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# Albania

## Poverty and Education in Albania: Who Benefits from Public Spending?

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**ALBANIA**  
**POVERTY AND EDUCATION IN ALBANIA:**  
**WHO BENEFITS FROM PUBLIC SPENDING?**

**CURRENCY EQUIVALENTS**  
(Exchange Rate as of January 11, 2005)  
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Leke 1 = US\$ 0.010482  
US\$ 1 = Leke 95.3999

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**ABBREVIATIONS AND ACRONYMS**

DEO	District Education Office
DFID	Department for International Development
EMIS	Education Management Information System
ERP	Education Reform Project
GDP	Gross Domestic Product
GER	Gross Enrollment Rate
GOA	Government of Albania
IDA	International Development Association
LDP	Local Development Program
LSMS	Living Standards Measurement Survey
MDG	Millennium Development Goals
MOES	Ministry of Education and Science
MOF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NER	Net Enrollment Rate
NSSED	National Strategy for Social and Economic Development
OECD	Organization for Economic Cooperation and Development
PISA	Program for International Student Assessment
PRSC-1, 2, 3	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Analysis
REDS	Regional Education Directorates

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## EXECUTIVE SUMMARY

1. This study is a poverty and social impact analysis (PSIA), examining to what extent the poor benefit from public spending on education in Albania. The specific objectives of the study are to: (i) offer an overview of trends in education outcomes in the country as well as the linkages between these outcomes and poverty; (ii) analyze trends and levels of public expenditure across education levels and across functional classifications of the Government budget; (iii) assess how public spending is distributed across households and geographical areas; and (iv) provide recommendations to Government on how to improve education outcomes, especially for the poor.

2. Drawing from the Living Standards Measurement Survey of 2002 (LSMS), official data on public expenditures, and administrative data on the sector, the study investigates the impact of public spending on education of the poor. The study also reviews the findings of recent studies on the linkages between poverty and education outcomes. The main findings and recommendations of the study can be summarized as follows:

- ***During the transition, enrollment rates have declined at all levels of education, except higher education.*** At the preschool and secondary levels, enrollment rates declined dramatically partly because of closures of most preschools and secondary vocational schools. In higher education, the gross enrollment rate increased from about 7 percent in 1989 to 17 percent in 2001, but nearly all of this increase is in part time enrollment.
- ***Enrollment rates varied across regions and income levels.*** Net enrollment rates for the poor, especially the extremely poor, are much lower than those of the non-poor; and similarly, enrollment rates in rural areas are much lower than those in urban areas. There are no gender disparities in enrollment, except at the tertiary level, where the enrollment rate for women is slightly higher than for men.
- ***Inadequate public spending on education contributed to declines in education quality, especially for children coming from poor families, rural areas, and peri-urban areas.*** Public spending on education as a share of GDP declined by about one-third from 5 percent in 1991 to 2.8 percent in 2002. As a result, public spending has been extremely limited, at the expense of some basic needs, such as operation and maintenance of schools and the provision of textbooks, materials, equipment, and teacher training.
- ***As public spending in education has decreased during the transition, some of the schooling costs have now been assumed by households which have negatively affected the enrollment of poor children.*** Spending on school supplies and materials has been reduced to very low levels, and in most cases, these costs have been borne by families. Inadequate public spending has not only resulted in rapid deterioration of the quality of education, but has also

increased the private costs of schooling, often resulting in declines in enrollment rates for children coming from poor families, especially in rural and peri-urban areas.

- ***Public spending on basic education tends to be pro-poor, while spending on secondary and tertiary education is less beneficial to the poor.*** The distribution of public expenditure on education is slightly progressive, benefiting the poor proportionally more than the rich. This progressiveness is mostly due to the distribution of public resources to basic education where the majority of Albanian students are enrolled. At all other levels of education, the distribution of resources is regressive as a consequence of the low enrollments of the poor in non-basic education levels and the unequal distribution of subsidies across districts. However, it should be noted that the actual subsidy to these levels, in particular upper secondary education, is low and mostly covers personnel expenditures. This affects the quality of education and may explain to an extent the low enrollments at this level. The subsidy to education also varies across rural and urban areas. In basic education, the per student subsidy is lower in districts where the majority of the population is rural. Additional resources will be needed for rural areas to ensure access quality basic education for the poor. At the tertiary level, more targeted financial aid policies will be needed to ensure that students from poor families have access to tertiary education.
- ***Inflexibility and lack of transparency in the funding mechanisms contributes to inefficiencies and inequities in the use of resources among regions and districts.*** A crucial problem in the Government financing mechanism is the lack of flexibility schools have to determine the distribution and use of the resources they receive. Three levels of government have responsibilities in the delivery and funding of the education sector. The decisions regarding staff allocation to schools are made by the Ministry of Education and Science (MOES), those of supplies and teaching materials by the regions and the districts, while decisions on expenses for operation and maintenance and small repairs are taken by municipalities and communes. This fragmentation has created some challenges, in many cases generating inefficiencies and unequal distribution of resources. For example, the local governments contribute resources to the schools out of their general budgets. However, as they receive these resources without guidelines as to their use, spending on education varies significantly by municipality and commune. Similarly, while funds for salaries are always provided in the education budget, funds for supplies and materials, operation and maintenance, and teacher training are among the first to be cut when there is a need to reduce the education budget. Supplies, materials, operation and maintenance, and teacher training are therefore systematically under-funded. In addition, the resource allocation process needs to be more transparent and should take into

account effectiveness and equity. It was also found that municipalities and communes are unequal in their capacity to use the funds effectively.<sup>1</sup>

3. Emerging evidence suggests that closure of many preschools and secondary vocational schools, declines in the quality of education, and a sharp increase in poverty rates, along with the introduction of formal and informal fees for many education-related services have reduced school participation rates for children from poor households. Public policies to maintain and improve access to education, especially basic education are critical to Albania's economic growth and poverty alleviation efforts. A number of policy options, are available to achieve this objective:

- ***Improve the quality of basic public education.*** The public system of basic education should be improved and should be protected from cuts in education spending. Moreover, improvements in the delivery of the quality of basic and secondary education can be achieved most efficiently through reallocation of public resources from tertiary education to basic and secondary education.
- ***Address the financial needs of the poor, especially at the secondary and tertiary education levels in poor communities.*** The benefit-incidence analysis showed that inequality is high at non-basic levels in the distribution of public expenditures on education. Poor families are increasingly unable to meet the rising direct costs of education at all levels. Policy options targeted to the poor include: (i) targeted provision of free basic learning materials (e.g., textbooks) for the poor, including financial aid for transportation, especially in rural areas; and (ii) the introduction of a student financial aid program to provide financial support to needy tertiary education students.
- ***Provide adequate funding for basic and secondary education, while providing targeted financial support for the poor at the non-basic levels.*** In Albania, the Government bears the largest burden of the education expenditures, despite sharp increases in private spending during the transition. Given dramatic declines in the quality of schooling, and declines in enrollments at non-basic education, public spending should be increased to further enhance the quality of schooling and increase enrollment at the basic education and secondary level, while providing targeted financial support for the poor at the non-basic levels.
- ***Induce private sector participation in the education sector.*** In Albania, the share of private sector in the delivery of education services is still small, despite the establishment of a number of private secondary and a few tertiary education institutions. Private sector participation should be encouraged at all levels as an attractive policy option offering parental choice and increasing

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<sup>1</sup> These are persistent challenges that have been caused by long-term structural and institutional problems in the sector. They cannot – and should not -- be linked with the particular policies of specific Governments over the last 15 years. As these problems are persistent, addressing them will require structural changes and policies that are sustained in the long-term.

institutional competitiveness without any fiscal burden on public funds. Substantial capacity for private sector participation is evidenced by the increased demand for education being met through private spending and by the existence of an informal sector. Public policies towards addressing the issues related to the development of the private sector include establishment of an appropriate regulatory framework to encourage private sector investment.

