many education administrators.

In conclusion, greater school autonomy and decentralisation have diversified the sources of finance for schools, but overall they have not made up for the deficit created by the reduction in federal (or regional) grants. Moreover, it has resulted in greater inequality between schools. The majority linked to one of the old industries are in a dire financial situation. A minority, in particular technicums that have been re-labelled 'colleges', have been extremely successful in generating additional revenues, to a point where the federal (or regional) grant is a minor share in their total budget. The best colleges now only depend on 20 % of their revenue from direct grants from the state.

## Survival of the system

Two questions arise: why did the system of vocational schools not collapse in spite of acute financial cuts and weak links with enterprises? Why has the system largely remained intact?

The answers can be grouped under three headings:

- long-standing traditions;
- system inertia;
- demand-pull factors.

### Long-standing traditions

In Russia, students with lower-abilities (from problematic and poor families) will eventually end up in the system for vocational education. There existed, and still

**Table 3.**  
**Commercial training in secondary vocational education institutions, 1994 - 96**

|   | 1994       | 1995        | 1996        |
|---|------------|-------------|-------------|
| Admittance - total                      | 629.6      | 664.6       | 662.0       |
| Including on commercial terms           | 56.8       | 121.2       | 127.9       |
| <i>% admittance on commercial terms</i> | <i>9.0</i> | <i>18.2</i> | <i>19.0</i> |
| Admittance - daytime courses            | 450.9      | 477.6       | 480.0       |
| including on commercial terms           | 33.3       | 68.9        | 74.0        |
| <i>% admittance on commercial terms</i> | <i>7.4</i> | <i>14.4</i> | <i>15.4</i> |
| Total number of students                | 1,870.9    | 1,923.3     | 1,975.8     |
| including on commercial terms           | 119.3      | 228.4       | 282.3       |
| <i>% students on commercial terms</i>   | <i>6.4</i> | <i>11.9</i> | <i>14.3</i> |

Source: National Observatory Report on the Vocational Education and Training System: Russian Federation, ETF, Moscow, 1997

exist, few alternatives for them. The social motivation is to keep potentially troublesome youth off the streets and into these institutions to avoid anti-social behaviour. This is reinforced by the other Russian tradition: to obtain a vocational qualification before entering the labour market.

### System inertia

The institutions themselves have every incentive to keep the schools full and maximise the budget they can extract from the federal and regional level. By having more students, budgets will increase and the jobs and incomes of the teaching staff will be protected.

### Demand-pull factors

Paradoxically, there has been a continuous demand for vocational education, even during times of enterprise downsizing. While old professions have become obsolete, new ones have sprung up. Parents and students alike realise that they can improve the chances for meaningful employment by acquiring vocational skills in demand in the labour market. The rules of the game have changed and a number of schools have started to re-orient their programmes and made them more labour market responsive. Students have been quick to pick up the signals the labour

***"(...) greater school autonomy and decentralisation have diversified the sources of finance for schools, but overall they have not made up for the deficit created by the reduction in federal (or regional) grants. Moreover, it has resulted in greater inequality between schools."***



***“Pressed by budgetary problems, the federal government is seeking to develop arrangements to share the financing more widely (...) by promoting (...) multi-channel financing, (...) transfer part of the expenses of vocational education to the users of education, (...) multi-level financing, (...) transfer the costs of vocational education to the lower tiers of administration (...)”***

market is sending out and selecting the schools with the best opportunities. This can be dubbed the labour market motive.

At the risk of painting a caricature, it can be said that during the first five years of reform the two first motives have been the driving force in keeping the system of vocational education largely intact, albeit at a very much reduced rate. In the coming years, the system's survival will ultimately depend on its efforts to be more responsive to changes in the labour market, to make its final product more attractive for employers and students alike. Only this reversal of priorities can make the system healthy in the foreseeable future.

## **Financial policy issues and options**

The federal government in the Russian Federation has so far played a major role in the financing of vocational education and training. Pressed by budgetary problems, the federal government is seeking to develop arrangements to share the financing more widely. It does so by promoting what it has dubbed *multi-channel* and *multi-level* financing. With multi-channel financing, the federal government attempts to transfer part of the expenses of vocational education to the users of education, namely students (or their parents) and enterprises. With multi-level financing, the federal government tries to transfer the costs of vocational education to the lower tiers of administration, in particular the regions.

