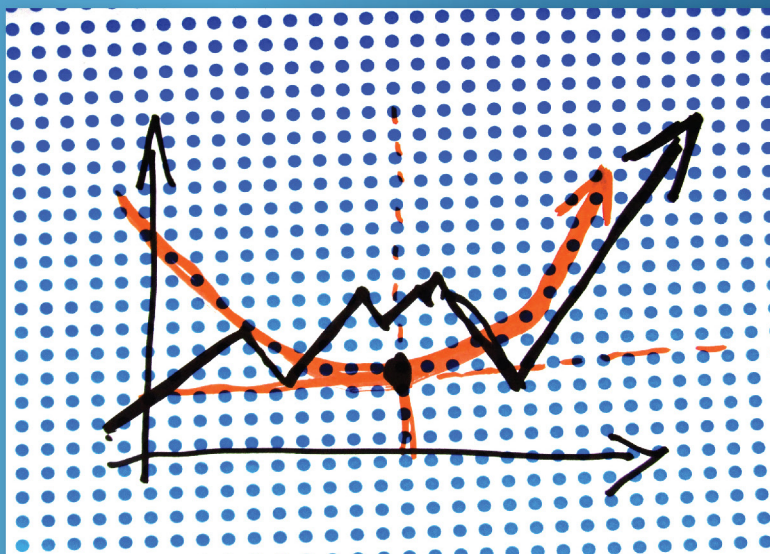


УНИВЕРЗИТЕТ „ГОЦЕ ДЕЛЧЕВ“ – ШТИП  
ЕКОНОМСКИ ФАКУЛТЕТ



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ГОДИНА 1

VOLUME 1

GOCE DELCEV UNIVERSITY – STIP  
FACULTY OF ECONOMICS

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ЕКОНОМСКИ ФАКУЛТЕТ

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**2009**  
**YEARBOOK**

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FACULTY OF ECONOMICS



**ГОДИШЕН ЗБОРНИК  
ЕКОНОМСКИ ФАКУЛТЕТ  
YEARBOOK  
FACULTY OF ECONOMICS**

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ул. „Крсте Мисирков“ бб  
п. фах 201, 2000 Штип  
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**Address of the editorial office**

Goce Delceva University – Stip  
Faculty of Economics  
Krste Misirkov b.b.,  
PO box 201, 2000 Stip,  
R. of Macedonia



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## ANALYSIS OF PUBLIC EXPENDITURE ON EDUCATION IN ALBANIA

**Jollanda MEMAJ MPA**

Budget Department, Ministry of Finance

E-mail: jmemaj@minfin.gov.al

**Assoc. Prof. Dr. Raimonda DUKA**

Department of Economics, University of Tirana

E-mail: rmduka@yahoo.com

### **Abstract:**

Achieving economic growth is an important goal of any country. However, in recent years it has increasingly been realized that economic growth is a necessary but not a sufficient condition for human development. Albania provides a good example of a country which has historically enjoyed a respectable GDP growth rate and yet failed to translate this positive development into a satisfactory level of human development.

Official education spending is around 3 percent of GDP—much lower than most high growth emerging economies. Overall, the education system is under funded, but relatively efficient in its use of inputs. However, some efficiency measures may critically affect quality and, subsequently, demand. Spending composition and financing arrangements should be significantly enhanced to support the needed improvements in secondary enrollment, in higher education outcomes and in quality. The relatively large capital investment program and wage bill have left little room for spending on other teaching inputs that can affect quality.

Across the transition countries are increasingly focusing on decentralization of decision-making authority to lower levels of government. The Albania has not been excluded from this phenomenon. Several years on, we find that the process has progressed; the central government has delegated the administration of many activities to lower levels of government. While service responsibilities have been delegated or devolved, central governments are often reluctant (and often for valid reasons) to give up control over revenues.

**Keywords:** *Education; Public expenditures; decentralization, allocation*

### **INTRODUCTION**

However, there is now a growing realization that we could have done much better had we stressed human resource investments relatively more. The



Education for All (EFA) movement, started more than a decade ago in 1990, accelerated the process of human resource development in many developing countries. The EFA refers to the global commitment to ensure that all children would complete Primary Education of good quality. A decade after, the Millennium Declaration resolved to ensure, by 2015, that all children would be able to complete course of primary education.

Albania, like other developing countries, responded positively to the declaration. Measures like the National Development Strategy for Pre University Education 2004-2015 and National Plan of Action (NPA) for education indicate its commitment with EFA goals. The facts contained in the recent Human Development Report reveal a good situation regarding current human resource status in Albania. According to the Human Development Index (HDI) ranking, the HDI for Albania is 0.887, which gives the country a rank of 68<sup>th</sup> out of 177 countries with data.