- ***Improve budgeting and resource allocation processes***, through the introduction of a more transparent, flexible and decentralized school finance policy, along with a system of accountability for the use of resources. The resource allocation process needs to be more transparent and should take into account effectiveness and equity criteria, since it appears that an equity problem exists in the financing of operation and maintenance and small repairs. It appears that municipalities and communes are unequal in their funding capacity. Large municipalities benefit from significant resources and a clear potential for economies of scale, while small communes have many fewer resources and are unable to benefit from economies of scale, given their low population density and often declining population due to internal and external migration. While decentralization is certainly needed, it should be accompanied by the establishment of funding mechanisms promoting equity and efficiency, along with a system of accountability for the use of resources. In the medium term, a funding formula can be introduced to allocate resources based on the number of pupils, type of school (basic education, secondary, comprehensive, vocational, boarding institution) and eventually a limited number of additional criteria (e.g., weighting the capitation formula according to the poverty level of the region and/or district).
- ***Strengthen the MOES' planning, management, and monitoring capacity, to improve effective and efficient use of available resources***. Although the sector needs more resources, more money for education should be contingent on better management, given weak planning, management, and monitoring capacity, which contribute to ineffective and inefficient use of available resources. Despite some progress under the Bank-financed Education Reform Project (ERP) and the National Strategy for Social and Economic Development (NSSD), further support will be needed to strengthen MOES capacity to support tasks such as policy development, long term planning, an effective monitoring and evaluation system, and to strengthen the capacity of local governments in the delivery of education services. It is therefore recommended that: Albania (i) strengthen the education management information system (EMIS) capacity at the MOES and local levels; and policy analysis and planning capacity for an effective policy development, long term planning and an effective monitoring and evaluation system and (ii) carry out regular sample-based national assessments; participate in international assessments to benchmark the performance of its education system against



those of competitors and partners; and use the results from national and international assessments to assess the quality of schooling.<sup>2</sup>

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<sup>2</sup> It should be noted that the Government of Albania has already introduced some of these recommended policies during the past few years as part of its education reform program, including: (a) curriculum reform, provision of free textbooks for basic education students; and the establishment of a student assessment system to monitor learning outcomes; (b) improvement in the budgeting and resource allocation procedures; and (c) measures to strengthen the Ministry's planning, management and monitoring capacities, which are in part supported by the World Bank-assisted Education Reform Project and the Poverty Reduction Support Credit. While we recognize and commend the introduction of such policies, this report does not assess their impact on the poor to benefit from public spending on education as they have been introduced recently and need more time to assess their impact.

# INTRODUCTION

1. The poverty and social impact analysis (PSIA) is the evaluation of intended and unintended consequences of policy interventions on the well-being of a country's social groups, with a special focus on the vulnerable and the poor. Understanding the impact of various policy interventions and changes on different groups is critical in designing effective poverty reduction strategies. This study, using the Living Standards Measurement Survey (LSMS) and administrative data on expenditure, examines to what extent the poor benefit from public spending on education in Albania and evaluates whether available public resources are used efficiently and effectively in achieving its main policy objectives, so that current policies can be modified to improve access to education for children coming from poor families or identify policy measures to mitigate adverse effects of ongoing education finance policies on the poor.

2. The first section of the paper provides a brief overview of the education sector of Albania, including a background and country context. The second section provides a review of qualitative and quantitative assessments carried out to identify key issues in the education sector, including access to education. The third section of the paper assesses how much Albania spends on education, including public and private financing, and how public financing is being allocated among both the different levels of the education system and the educational inputs required. The final section evaluates the impact of ongoing education finance policies on the poor through a benefit-incidence analysis.

# SECTION 1: BACKGROUND AND COUNTRY CONTEXT

## A. Economic Growth and Poverty

1. Albania's small economy has gone through different phases of development since the beginning of its transition to a market economy in 1991. The country experienced a sharp contraction of its real GDP and high inflation at the start of the transition, but has experienced significant growth since then. This growth, however, was interrupted in 1997 when the large pyramid investment schemes collapsed. By the late 1990s, Albania had roughly regained its 1990s GDP level, and inflation has now been brought under control.

2. Despite the country's macroeconomic achievements, poverty remains pervasive. Per capita income in Albania, around US\$1,740 in 2003, is one of the lowest among the transition economies. In 2002, it was estimated that about 25 percent of the population (approximately 780,000 individuals) lived in poverty (World Bank, 2003). The poverty profile<sup>3</sup> for Albania shows that poor households tend to be: (i) larger, with an average household size of 5.7 (compared with 4 among non-poor); (ii) less well-educated, with household heads having on average 1.7 fewer years of schooling than their non-poor counterparts; (iii) younger, with household heads 3.6 years younger than non-poor; and (iv) rural, with four out of ten rural children living in poverty, and many poor concentrated in the remote districts of the north/northeast of the country (see World Bank, 2003).

3. The quality of the labor force has also declined over the past decade. Overall, schooling expectancy was 8.5 years in 2002, but 3 years less than in 1989 and 9 years less than the average for OECD countries (15.4 years) (OECD, 2004). Unemployment is high for those with low levels of education, especially for recent graduates (51 percent for basic education graduates in the 18-35 year age group; 29 percent for secondary general education; 14 percent for vocational education; and 4 percent for higher education), suggesting that the education system has not been responsive to the needs of the market economy (see, World Bank, 2003).

## B. Albania's Poverty Reduction Strategy

4. Albania's cumulative growth has been impressive during the transition, yet the country remains one of the poorest in Europe. While Albania's growth has been strong, there are concerns about the sustainability of high rates of economic growth in the future; there are also structural and sectoral bottlenecks to competitiveness and growth (see World Bank, 2004).

5. The Government of Albania (GoA) realizes and fully embraces the notion that continued progress toward its reform agenda is needed to promote economic growth and reduce poverty within the framework of its National Strategy for Social and Economic Development (NSSED), the Government's designation for its Poverty Reduction Strategy

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<sup>3</sup> See World Bank (2003) Albania Poverty Assessment.

