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MOLDOVA
Special Topic:

Higher Education and the need to improve its relevance and efficiency

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- *Many Moldovan employers are not able to fill jobs due to lack of university graduates with the skills that the labor market needs.*
- *The higher education governance and financing system work directly to promote quality and relevance of higher education programs.*
- *International practice shows that education financing reforms that strengthen transparency and introduce output-based performance indicators can play a key role in improving labor-relevance and efficiency.*

Universities should better prepare graduates for current and future jobs ...

University graduates' skills do not match what employers seek. While university graduates have better employment and earnings prospects than those with lower educational attainment, there are strong indications that higher education lacks responsiveness to current labor demand, let alone to the skill demand of the future. Nearly half² of Moldovan firms face systematic problems in finding staff with the right skills. University graduates are found to lack a variety of skills, including professional (practical) skills. Among employed university graduates, 43% report a mismatch between their education and job, including overeducation (28%) and employment in a field unrelated to their study (9%). Among young graduates, the situation is worse, with almost one in two graduates under 30 years of age reporting a mismatch in 2015¹. This current mismatch raises concerns that universities will struggle even more to adjust to future skill needs when the economy further modernizes.

Effective partnerships between universities and the private sector are limited. While interactions do occur, for example through university students' internships, it appears that collaboration to align education with demand, foster innovation, and organize internships could be more frequent and effective.

The weak connection between higher education and the labor market harms individuals and the economy. It reduces graduates' job prospects, stunts economic growth, and points to an inefficient use of resources, both from the government's and households' budgets.

...but the governance mechanism does not encourage universities to adapt to skills demand...

Three main elements should be in place to ensure that higher education provides students with labor-relevant skills: i) desired learning results, described in terms of skills, should be agreed with employers; ii) an appropriate level of university autonomy should go together with effective accountability mechanisms; and iii) financing tools should provide universities with the possibility and incentives to provide demand-responsive education.

Moldova's **National Qualifications Framework needs improvement to provide a clear picture of required learning results** for the national labor market. Since Moldova lacks higher education standards, universities have no clear guidance on the skills that they are expected to develop. Moreover, even quite intensive discussions with business community about skills demand have not resulted in the development of professional (occupational) standards yet. Occupational standards, agreed within the business community, should ideally guide the education process in all the universities (as this is done in UK, Germany, Poland).

Moldova's universities have a high level of autonomy, but lack clear accountability and transparency. No sound information is available on universities' performance, making it very difficult for the government to make informed decisions on policy reforms, financing, and student placement, and for students and household to make study choices.

The higher education financing mechanism gives no incentives to universities to provide graduates with skills that help obtain good jobs. Rather than using financing to incentivize universities to provide high quality and relevant education, budget allocations are predominantly based on historic data without clear regard to university performance or labor demand.

International experience shows that the most effective financing tools to promote quality and labor-relevant higher education include performance contracts and output-oriented per-student funding formulae. Yet, Moldova and many neighboring countries are still using nonperformance based budget allocation (see table 2). Linking budget block grant allocation (see table 1 for all possible funding mechanisms) to clear and result-oriented performance indicators provides universities with incentives for development. Allocation methods and the definition of indicators require careful consideration

¹ World Bank calculations based on Labor Force Survey (NBS) data.

based, among others, on national strategic objectives and context. In addition, enabling conditions need to be in place: for example, in order to use graduate employment rate as a criterion in funding decisions, reliable graduate tracer data need to be available.

Table 1. Public Funding Allocation Mechanisms

1. Block Grant/Line-Item Allocation			Other
Performance-Based		Input-Oriented Funding Formula	
Performance Contract	Output-Oriented Funding Formula		
			Historically-Determined Allocation
2. Competitive Funds			
3. Excellence Schemes			
4. Other Alternatives (e.g., scholarships, student loans)			