The most crucial issues in the education sector in Albania are:

- Inadequate public spending on education. Public spending on education as a share of GDP declined by one third from 5% in 1991 to 3.4% in 2007. As a result, public spending has been limited to the bare essentials, at the expense of important needs that it is assumed can be deferred, such as maintenance of schools and the provision of equipment, materials and teacher training.
- Lack of access to educational establishments, especially in rural areas. Almost 16% of the children between the ages of 14-17 attributed their non-attendance at school to distance. This may be the consequence of the fact that the number of secondary schools has fallen by more than 50% in the last decade, especially in rural areas. Even at the pre-school level, the number of pre-schools has fallen by one third in the last decade. There is a strong link between income poverty and low educational participation. Primary school rates are significantly lower among the poor and lowest among the extreme poor.
- Poor quality and weak relevance of education. Albania inherited low education standards compared with those of its neighbors. At the same time, the quality of the learning environment, especially in rural and suburban areas, has deteriorated considerably during the transition period.
- Weak planning and management capacity at the local level, especially in suburban and rural areas. Although the decentralization process is going on there is a lack of an effective monitoring and evaluation system at the central and local level and a need to strengthen the capacity of local governments in the delivery of education services.





## 1. Resources allocation to education in Albania

Since the collapse of the communist regime the government resources have diminished considerably. GDP per capita in 2002 was estimated to be USD\$1,499, while per capita income was USD\$4,000<sup>1</sup>. This reduction in total government revenue has affected the public expenditure in education which has dropped from 5 per cent of GDP in 1991 to only 2.82 per cent in 2003. Details of the budget for the education sector for the period 2000-2008 are summarized in Table 1.

The table shows that the budgets allocated to education have been for the eight years close to 3 percent of GDP with highest allocations in 2007. The Albanian government goal was to double the budget of the education sector in five years from 2.95 percent of GDP on 2005 to 5 percent on 2011. But the GDP allocations to the education sector still are not in line with the commitment to attach high priority to education. Indeed, public spending on education, at around 3.2 percent of GDP, is low compared to other fast growing economies. In comparison, fast growing recent EU entrants spend an average of 4–5 percent of GDP on education, and other high growth countries spend between 3.5 and 5 percent of GDP. Current spending levels are also below the NSSD targets of 3.4 percent of GDP for 2005 and the MTBP objectives of 3.5 percent in 2005.

Albania's expenditure on education as a share of total government expenditure has been decreasing from 13.7 percent in 1997 to 9.7 percent in 2007, lower than the average of 12.9 percent spent by the OECD countries and recent entrants to the EU. The table further shows that the proportions of education budgets in national budgets remained closed to 11 percent over time. Moreover, an extremely high proportion, around 85 percent in average, of education budgets are spent on recurrent heads, particularly on salaries of teaching staff, with negligible proportions remaining for development expenditures.

**Table 1. National Education Budget (2000-2007)**

Years	As % of GDP	As % of Gov.Exp	Recurr(%)	Develop(%)
2000	3,08	10,00	87,77	12,23
2001	3,10	10,00	88,90	11,10
2002	2,84	11,30	90,52	9,48
2003	2,82	12,30	85,53	14,47
2004	2,93	11,50	81,85	18,15

<sup>1</sup> PRSP Report, World Bank



2005	2,95	11,30	85,00	15,00
2006	3,13	10,10	82,61	17,39
2007 <sup>2</sup>	3,25	9,17	77,37	22,63

In addition, wages consume a comparatively high 86 percent of recurrent pre-university education spending in Albania, crowding out spending on non-wage items and affecting quality. This share compares with 82 percent in the EU 15 and 72 percent in recent entrants to the EU. Moreover, this problem is most acute in general secondary schools, where only 3 percent of recurrent expenditures were available for non-wage items in 2005. Moreover, the allocation for non-wage spending (in total and for secondary education) has been declining in recent years. The proposal to raise the compensation of teachers by about 26 percent in 2006 and further in 2007 has placed further pressure on non-wage spending.

Perhaps, the most important factor responsible for this situation is the allocation of inadequate resources by the public sector to education. The above facts suggest that serious efforts should be made to improve the status of education sector in the country. Recent development for raising education spending in the Mid-Term Budget Program 2007–2009 has started addressing this issue. The government has planning to increase the budget for education as % of GDP in 3.9 on 2009.

Within this constrained resource envelope, primary education has been receiving most of the attention. In line with the NSSD objectives of ensuring universal primary enrollment, more than half of the public resources for education have been allocated to primary education over the past decade. Conversely, secondary education has been receiving less than 20 percent of public spending up to 2005 (Table 2). This situation translates into larger class sizes, greater use of dual shifts and other efficiency measures at the secondary level.