An issue that has received rather less attention from policy-makers is that the present mode of government financing, based on enrolments or inputs, provides no impetus for change. Despite a larger envisaged role for students and enterprises in the financing of VET, it is obvious that for a long time to come most resources will need to come from the government.

From this perspective, an alternative is to use the available resources more efficiently and build a new *budget allocation system*, based on performance or outputs, that will trigger financial incentives

to institutions to change their behaviour. The various options under consideration are discussed.

### **Multi-channel financing**

Vocational training should not be seen as the public's interest alone. The benefits of vocational training also accrue to the individual undergoing training, because the student can expect higher life-time earnings after training, and to employers who hire trained workers, because they will increase productivity and profits. Thus financing of vocational education should in principle also involve others than the state.

The acceptance of this argument in the Russian context leads to the following question: How much of the responsibility to contribute to the cost of education should be transferred to the users of the training: students and employers?

The contribution that students should make is a difficult question in today's Russia. It is widely perceived that individuals have no capacity to pay for school-based vocational education. With 22 % percent of Russians (32 million people) living below the official poverty line (defined as a minimum subsistence level of 349,000 Roubles a month - \$ 70), there is a lot of truth in that.

On the other hand, a multitude of commercial courses exist that attract individuals who are prepared to pay a (nominal) tuition fee. These courses can be extracurricular (e.g. English, information technology), preparatory (to pass certain entrance examinations), or modular (management, marketing, accounting, catering, hairdressing, fashion design etc.). Some of these courses are provided by PTU's and technicums, many are provided by private training establishments. This system of fee-paying education proliferates not only in Moscow but also in the regions.

Coupled with the fact that a large number of technicums do attract fee paying students for some of their regular programmes, this means that among segments of the population there is certainly a capacity and willingness to pay for vocational education. More so, if it im-



proves their chances to secure a better paid job.

Schools have not yet started to explore this avenue because of the constitutional obligation to provide free basic vocational education. But an option for the future might be to increase the student contribution in the financing of vocational education.

In many countries employers play an important part in the funding of vocational education. No longer so in Russia. Their statutory requirement to invest in training has been scrapped. This coupled with the economic decline many enterprises are facing, has led them, more or less, to stop investing in training.

So far, changes in vocational and professional education in Russia have bypassed employers' involvement to a large extent. Except for the involvement of the Federal Employment Service, at some stages, the decisions have merely been taken by educational decision-makers. If Russia intends to reform its system of vocational education and training and make it more labour market responsive, it will need to develop an effective strategy that involves major employers, businesses and their representative organizations.

One possibility would be to expand the education tax of 1% - 2% on enterprise payrolls or profits which a number of regions have instituted. A proportion, or all of the proceeds of this tax could go into a special fund earmarked for financing (part of) the regions costs for the vocational education system. The fund could be administered on a tripartite basis with representation from employers, employees and the Government. A legal obligation on employers to contribute to the training fund, would encourage employers to take an interest in the reform of the system.

Hungary has created such a "Vocational Training Fund", together with the legal obligation imposed on companies to spend 1.5 % of their payroll on training. It is not necessary for companies to remit the full 1.5 % to the Fund. They are allowed to finance their own courses as well as provide direct assistance to vocational schools. However, the dire economic situ-

ation in many Russian regions prevents the widespread creation of such funds in the immediate future. Russian enterprises are responsible for 85% of all tax revenues, in sharp contrast to the norm in EU countries. Because of these high levels, compliance is low and enterprises employ many strategies of tax evasion. Adding an additional tax on enterprises in this environment, is not guaranteed to lead to impressive results. The creation of these funds will need time and better economic conditions, as well as a reformed tax system, lowering the overall rate on companies.

### Multi-level financing

The call for multi-level financing is triggered by the federal government's requirement to reduce the state budget substantially. Such a reduction can be achieved simply by reassigning government functions among different levels of government. The responsibility for the financing of vocational education, up to the present a federal responsibility, could be delegated to the sub-national governments, or the regions. The question is where will the regions find the revenue to meet the new expenditure assignments.

Ideas of this nature were floated during 1997. However, expenditure assignments need to be quantified and resource requirements established before expenditure can be shifted down.