Paper. The main objective of NSSED is to reduce poverty through the creation of private sector opportunities, human capital development, and public sector reform.

6. The Poverty Reduction Strategy Credit (PRSC) program supports the implementation of the NSSED. The basic design of the PRSC-1 (2002) aimed to address crosscutting issues in policy development and public expenditure management, as well as sectoral reform priorities to improve critical dimensions of social service delivery in education, health and social assistance. The Program Document of PRSC-1 contained not only actions agreed to be taken under that operation, but also measures to be taken during the subsequent PRSC-2 and PRSC-3 operations. Both the NSSED and the supporting PRSC identified low quality and inaccessible services in education as one of Albania's main development challenges, as Albania in recent years has slowly but persistently drifted away from the Millennium Development Goals (MDG) education targets.

7. Albania's NSSED identified the improvement of human capital as one of the main priority areas for the Government, and specified the following main policy objectives in education: (a) achieving quality basic education for all; (b) reaching a gross enrollment rate of 90 percent in secondary education; and (c) achieving 13.5 expected years of education.

### **C. The Education Sector of Albania**

8. The current education system is organized into preschool (ages 3-5), mainly provided by kindergartens; basic education (grades 1-8, which is free and compulsory); secondary education, (which consists of general and vocational); and higher education. The general secondary schools provide general instruction to prepare students mainly for higher education. Vocational schools are more practically oriented to train students for the labor force. In addition to the formal education sector, there are numerous out-of-school institutions and other education establishments to meet the needs of the adult population.

9. Among the major characteristics of the Albanian education system which are likely to affect public spending and its impact on the poor, the following should be noted: First, the public sector is the main provider of education services at all levels, despite recent increases in the numbers of students in private schools. In 2002-2003, private schools accounted for less than 3.4 percent of the total student enrollment in preschool, primary and secondary education (MOES, 2004). Second, the share of vocational education students in total secondary enrollments declined sharply, from 72 percent in 1990 to 19 percent in 2002 (see Table 1.1 below), due mainly to the closure of many vocational schools and multi-program secondary schools (which offer both vocational and general secondary programs).

**Table 1.1: Key Education Indicators, 1990-1991/2002-2003**

School Type	1990-2001				2002-2003			
	Students	Schools	Teachers	Student-Teacher Ratio	Students	Schools	Teachers	Student-Teacher Ratio
Pre-school	130,007	3,426	5,664	23	76,165	1,690	3,545	22
Primary (G1-8)	557,127	1,726	28,789	19	503,992	1,744	26,850	19
Secondary	205,774	355	9,708	21	126,652	358	5,857	19
General	57,589	47			106,361	308		
Vocational	148,185	308			20,291	50		
Multiprogram		158				8		
Higher Education	28,001*				43,600	1,646		14**

Note. \*Data are for 1991-1992. The numbers of students also include part-time students (5,296 in 1991-1992 and 13,468 in 2001-2002). The student-teacher ratio in tertiary education is for full-time students. For part-time students, the ratio is 20:1. Source: Ministry of Education and Science (2004). Annual Statistical Report of Education 2002-2003.

10. *Albania's Education Reform Program.* The Government's initial response to several development during the transition (e.g., inadequate resources, deteriorated physical infrastructure, and the need to re-align its education system to meet the needs of a market economy) was reactive. To limit the expenditure needs for education; the Government reduced public spending on education, and shifted to parents the responsibility for purchasing textbooks and other educational materials. In the past several years, however, the Government also adopted a more pro-active approach to transition challenges in the education sector as part of the NSSED. The NSSED identified education as a priority sector, planned to increase investment in relative terms over the period 2001-2015, and introduced a number of policies, including the provision of free textbook policy for basic education students, supported under the World Bank-assisted ERP and PRSC.

11. The PRSC supports the Government's policy reform objectives in the education sector. One of the four pillars of the PRSC program is to improve social service delivery and social safety net effectiveness in Albania, including the delivery of education services. The strategy of the MOES to deal with key issues in the education sector during the period of the PRSC includes: (i) improving the policy and program planning capacity of the education sector; (ii) improving the financing of the sector, contingent on progress on the first objective; (iii) increasing affordability and quality of basic and secondary education, especially in rural areas; and (iv) increasing the transparency of decisions made in the sector. The PRSC also supported a number of key policy actions in education (see Annex 1).

12. During the past three years, the Government has made significant progress in achieving these actions. Annex 1 provides a summary of the current status of implementation of various policy actions during the PRSC implementation period. For instance, the 2002 budget included a significant rise in the education budget, with an 8 percent increase in teacher salaries, which were even higher in rural areas to provide incentives for teachers.

## **D. Rationale and Objectives of the Study**

13. Through its NSSED, which is supported by the PRSC, the Government has shown a strong commitment to enhancing the quality of education, improving access to education and strengthening policy design and program planning. Despite the Government's commitment and interventions under the NSSED, it is not clear that public spending on education is effective in improving access to education, especially for the poor, who have suffered most from the poor performance of the sector during the transition. It is also not clear what the impact of increased public spending is on the poor, how education spending can be more effectively targeted, and how the education program and services can be efficiently delivered and restructured, added to or reduced. Also, in view of the extremely dynamic demographic situation of the country, characterized by widespread domestic and international migration and a rapidly changing population age structure, a more informed allocation of scarce resources in the education sector becomes of paramount importance.

14. The main purpose of this study is to review public spending on education and assess the equity and efficiency of public spending in the education sector to help the Government prioritize the allocation of resources to the sector in line with the Poverty Reduction Strategy Paper (PRSP). The specific objectives of the study are to: (i) offer an overview of trends in education outcomes in the country as well as the linkages between these outcomes and poverty, based on a literature review; (ii) analyze trends and levels of public expenditure across education levels and across functional classifications of the budget; and (iii) assess how public spending is distributed across households and geographical areas. The Albania Poverty Assessment has already examined many of the linkages between education and poverty, using LSMS (World Bank, 2003). The scope of the PSIA is, therefore, limited to understanding the links between poverty and public education spending and identifying possible options for education reform. The narrow scope of the report aims to provide specific rather than general input to the Government's education reform efforts and the Bank's support to it.

15. In order to achieve these objectives, the study will first review the literature to examine trends in education outcomes (e.g., enrollments, learning outcomes) and the links between poverty and education in Albania. Specifically, the study will:

- (i) Review trends in enrollment rates and learning outcomes by level of education across income quintiles, gender, and geographic areas (regional and urban/rural);
- (ii) Examine education expenditures by (a) sources of revenue (i.e., where does the money come from) and (b) uses of funds (i.e., where does the money go);
- (iii) Estimate the benefit incidence of public spending on education, by income quintile, level of education and region; and assess the expected impact of alternative policies that could improve the equity of educational expenditures;
- (iv) Assess whether public spending on education can be better targeted and/or rationalized through alternative delivery and financing mechanisms and

identify where additional resources can be allocated within the education sector to achieve the desired outcomes, and;

- (v) Provide recommendations to Government to improve education outcomes, especially for the poor.