**Table 2 -Expenditure Shares by Program and Year**

Functions	2002	2003	2004	2005	2006	2007	2008
Planning, Management and Administration	5,40	4,60	4,20	3,20	1,66	0,46	2,00
Preschool+ basic education	61,90	58,50	59,20	58,50	48,39	43,30	57,00
General Secondary Education	10,20	11,30	12,20	12,50	20,72	20,45	14,00

<sup>2</sup> The data from the plan budget for 2007



Vocational Secondary Education	4,90	8,40	6,80	7,10	8,68	8,89	7,00
Tertiary Education	17,10	16,70	17,10	18,20	18,43	24,57	19,00
Institute + Curricula	0,50	0,50	0,25	0,02	0,15	NA	NA
Scientific-research	0,00	0,00	0,20	0,40	1,97	2,33	1,00
<b>Total</b>	<b>100,00</b>	<b>100,00</b>	<b>99,95</b>	<b>99,92</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>

Source: Ministry of Finance

General secondary education is severely under funded in terms of both per capita spending and funding for non-wage recurrent spending. In addition, wages consume a comparatively high 86 percent of recurrent pre-university education spending in Albania, crowding out spending on non-wage items and affecting quality. This share compares with 82 percent in the EU 15 and 72 percent in recent entrants to the EU.

One way of helping to achieve the targets and to sustain the EFA initiatives is to redistribute resources. In order to direct more resources to basic education, the Government in its National Education Strategy proposed to encourage private sector involvement in education, particularly in vocational education which has been encouraged to explore alternative funding sources. For example, the external funding for vocational education under the CARDS project has freed up projected investment expenditure from the public education budget. Furthermore, the government is reducing its expenditure on higher education and introduces user-pays models. The current expenditure on higher education is 4.07 times higher than the OECD average of 2.52. The Government also is encouraging more private investment in higher education.

The Albanian Government has a policy that universities should “move towards” self financing, albeit not completely. Implementation of this policy has required major changes in the financial arrangements under which the universities currently operate. One of the main objectives of the reforms introduced by the 2007 Higher Education Law was to bring greater autonomy to the governance of universities.

However, to date there has been little use of the (limited) flexibility to move resources between the faculties and between the faculties and the center. In addition, the approval of the new Law on higher education has made adequate provision for strengthening accountability, such as through the establishment of a university governing board.



## 2. ALLOCATION TO EDUCATION AT THE DISTRICT LEVEL

The Albanian government has already decentralized the management and financing of pre-university education to local governments, in order to enhance the accountability and responsiveness of the education system. In Albania, regional councils, municipalities and communes have more responsibility in making decisions on funding allocations in the education sector.

Ministry of Education and Science is responsible for implementing educational policies defined by the Council of Ministers. It approves programs and textbooks for all preschool and school institutions; defines criteria for licensing private educational institutions; develops, approves and issues criteria for admission in educational institutions at any given cycle; defines periods of studies in each cycle, criteria for issuing certificates and diplomas and for elective subjects; develops teacher training; defines criteria for recognition of private and public school diplomas; is responsible for supervising all educational institutions, defines the structure of the academic year, the workload of the teaching staff, and the average number of students per class for all levels of public education.

Education conditional grants from the Ministry of Education and Science to municipalities and communes are earmarked specifically for salaries (for teaching and non-teaching personnel) and for food and scholarships to students. Regions are provided with conditional grants to cover expenses for transportation and per diems for teachers and trainers. There are no special formulas for the allocation of these conditional grants among distinct jurisdictions (regions, municipalities, and communes) and schools.

Investments (renovations and equipment) are entirely decided, run and financed by the central government through its education directorates (de-concentrated branches of the Ministry of Education) situated in the district. The investment funds are distributed since 2005 on the competition based. The local government units submitted projects that are evaluated by an experts group based on some approved indicators.

The Government uses a mix of centralized and decentralized financing, depending on the function and level of education. The financing of the teaching force is centralized, although local governments act as pass-through paymasters. Local governments are expected to finance school maintenance from unconditional grants allocated from the central budget, while the financing of capital investments is currently allocated to sub-national governments on the basis of conditional grants. Local government expenditures on education averaged 6.2 percent of total public educational expenditures during 2002-05.



In 2005, the investment budget was decentralized to the Regional Councils as a conditional block grant (as an addition to the operations and maintenance budget which municipalities and communes receive as an unconditional block grant). However, it was observed that only half of the regions followed the guidelines from the MoES. In some cases the investment budget was divided into small pieces and used for minor repairs to or maintenance of many schools. The three years experiences have indicated the need for better planning and coordination across different levels of government.