This is a serious issue that needs urgent consideration. From the perspective of public finance theory, public services whose benefits are reaped within local boundaries should be provided by local government. This is certainly the case with vocational education, where local communities and local businesses benefit from the existence of vocational schools. Educational policy-makers at the federal level thus have a point in arguing to shifting vocational education and training expenditure assignments to the regions.

However, before doing so, a very important first step is to quantify the expenditure responsibility for vocational education and training in each region and to check if these expenditures are matched with available regional revenues. The federal record here is far from perfect, since

***"In many countries employers play an important part in the funding of vocational education. No longer so in Russia. Their statutory requirement to invest in training has been scrapped. This coupled with the economic decline many enterprises are facing, has led them, more or less, to stop investing in training."***

***"The responsibility for the financing of vocational education, up to the present a federal responsibility, could be delegated to the sub-national governments, or the regions. The question is where will the regions find the revenue to meet the new expenditure assignments."***



***“(...) the budget process in the Russian Federation has been dominated at all stages by the logic of a passive distribution of available resources among existing structures and services. An altogether new logic is required: a logic where structures and services compete for scarce resources, triggering an adaptation of those structures to new policy priorities and resource constraints.”***

***“The principle is that schools receive their funds as revenues for rendering services in the market while the education department is the major client. Output can be defined in many ways, but best is perhaps best linked to ‘formal’ outputs which are embedded in the educational structure.”***

many social protection expenditures have been shifted down to regional and local governments without addressing the question of matching local revenues.

The intergovernmental financing issue in Russia is complex and still evolving. The re-allocation of expenditure assignments among different levels of government is one side of the coin, the sharing of tax revenues, tax-rate setting and equalisation formulae between high-income and low-income regions is the other. These issues have not yet been settled, and this makes it difficult to shift VET expenditure responsibility to the regions.

On an experimental basis, 4 regions have accepted the responsibility to finance the VET system from the regional budget as from 1997 onwards. In return, they have obtained a promise from the Federal Government that they will receive the full norm-based financing over 1995 and 1996. This experiment will be worth evaluating, although it needs to be said that the regions participating in this experiment are industrialised and relatively better-off than the average.

### **A new budget allocation system**

Up to the present, the budget process<sup>3</sup> in the Russian Federation has been dominated at all stages by the logic of a passive distribution of available resources among existing structures and services. An altogether new logic is required: a logic where structures and services compete for scarce resources, triggering an adaptation of those structures to new policy priorities and resource constraints.

In the West, the understanding has grown that the method of budget allocation could contribute largely to desired institutional behaviour. In other words, by using the right method of budget allocation, incentives for aspired behaviour by education establishments can be passed on and change can be brought about.

A supply-driven budgeting system that is based on per capita student expenditure norms and enrolments (input-model), does not allow education authorities to re-allocate resources. Such a system is inflexible. It makes it difficult to reward schools that offer innovative

programmes and penalise schools that are not adept at changing their programme. It tends to reinforce the status quo. So long as schools manage to attract a minimum number of new enrolments, their existence is not threatened and they can continue to operate as they did before.

In view of the transition of the Russian economy, from a centrally planned to a market economy where individual producers and consumers make decisions, the present system of expenditure norm financing is hindering necessary changes in the school-based system of vocational education. Changing the way the federal (or, as appropriate, regional) level is financing vocational education could send important signals to both schools and students.

How can a financial system be designed to support this reversal in priorities? An alternative would be the adoption of a performance-oriented model or output-based budget system. In this model the sum of money available for vocational education and training is directed towards the actual output of the system: the number of students that actually graduate.

The principle is that schools receive their funds as revenues for rendering services in the market while the education department is the major client. Output can be defined in many ways, but best is perhaps best linked to ‘formal’ outputs which are embedded in the educational structure. In this sense, output is narrowed down to students that receive certificates after completing a certain course, or receive their final diploma.

The schools could be given the authority to spend the resources from government grant as they see fit, giving them flexibility to decide, for example, to top up teacher salaries, or buy more equipment at the expense of other budget lines.

The funding system could be designed along programme lines. This would allow the education authorities to stop the flow of money going to outdated, irrelevant courses and trigger the re-allocation of resources to innovative, more labour market-oriented courses.

3) not only in education, but in all sectors.