## **E. Description of Analytical Work**

16. The paucity of information was perhaps the most constraining factor during the preparation of the NSSD. Since then, the GoA, with the support of the World Bank and the Department for International Development (DFID), has made significant progress towards strengthening the capacity of the Statistical Agency (INSTAT) to provide policy-makers with relevant and timely data. The momentum created by initiatives such as the NSSD and the MDGs, with its focus on service delivery to the poorest, combined with the new sources of information such as the 2001 Population and Housing Census and the 2002 Living Standards Measurement Survey (LSMS), provided a unique opportunity for an in-depth analysis of the impact of public expenditure on education, which is one of the priority sectors of the NSSD.

17. This study was based primarily on two data sets: (i) public expenditure data, which are disaggregated by level of education, economic function, and district; and (ii) household-level data from the Living Standards Measurement Survey of 2002. The study also benefited from several studies examining student learning outcomes in Albania, including (a) a sample-based student assessment for grade 4, based on a survey of students conducted in 2002; (b) the Program for International Student Assessment (PSA 2000); and (c) the Albania Poverty Assessment (World Bank, 2003).

18. The main national partners were the MOES, the Ministry of Finance (MOF), INSTAT and the PRSP Secretariat. Officials from both MOES and INSTAT were involved in working with the team in the required data collection from secondary sources. The draft concept of the study was discussed with the officials from MOES, MOF, and INSTAT in April 2004. They have expressed support for the proposed study, and provided the required data from government sources. These Ministries and institutions confirmed their readiness to participate in dissemination activities in 2004 and to take part in follow up and implementation of the recommendations of the report.

## SECTION 2: EDUCATION AND POVERTY IN ALBANIA

### A. Trends in Enrollment and Attendance Rates

19. **Literacy.** One of the main achievements in education during the communist period was universal literacy. Data from the Albanian LSMS show that over 90 percent of the population older than 14 years old is literate. Reported illiteracy during the communist period was limited to a small number of elderly. In spite of the difficulties that the education system has encountered since the start of the transition, the reported literacy rate for the 15-24 year age group was 99 percent in 2002. Despite this achievement, the illiteracy rate varies by income, gender, and place of residence. For example, there are two times as many illiterates among the poor than among the non-poor, and also two times as many illiterate women than men (see World Bank, 2003).

20. **Education attainment.** The average Albanian child can expect to complete fewer years of education than OECD counterparts. In 2002, the average years of schooling among the adult population (21 years and older) was 8.5, which is one year less than in Bosnia-Herzegovina. Significant differences also exist in educational attainment across income and place of residence. For example, an adult living in a poor household has two years less schooling than an adult living in a non-poor household. Similarly, adults living in Tirana have about 3.5 years more schooling than adults living in rural areas (see World Bank, 2003).

21. **Trends in enrollment rates.** Gross Enrollment Rate (GER) and Net Enrollment Rate (NER) estimates vary according to sources, especially because of internal migrations, which are significant and affect the reliability of population estimates. However, available data suggest that Albania achieved universal enrollment rate in basic education at the start of the transition, but it had one of the poorest indicators in enrollment rates in secondary and tertiary education in the region. Since the transition, however, gross enrollment rates have declined at all levels of education, except for higher education (see Figure 2.1). Trends in enrollment rates can be summarized as follows:

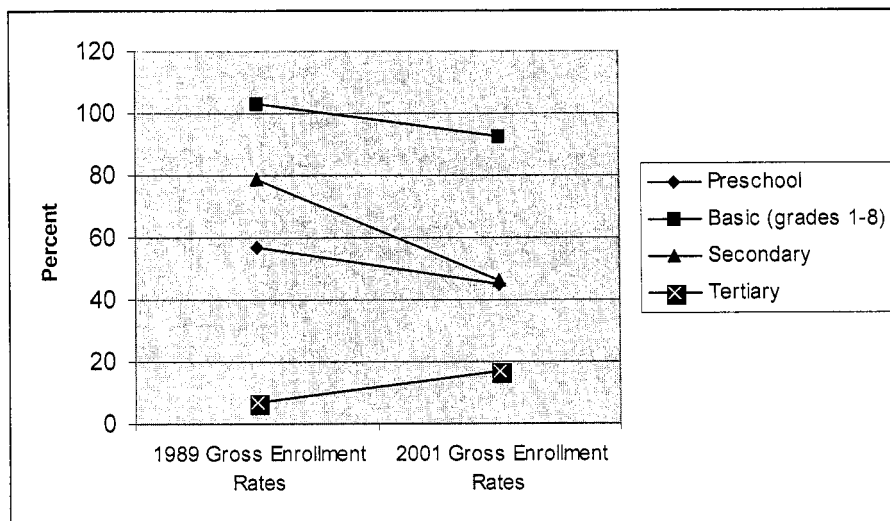
- The proportion of the age group enrolled in preschool declined drastically, from 56.1 percent in 1989/1990 to 45 percent in 2001. Data from the Albania LSMS of 2002 show that discrepancies between net and gross enrollment rates are large, reflecting over-age enrollment. There are large differences in net enrollment rates by gender, income, and geographical location. Overall, 31.5 percent of the age group enrolled in preschool in 2002. The greatest decline in preschool coverage occurred in rural areas, where the proportion of the age group enrolled in preschool declined from 28 percent in 1991/1992 to 12 percent in 1997/1998 (Ministry of Education and Science, 2004).
- The gross enrollment rate in basic education declined slightly from 103 percent in 1989 to 99.6 percent in 2002. Data from the LSMS of 2002 show that the gross enrollment rate in basic education (all children ages 6-13) is about 100 percent, but the net enrollment rate is only 93.3 percent, suggesting



the existence of over-age enrollment in basic education. There were no large differences between urban and rural areas. As reported by the Poverty Assessment, these figures likely hide considerable differences in school attendance and in quality of education (World Bank, 2003, p.18).

- The gross enrollment rate in secondary education has declined dramatically from 78.5 percent in 1989 to 43.6 percent in 2002, partly because of the closure of many secondary vocational schools. The two streams of secondary education -- the *vocational schools*, and the *general schools* - have all shown large enrollment changes. The sharp reductions in enrollment in public vocational schools more than offset the rise in public general schools, which expanded rapidly from 49 percent of total secondary enrollments in 1990 to over 84 percent by the end of the decade. Despite high enrollment in basic education, student absenteeism is a common problem in many schools, especially in rural areas. For example, according to the findings of the 2000 PISA, students in Albania similar to those students in non-OECD countries were reported to have much lower attendance at school than students in OECD countries (OECD, 2003, p.124).
- In higher education, the gross enrollment rate has risen significantly from 6.6 percent in 1989 to 17 percent in 2001, but nearly all of this increase is in part-time enrollment, while full-time enrollment has risen only slightly. Despite the expansion of higher education coverage, it should be noted that the growth was substantially less than demand, as qualified applicants apparently outnumber available places by a factor of two.