Source: Pruvot, Claeys-Kulik & Estermann, 2015

Table 2. Percentage of total public expenditure on HEIs per allocation mechanism

	HR	GR	RO	SI	PL	EE	CZ	LV	MD
Negotiation and/or Historically Determined		70%	5%			15%			95%
Input-Oriented Funding Formula	90%		70%	50%			50%	74%	
Output-Oriented Funding Formula	7%		5%	50%	95%		26%	6%	
Performance Agreements/ Contracts	3%					45%			
Competitive Funds		10%	20%		3%	31%	24%	9%	
Excellence Schemes		5%			2%	9%			3%
Other Alternatives		15%						11%	2%

Source: World Bank approximations based on survey, 2016

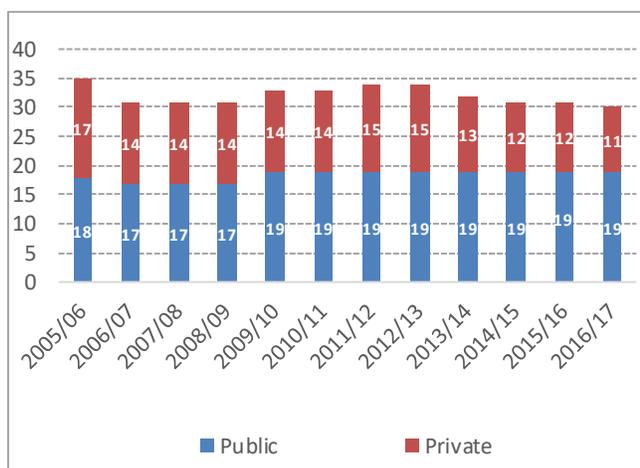
...and funds can be allocated more efficiently.

Moldova has 30 higher education institutions, which cater to a fast-declining student population. While the number of universities fell from 35 in 2005/06 to 30 now, student numbers fell by over 40 percent in the same period (figure 2 and 3). By 2020, student numbers are expected to fall to 55,000 or less (Figure 2).²

Falling student numbers exacerbate concerns about quality and efficiency. With an expected average population of 1,700 students per university in 2020 (in 2006 it was 6,280 students per public university), it is increasingly doubtful that universities can improve – or even maintain - education quality. For example, maintaining sufficiently capable teaching staff for all faculties and subjects will become increasingly difficult due to absence of funds and students, like last year, when 5000 budget funded spots were not filled during admission.

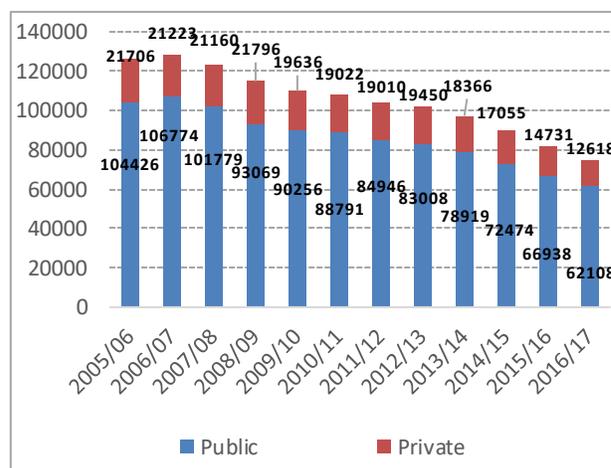
Results-based and transparent financing mechanisms can play an important role in promoting efficiency. A clear need exists to promote efficiency and network optimization. International experience (e.g. in Denmark, Austria, and the Netherlands) shows that an effective process could include introducing transparent, results-based financing that is agreed with stakeholders.

Figure 1. Number of institutions in HE, 2005-2016



Source: National Bureau of Statistics

Figure 2. Number of students in HE, 2005-2016



Source: National Bureau of Statistics

It is crucial to use available funds strategically. A higher education financing mechanism that incorporates the appropriate levers and incentives will not only promote the labor-relevance of graduates, but also increase efficiency of public spending. Ultimately, this will prepare more students for a productive and successful career, thereby raising households' earning potential as well as the growth and innovation potential of Moldova's economy.

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² http://www.euniam.aau.dk/fileadmin/user_upload/EUniAM_WP4_Restructuring-HE-Moldova_v12.pdf