In this programme-oriented budget model, schools compete for students based on the course they follow. Courses are divided into groups on the basis of the programme costs. All training programmes fall into one of the programme groups which each have a different grant per student. Schools could receive the grants once a year or several times a year based on the auditing reports presented to the education authorities. If students drop out, the total amount of grants shrinks automatically. In effect, the model now becomes a combination of input-financing and output-financing.

The price paid for each student would be determined taking into account the total sum of money available for the sector and the cost of education (teachers, buildings, equipment etc.), diversified by programme. Programme groups will thus have different unit-costs. Such a system has been pioneered in Denmark and the Netherlands and could form a model for the Russian authorities.

## Conclusion

The Russian system of vocational education and training is in disarray at present. The old way of doing things is clearly deficient in meeting the requirements of a market economy. The system risks becoming less and less relevant without major innovation and change.

Fortunately, many individuals employed in the system are aware of this risk and the enormous task which lies ahead of them. At local level, there is evidence of many worthwhile initiatives attempting to re-orient the system. However, there is often an undercurrent of trying to preserve as much as possible, while waiting for the good times to return. It has not dawned on some that the good old days will not return.

The federal government has gradually been reducing its allocation to sectors, creating structural deficits that will be hard for regional governments to make up. This trend is likely to continue, with, in a few years, a complete transfer of responsibilities to regional budgets. Once regions carry the financial responsibility for the

vocational education and training system (and have the legal ownership of the underlying assets land, buildings, equipment etc.), the power for the overhaul of the system, tuning in to the demands expressed by the emerging private sector, will be vested in the regions.

Here lies the crux of the problem. Many regions do not yet have a business sector to speak of, much less one that is making new investment. Nonetheless, the region is best placed to undertake the role of re-orienting the system, to review the number and distribution of vocational schools, to take difficult decisions about closing or merging courses, and to stimulate the opening of new ones. The region is also more knowledgeable about the local business environment and can quickly promote and invest in new programmes, provided that these new programmes meet the required education quality standards.

While starting with this task, it is inevitable that regional governments will require greater cost sharing among direct beneficiaries: students and enterprises. However, it can not be assumed that cost sharing will be achieved automatically. The public's perception of vocational education and training courses is that of a rather mediocre education that hitherto has been for free. Why start paying for it?

(Future) cost sharing can be sold if this includes (a promise for) higher quality education which will require a concerted and continuous effort by everyone in the system: policy makers, administrators, managers, principals, teachers. And in order to push it, it will require a budget allocation system that passes on incentives to education establishments to improve the quality of their education. In other words, that money no longer trickles down to each establishment in proportional shares; instead, those establishments that improve quality receive more money, those that fail to improve quality receive less money.

It is not an easy task to design such a budget allocation system. Governments in the West have experimented with it and learned that such an approach should be transparent, easy to administer and diffi-

***"(...) the region is best placed to undertake the role of re-orienting the system, to review the number and distribution of vocational schools, to take difficult decisions about closing or merging courses, and to stimulate the opening of new ones. The region is also more knowledgeable about the local business environment and can quickly promote and invest in new programmes, provided that these new programmes meet the required education quality standards."***



cult to tamper with. The rules of the game should be clear. For example, how to measure quality (by lower drop-out rates, higher pass rates, reduced number of hours, or other indicators, or a combination?

These and other questions need to be discussed and resolved before the decision is taken to introduce an output-oriented budget allocation model. Technical assistance, based on the experience from the West, can certainly assist in this endeavour.

#### List of references

**Heyneman, Stephen P.**, *Education in the Europe and Central Asia Region: Policies of Adjustment and Excellence*, Internal Discussion Paper no. 145, World Bank, Washington, August 19, 1994

**Johanson, Richard**, *A Case Study: Technical Vocational Education and Training in Russia*, prepared for the International Labour Organisation, Geneva, August 7, 1996

**OECD**, *Review of National Policies for Education - The Russian Federation*, Examiners' Report, Paris, April 30, 1997

**OECD**, *The Reform of Education in New Russia*, a background report for the OECD review of education policy prepared by the Ministry of General and Professional Education, not dated

**ETF**, *National Observatory Report on the Vocational Education and Training System: Russian Federation*, report prepared by the National Observatory of the Russian Federation, Moscow, September 1997 (draft)