**Figure 2.1: Gross Enrollment Rates by Level of Education, 1989 and 2001**



Source: World Bank, 2003, p.33.

22. Table 2.1 provides net enrollment rates by gender, income levels, and place of residence based on data from the Albania LSMS of 2002. It was found that large variations exist in enrollment rates at all levels of education across regions and income levels (see, World Bank, 2003, for a detailed review of enrollment rates). Below is a brief summary of the main findings:

**Table 2.1: Net Enrollment Rates by Gender, Regions, and Income Levels, 2002**

	Male	Female	Tirana	Other Urban	All Urban	Rural	Not Poor	Poor	Extremely Poor	Total
Preschool (3-5 years)	30.7	32.3	20.2	50.8	43.4	25.1	38.4	18.2	10.0	31.5
Primary (6-13)	93.5	93.0	92.2	93.2	92.9	93.5	94.1	91.6	88.6	93.3
Secondary (14-17)	38.3	38.7	70.8	59.5	62.2	24.9	46.7	19.4	19.8	38.7 <sup>4</sup>
Tertiary (18-22)	7.6	9.6	22.7	16.6	18.3	2.6	11.2	0.4	0.0	8.7

Source: World Bank (2003). Albania Poverty Assessment.

23. **Rural and urban disparities.** There are no differences in basic education enrollment between urban and rural areas, but there are large disparities at higher levels of schooling. For instance, the net secondary enrollment rate is 70.8 percent in Tirana, but only 24.9 percent in rural areas. Similarly, the net higher education enrollment is 22.7 percent in Tirana but only 2.6 percent in rural areas. These findings suggest that this is a particular problem for households in rural areas, where incomes are generally low and basic and secondary schools are generally of inferior quality. Thus, policies to raise enrollments should be targeted mainly to rural areas.

24. **Disparity across economic groups.** The strong link between income poverty and low educational levels is evident in Albania. A World Bank report on poverty in Albania (World Bank, 2003) shows that disparities in enrollment by income are even greater than regional disparities. Only 88.6 percent of all children ages 6-13 in the extremely poor group attend basic education, compared with 94.1 percent of children in the non-poor group. As with regional disparities, disparities in enrollment rates across economic groups widen at higher levels of education. For instance, only 19.8 percent of all children ages 14-17 in the extremely poor group attend secondary education, compared with 46.7 percent of children in the non-poor group. At the tertiary level, virtually no children in the poorest group attend higher education, but 11.2 percent of children in the non-poor group continue into higher education. These findings imply that public subsidies to secondary and tertiary education will benefit primarily affluent groups, while subsidies to primary education tend to be distribution-neutral.

<sup>4</sup> It should be noted that official administrative data show that about 77 percent of those completing 8-year basic education continue their study at secondary level. The net enrollment rate indicates the enrollment rate of the secondary school-age population, excluding over-age population students and dropouts.

25. **Gender disparities.** There are no gender disparities by level of education in Albania. Some differences emerge in higher education, but in favor of women students. The percentage of female students in undergraduate higher education is slightly higher than for men (see World Bank 2003).

## **B. Learning Outcomes**

26. **Inequity in education outcomes.** Albania has limited interpretable evidence on the learning outcomes of its students. While some capacity was built under the World Bank-financed Education Reform Project, the evidence on student performance relative to national standards or relative to students in other countries is very scarce. A pilot sample-based national assessment was carried out for Grade 4 pupils in two subjects, but it does not yet provide comparative data on differences in learning outcomes by income, gender, and regional location (National Assessment and Examination Center, 2003).

27. Available evidence shows that Albanian children do not perform well on international assessments of student learning outcomes. For example, in 2000, Albania participated in the Program for International Student Assessment (PISA) which assessed student performance and collected data on the student, family and institutional factors that can help explain differences in reading, mathematical and scientific literacy performance (see OECD, 2003). Mean performance scores are also used to assess the quality of schools and education systems, and examine variation in learning outcomes within countries. Several key findings of the study related to Albania's education performance are detailed below:

- Overall, Albania performed poorly in reading, mathematic and science literacy performance, compared with the results of those participating OECD and non-OECD countries.
- In reading literacy performance, the majority of Albania's children (about 92 percent) are proficient at Level 3 or below on the combined reading literacy scale, whereas the majority of Finnish and Korean children are proficient at Level 3 or above (79 and 76 percent, respectively). Albania has the largest proportion of students (70 percent) at the basic reading literacy level or below. By contrast, in the combined OECD area, 12 percent of students perform at Level 1 or below. The proportion of students who reached Level 5<sup>5</sup> is less than 0.1 percent in Albania. By contrast, about 10 percent of the students in the OECD countries reach this level (OECD, 2003a).

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<sup>5</sup> Students proficient at Level 1 "are capable of completing only the least complex reading tasks developed by PISA, such as locating a single piece of information, identifying the main theme of a text or making a simple connection with everyday knowledge" (p.72). "Students proficient at Level 5 on the combined reading literacy scale are capable of completing sophisticated reading tasks, such as managing information that is difficult to find in unfamiliar texts, showing detailed understanding of such texts and inferring which information in the text is relevant to the task; and being able to evaluate critically and build hypotheses, draw on specialized knowledge, and accommodate concepts that may be contrary to expectations" (p.70).

- The results of PISA reading literacy data show that students from affluent families on average tend to have higher reading scores. In Albania, however, the gap in reading scores between the top and bottom quartiles of the index of family wealth tended to be lower than in most other countries. Nevertheless, the level of educational attainment of mothers tends to be a much stronger predictor of children's learning outcomes in Albania than in the other countries. For example, the gaps in mean reading scores between students whose mothers have completed upper secondary education and those whose mothers have not are 60 points in Albania, compared with an average of 44 points in all OECD countries (OECD, 2003a, pp.167-168). This suggests that educational and societal factors can compensate for the deficiencies in learning that are due to different family backgrounds (or socioeconomic backgrounds).
- In examining the relationship between investment in education and student performance, the OECD PISA found that "...countries with higher national income tend to perform better on the combined reading, mathematical and scientific literacy score than countries with lower national income...Approximately 43 percent of the variation between countries' mean scores can be predicted on the basis of their GDP per capita (p.111)." Albania has performed lower than would be predicted from its GDP per capita, suggesting that there are factors other than GDP, which explains its low performance (OECD, 2003a).