At the first year of implementation, about half of the regions did not report how they spent the investment budget. In these circumstances the careful monitoring of the use of the investment budget and its impact, and strategies to improve optimal investment within the decentralization framework, are critical in order to preserve and enhance the efficiency of capital in the sector.

The existing input-based financing formula does not create incentives for schools and local governments to rationalize variations in inputs and reduce variations in learning outcomes among schools, municipalities, and communes. The current formula used by the central government for determining recurrent cost allocations to local governments, finances educational inputs (i.e., teachers, and sometimes textbooks and other educational materials). It reflects norms for items such as class sizes and teacher/student ratios, budgets for previous years, and the overall fiscal envelope available to the sector in any given year.

In Albania, there are existing large regional variations in per unit expenditures underscore the need for improving the financing system. These variations are equally stark for basic and secondary education (Table 3). On the year 2004 the Albanian government introduced of funding formulas, including the use of a student/teacher ratio norm in allocating salaries that narrowed significantly disparities in the 2005 budget planning figures with the exception of those for Tirana.

There have been recent improvements in this regard in the MoES, but further strengthening is needed. For example, while the norm of student-class size and the depreciation of school buildings has been taken into consideration in the preparation of the investment budget, future population growth patterns have not been considered. Projected future demographic changes need to be taken into consideration when the investment budget is planned and executed.

**Table 3: Examples of Variations in Inputs and Outcomes between Regions**

<b>Variable</b>	<b>High</b>	<b>Low</b>
Per capita costs for basic education (2005)	Gjirokastra: 36,200 lek	Kukes: 20,300 lek
Per capita costs for general secondary education (2005)	Tirana: 64,500 lek	Fieri: 20,200 lek



Per capita costs for VET secondary education (2005)	Tirana: 118,300 lek	Durres: 43,300 lek
Combined average score on 4th grade assessment of reading, mathematics, and Albanian language (2001)	Kukes: 60.4%	Diber: 43.3%
Percent of basic education classrooms by depreciation level of school buildings (2004) % in high depreciation school buildings % in medium depreciation % in low depreciation	Diber 7.2% 30.6% 62.2%	Durres 2.3% 18.6% 79.1%
Student/teacher ratios for basic education (2004-05)	Tirana: 24:1	Gjirokastra: 13:1
Double shift schools and students for basic education (2004) Tirana: 30% of schools;	Tirana 30% of schools; 76% of students	Kukes: 3.5% of schools and 17.6% of students
Double shift schools and students for general secondary education (2004)	Berat: 24% of schools	Elbasan: 0% of schools

Source: INSTAT and MoES.

To better plan these investments, it is critical for the MoES and the Regional Councils to build on the initial work on school mapping which takes into consideration population growth projections (declining fertility rate) and migration. This will facilitate making rational decisions on the consolidation of existing schools and the allocation of new schools.

To date the execution of capital investment at the local level has been chaotic, and it risks increasing inefficiencies if it is not properly monitored and evaluated. Moreover, the decentralization of the investment budget to the Regional Councils as a conditional block grant, in the absence of central oversight, monitoring and evaluation, portends the uncoordinated use of resources. How local governments are spending these grants is not transparent nor is it clear whether schools receive reasonable shares of these grants.



## **CONCLUSIONS**

The experience has shown that too hasty decentralization can be detrimental to service delivery when local capacity is limited and when service standards and a system to monitor and evaluate the transition are not in place. To succeed in this effort, the government will need to undertake the following:

- Strengthen the coordination of capital investment, non-salary recurrent and salary spending in pre-university education across levels of government in order to implement the necessary expansion of secondary schools.
- Setting up the monitoring system at the regional level.
- Distribute investments funds based on the community needs especially in poor and rural areas.
- Increase budget autonomy and the accountability of universities.
- Carry out careful projections of the impact of demographic changes on school age cohorts and their regional distribution, in order to project recurrent and capital needs and adjust functional and regional allocations accordingly.

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### **CV of the authors:**

Mrs. Memaj was graduated in Tirana University on the year 1987. She obtained the diploma in Finance on the year 1987. During the period 1987-2003 she has worked for different companies and since the year 2003 she is working as budget specialist in the Ministry of Finance. She has a Master Degree in Public Administration from the University of Tirana and she also is a Phd student in this University.

Mrs. Duka was graduated in Tirana University on the year 1983. She obtained the diploma Economist on the year 1983 and finished the PhD in 1991. During the period 1992-1994 she has been visiting professor at the University of Osnabrück, Germany supported by DAAD. She has a long experience in teaching Economics, focused on Microeconomics and since 1999 she holds Associated Professor title.

She also has a Master Degree in European Studies from the University of Tirana.