28. **Quality of education.** At the transition, Albania inherited low education standards compared with those of its neighbors. At the same time, both qualitative and quantitative assessments suggest that inequality of opportunities to access quality schooling have emerged because of declines in the quality of education, especially in rural and peri-urban areas during the transition (see OECD 2003b; Berryman, 2000; De Soto, 2003). There are also several supply side factors that are contributing to the decline in the quality of education and enrollment rates, including the following:

- **Teacher qualification and motivation.** Teachers are less motivated and qualified than in the past, mainly due to low salaries and lack of teacher training. In 1999, across all levels, 22 percent of teachers were under-qualified. In 1998-1999, 90 percent of pre-school teachers, 90 percent of 8 year basic school teachers, and 4.3 percent of secondary school teachers did not have appropriate education (OECD, 2003b). In some districts, teachers are better trained through professional development, while in other districts, teachers do not have the same level of opportunities for professional development. Some of the best teachers, who can find non-teaching jobs or migrate to other countries, have already left the teaching profession. Qualitative studies have found that it is difficult to attract new teachers, especially in foreign languages and sciences due to low salaries.<sup>6</sup> The

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<sup>6</sup> In 2001-2002, about 22 percent of teacher education graduates did not seek to be employed in the education sector, while 37 percent of those who applied refused to accept the offered position.

widespread out-migration of both teachers and students in some districts is making it difficult for Government to balance the appropriate supply of teachers. In some cases, schools are closed, and their students are transferred to larger schools, usually in villages and cities, into “collective classes” (de Soto, et. al., 2003, p.63).

- ***Deteriorated school infrastructure, and lack of basic teaching and learning materials.*** There are several factors contributing to declines in the quality of education. First, some of the inherited education infrastructure has been damaged during two episodes of widespread vandalism and destruction (at the start of the transition and during the 1997 crises) or has deteriorated due to chronic lack of maintenance over many years, especially in rural and peri-urban areas. As a result, most school infrastructure fails to meet the basic prescribed Albanian norms to provide an effective environment for teaching and learning; the majority of schools lack adequate basic facilities and furniture, heating and supply, electricity, etc. It has been estimated that rehabilitating Albania’s schools to a sufficient level would cost about US\$270 million (Berryman, 2000).<sup>7</sup> Second, textbooks, teaching materials, and equipment are often in short supply. Finally, curriculum and standards have not yet been upgraded based on the needs of the new market economy. Third, although, in general, class sizes are small, in peri-urban areas of Tirana, some schools have overcrowded classes. These classes are often so large that the teachers are not able to devote enough attention to individual students. While some rural areas suffer from sharp declines in the numbers of students, some peri-urban areas are experiencing sharp increases in the numbers of students due to internal migration to the cities. For example, the population of Tirana increased from 250,000 in 1990 to about 480,000 in 2000.
- ***Lack of schools.*** At the pre-school level, the main reason for the low enrollment rate appears to be the non-availability of pre-schools. The number of pre-schools has declined by one-third in the last decade, from 3,426 in 1990 to 1,690 in 2003 (MOES, 2004; World Bank, 2003). The regional disparity is apparent at this level of education. While only 7 percent of the children between the ages of 3-5 years in Tirana were reported to be not attending pre-school because of the non-availability of preschools, about 54 percent of the children in rural areas were reported to be not attending pre-school for the same reason. The lack of secondary schools, especially in rural areas, is also a main reason for many poor students not attending a secondary school (World Bank, 2003). The number of vocational schools in rural areas declined from 243 in 1990 to three in 2003, mostly due to the closure of many rural vocational schools, some of which were attached to the enterprises. As a result, rural vocational school enrollment dropped sharply from 49 percent in

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<sup>7</sup> The Government and international donors (including the World Bank which has supported two education projects) have invested in the reconstruction, rehabilitation and refurbishment of many school buildings during the past six years.

1990 to 2 percent in 1998, even if general enrollment (academic secondary ) increased from 24.4 percent in 1989 to 34.9 percent in 1998 (OECD, 2003a).

29. On the demand side, several factors appear to affect enrollment in education:

- ***Increased costs of education to families.*** During the transition, private spending accounted for a significant share of education spending, in part as a result of the decline in public spending on education. Although basic education is officially free in Albania, most parents have to pay a considerable amount for their children's education. Private expenditures often cover textbooks, transportation, private tutoring, and contributions to schools. The findings of qualitative surveys show that many poor families cannot afford the cost of textbooks, transportation, and other direct household expenditures, especially if they have more than one child in school simultaneously (de Soto et. al., 2003, p.60). According to the Poverty Assessment, on average, private spending represented about 1.4 percent of the total household monthly per capita expenditures. However, it was also reported that there were variations between poor and non-poor households in terms of private spending on education. For example, non-poor-households spend about 2.5 times more than those in the poorest quintile. As a percentage of total monthly expenditures, poorer households spend a similar or even a higher percentage of their total household expenditure<sup>8</sup> (see World Bank, 2003, p.98).
- ***Low education quality.*** The problems of enrollment and attendance in rural areas are also compounded by problems of low quality of education. The perceived benefits of education in terms of earnings and better employment remain low due to perceived low quality, undermining long-term incentives for families to invest in education. As a result, there is an increasing risk that poor children will drop out of education and inevitably fall into poverty themselves. In this regard, a recent qualitative poverty assessment found that many Albanians believe that the quality of education has deteriorated during the transition. As a result of the overall decline in the quality of education, it was noted that educational attainment has fallen, in particular in rural and some newly formed peri-urban areas. Parents and teachers believe that the overall decline in the quality of education was also the principal reason for the decline in enrollment (de Soto, et. al., 2003, p.59).

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<sup>8</sup> The difference is not statistically significant.

## **SECTION 3: COST AND FINANCING OF EDUCATION IN ALBANIA**

30. This section analyzes education financing and expenditures in Albania. The main questions that this section aims to answer are: (i) what are the main sources of revenue in the education sector? and (ii) how are public funds spent within the sector? (i.e., how are available public funds spent among inputs required to produce the intended education outputs/outcomes of the education system?).

### **A. Education Management and Finance**

31. Responsibility for the provision of education is fragmented in the country, spreading across the four levels of government (i.e., national, regional, district, and municipalities/communes). At the national level, the MOES is responsible for policy formulation, the regulation of the sector (including curriculum and textbook development, teacher training), the allocation of some resources among education institutions, and administration of a number of national education facilities and institutions (e.g., teacher training facilities, methodological centers, boarding and special education schools). The MOES approves programs and textbooks for all preschool and school institutions; defines the criteria for licensing private educational institutions; develops, approves and issues the criteria for admission in educational institutions at any given cycle; defines periods of studies in each cycle; defines the criteria for issuing certificates and diplomas and for elective subjects; develops teacher training; defines the criteria for recognition of private and public school diplomas; is responsible for supervising all educational institutions; and determines 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.

32. At local levels, regional administrations are responsible for the delivery of basic and secondary education in their respective districts. According to the current government structure, there are 13 regions (with a Regional Education Directorate) and 37 districts, of which 24 have a District Education Office (DEO). Regional and District Administrations are the bodies of the central government, and are generally responsible for providing many services, including education (e.g., preschool, primary and secondary education), health and social services. The Regional Education Directorates (REDs) are dependencies of the MOES located at the regional level. The Directors of the REDs are appointed by the Minister. REDs are responsible for the appointment and transfer of teaching and non-teaching staff, for school supervision and inspection, and for teachers' in-service training. It is also the responsibility of the REDs to provide schools with the necessary administrative materials (student registers, certificates, etc.) and furniture and laboratory equipment, as well as planning and supervising the investments made in education at the district level, including the construction of new facilities and major rehabilitation of existing ones. The REDs are also responsible for the collection of information at the district level and transmitting this information to the MOES. The municipalities/communes have limited responsibility for the delivery of education services. Under the current arrangements, they are responsible for the provision of maintenance and operational support for basic and secondary schools. At

present, funding for operational and maintenance expenditures are provided by the Ministry of Finance through unconditional block grants to each municipality.

## **B. Sources of Funds**

33. The public sector is not the only source of funding to education in the country. Accounting for private spending is especially important since the cost of education has been increasingly shifted to parents during the past decade, some of it in the form of informal payments. Such cost shifts in education funding without financial transparency are likely to have resulted not only in inequity in access to education but also in inefficiencies in the use of the resources available.

34. **Overall sources of education funds.** Sources of education funds include: (a) the central budget; (b) contributions from local governments (i.e., municipalities); and (c) extra-budgetary sources, including revenues generated from fees and parental/community contributions. Data on revenues from extra-budgetary sources and parental/community contributions are not available. However, it is assumed that the central government is the main source of education funding and the role of both regional governments and municipalities in education financing is negligible, in spite of some diversification efforts in education financing over the past decade.

35. **Central education budget.** The MOES budget covers salaries, contributions to the pension and health funds, teacher and pupil transportation (starting from 2004), teaching and learning material and equipment, and capital investments for the entire sector (all education institutions and administration). Resources for salaries are transferred from the center to the regional and district levels, which transfer the funds to municipalities and communes, where salaries are paid.

36. Municipalities and communes receive funds from the MOES budget, as conditional grants, to cover: (a) the salaries for all pre-tertiary levels which are transferred as conditional grants (not to be used for any other purpose); and (b) scholarships for pupils in secondary and non-national vocational schools, these resources are also transferred as conditional grant.

37. **Local education budget.** Under the Law on Local Governments, education belongs to the category of 'shared responsibilities'. School operating expenses, including maintenance of buildings, water, electricity and telephone, and school building maintenance and small repairs are covered from a central transfer from the Ministry of Finance (MOF) to municipalities and communes in the form of a government unconditional block grant. This grant is not earmarked for education, and municipalities and communes are also expected to finance other public services from it. The block grant is based on population, area, and an urbanization coefficient (see Tibi, et. al., 2004).

## **C. An Analysis of Public Spending on Education**

38. **Overall public spending on education.** Table 3.1 presents trends in public expenditure on education as a percent of GDP and total state budget between 1995 and 2003. Since the start of the transition, public expenditures on education as a percentage of gross



domestic product (GDP) has been gradually declining, from 5 percent in 1991, to 3.7 percent in 1995, and 2.8 percent in 2002, a period when additional resources were needed for quality improvement and realignment of the education system. Similarly, the share of education in the state budget declined slightly from 12 percent in 1994 to 10 percent in 2003. This decline was largely a result of sharp declines in national output and the overall fiscal crisis during the initial years of transition and the 1997 crisis.

39. Since then, especially during the past three years, the Government has made significant efforts to protect education expenditures against the sharp drop in fiscal resources as part of its NSSD. As a result, the total public spending on education as a share of total public spending increased slightly from a low of 10 percent in 1994 to 11.3 percent in 2002. However, available recent figures show that the education budget as a share of the total education budget declined to 10.3 percent in 2003.

**Table 3.1: Public Expenditures on Education, 1995-2003**

<b>Public Expenditure on Education</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Total (million LEK)	8,461	10,130	11,197	13,482	16,105	16,421	17,305	17,905	22,415
As % of public budget	11	12	11	10	10	10	10	11.3	10.3
As % of GDP	3.7	3.7	3.3	3	3.1	3.1	3.2	2.8	2.9

Source: Ministry of Education and Science.

40. As a share of GDP, public spending on education in Albania is lower than the OECD average of 5.4 percent. As a percent of the consolidated education budget, public expenditures on education are also below the OECD average - 12 percent versus 14.5 percent (OECD, 2004).

41. *Education expenditures by economic classifications.* The distribution of education expenditures across the main economic categories indicates how scarce funds are allocated to meet specific needs in the education sector. The recurrent expenditure category consists of: (i) salaries and other staff expenditures (e.g., insurance premiums); (ii) goods and other services (e.g., travel expenses, energy, water and telecommunication, materials and supplies, transportation, maintenance, rent, other goods and services); and (iii) current transfers.

42. Overall, Albania spent approximately LEK 18.9 billion on education in 2003. It is expected that total education spending will increase from LEK 18.9 billion to LEK 24.1 billion in 2004. In 2003, the recurrent expenditure budget accounted for 87 percent of the total spending, with salaries and social insurance accounting for 73 percent and non-salary expenditures making up the remaining 14 percent. The latter includes such items as textbooks, reading materials, scholarships, transport, and maintenance of schools. The capital expenditure accounted for 13 percent of the overall education budget.

43. During the past three years, the education budget has increased by 38 percent in current prices, essentially for salary increases (19 percent). The capital investment was also

planned to increase by three-fold during the same period (see Table 3.2). While the actual non-salary recurrent spending declined from about LEK 2 billion in 2003 to LEK 1.6 billion in 2004, it was expected that it would increase in 2004. Given its importance for the improvement of the quality of basic and secondary education, it will be important to assess the actual use of recurrent expenditures funds in the education sector.

**Table 3.2: Education Budget, 2002-2004 (Lek billion)**

	Education Budget					
	2002		2003		2004	
	Planned	Actual	Planned	Actual	Planned	Actual
Salaries & Contributions	14.22	14.22	15.5	15.2	16.90	NA
Other Recurrent Expenses	1.99	1.99	2.28	1.93	2.46	NA
Total Recurrent	16.21	16.21	17.78	17.13	19.36	NA
Capital Expenses	1.70	1.70	2.28	2.17	5.35	NA
Total Recurrent and Capital	17.91	17.91	20.06	19.4	24.71	NA

Sources: Tibi et. al., 2004; Ministry of Education and Science, 2004.

44. Table 3.3 below provides a summary of total public education expenditures, including operational and maintenance expenditures, provided by the Ministry of Finance as an unconditional grant to local authorities. Operation and maintenance, and small repairs funded through block grants and local resources accounted for only 6 percent of total public education expenditure, but 36 percent of non-salary recurrent expenditure, suggesting that block grants and local resources provide a limited but significant contribution to education institutions (see Tibi et. al., 2004).

**Table 3.3: Total Public Education Expenditure, 2003 (Lek billion)**

	Total Education Expenses (2003)				
	MOES	Grant and Local Contribution	Total	%	
Salaries & Contributions	15.2	-	14.81	73	
Other Recurrent Expenses	1.93	1.20	2.79	14	
Total Recurrent	17.13	1.20	17.60	87	
Capital Expenses	2.17	0.04	2.64	13	
Total Recurrent and Capital	19.4	1.24	20.24	100	

Source: Ministry of Education and Science, 2004.

## D. Expenditures by Level of Education

45. In early 2000, the Government adopted a more pro-active approach to transition challenges in the education sector as part of the NSSD. The NSSD identified education as a priority sector, and planned to increase investment over the period 2001-2015. The Government has also made pre-university education a priority, as this has been marginalized for some time. The MOES has agreed to reallocate funds from the higher education sub-sector to primary and secondary education, by proposing user fees to offset the reduced funding to these sub-sectors. In addition, the Government plans to develop policy guidelines to encourage more private sector involvement in the provision of higher education. The funds freed up by these processes will be redirected to pre-university education.

46. In 2003, the share of actual public spending on basic education, including preschool, was about 64 percent of the total education budget. The share of secondary education was 11 percent and increases to about 16 percent when vocational schools are included. The share of higher education was 16 percent. Overall, the distribution of public expenditures on education appears to be consistent with the situation of OECD countries. (On average, OECD countries devote about 7.3 percent to preschool education, 71 percent to primary and secondary education, and 22 percent to tertiary education).

47. Although the Government identified basic education as a priority area, consistent with its policy to increase access to quality basic education for all, the relative share of public spending on basic education declined slightly from 65.5 percent in 2002 to 63.5 percent in 2003. In 2003 prices, the overall public spending on basic education increased only by 1.2 percent between 2002 and 2003, while it increased 16, 26, and 3 percent in secondary, vocational, and tertiary education during the same period, respectively. This may suggest that basic education has not received sufficient priority in the Government's budget allocation, especially when compared to secondary and tertiary level, even though it was identified as a priority sector in the NSSD.

**Table 3.4: Change and Distribution of Actual Education Expenditures by Level of Education, 2002-2003 (In 2002 prices)**

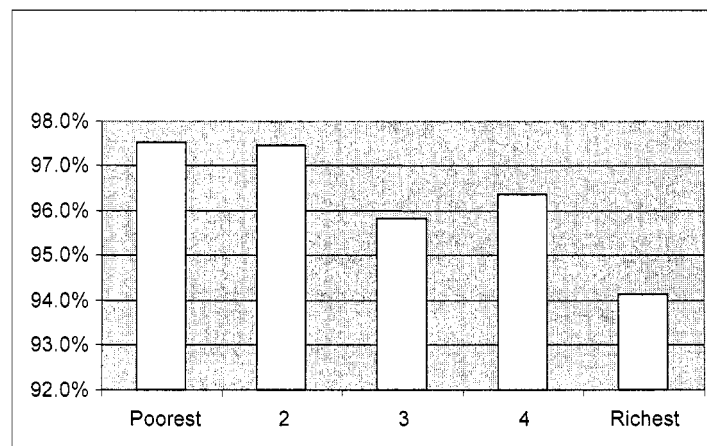
Level of Education	2002	2003	% Change, 2002-2003	%, 2002	%, 2003
Planning, management and administration	884,026	775,556	-12.3	5.07	4.38
Basic education, including pre-school education	11,400,000	11,261,309	-1.2	65.36	63.56
General secondary education (Grades 9-12)	1,630,066	1,890,596	16.0	9.35	10.67
Secondary vocational education	672,149	847,965	26.2	3.85	4.79
Tertiary education (University education)	2,769,174	2,849,824	2.9	15.88	16.08
Teacher training	85,585	93,407	9.1	0.49	0.53
Total	17,441,000	17,718,655	1.5	100.00	100.00

Source: Calculated based on the data provided by the Ministry of Finance.

## E. Execution Rate of the Education Budget

48. In Albania, the execution rate of the education budget is high; almost all of the planned budget is spent. Additionally, there is very little variation in the budget execution rate across districts, levels of education, or type of expenditure. The lowest execution rate across districts is still quite high at 96 percent in Tepelenë district. When ranking districts by their poverty rates, the variation is small; there are only three percentage points of difference between the execution rate of the richest districts and that of the poorest (see Figure 3.1).

**Figure 3.1: Execution Rate of Education Budget by District Poverty Rates, 2003**



Source: Calculations based on Albania poverty map and administrative data on public expenditure in education.

49. Similarly, the execution rate at all education levels is higher than 98 percent. Across all levels of education, almost all the planned budget is executed, regardless of whether it is recurrent or capital expenditure (see Table 3.5). This compares favorably with other transition economies. For instance, before the year 2000, Armenia, Azerbaijan, Georgia, and the Kyrgyz Republic were only able to execute less than 91 percent of their budget for education (see, Burnett and Cnobloch, 2003).

**Table 3.5: Execution Rate of Planned Budget Across Levels of Education and Type of Expenditure, 2002**

	Capital (e.g., designs, studies, etc)	Capital building, equipment and furniture	Exp. on contracts, printing and fees	Salaries and fees	Pensions, Social & Health Insurance	Operational expenditures (goods and services)	Subsidies	Current Transfers
Planning, management and administration	88%	92%	100%	97%	97%	99%	0%	
Basic education, including pre-school	99%	96%	100%	100%	99%	94%	100%	91%
Secondary education	100%	99%		99%	97%	100%	100%	
Vocational education		100%		99%	98%	97%		
Tertiary education	85%	93%	51%	99%	99%	95%	100%	99%
Teacher training		100%		100%	100%	85%		99%

Source: MOES budget data

## F. Private Spending on Education

50. In Albania, education is still provided predominantly by the public sector, with the exception of a small number of private schools. As mentioned above, private spending has been accounting for an increasing share of education spending during the transition, as the reduction in public spending has been offset by private spending. For instance, according to

the recent Poverty Assessment, private spending on education accounted for 1.4 percent of the total household monthly per capita expenditures. Households with students spend about 2.5 percent of their total household expenditures on education. Households in the upper quintile of the income distribution spend on average about 2.5 more than the poorest quintile (see World Bank, 2003 for a detailed review of private spending on education in Albania).

51. As expected, available data suggest that there are significant variations in private spending by level of education. On average, the total per student monthly expenditure is about 561 Lek per month, but it varies from 371 Lek in basic education to 1,207 and 2,761 in secondary and tertiary education, respectively. There are also large variations in private spending by income levels (see, World Bank, 2003).

52. The sources of non-budgetary funds for education include: (a) formal user charges; (b) parental and community contributions (both in cash and in kind); (c) informal payments; and (c) out-of-pocket expenditures for textbooks or other education materials.

53. **Formal tuition and fees.** Under the Constitution, education is free of charge in public education institutions. This “free of charge” finance policy, however, masks the existence of “formal” tuition fees in the education system, especially in higher education. For instance, while higher education is still free of charge in public institutions for regular day students, external students, who are admitted to evening or weekend programs, are required to pay "formal" fees. In recent years, most higher education institutions have become dependent heavily on income from student fees, which are often used for staff salary and basic operations and maintenance. Several potential issues have emerged as a result of the absence of a formal tuition policy: (i) lack of transparency in students’ admissions; (ii) deterioration of the quality of higher education; and (iii) inequity in access to higher education. However, data are not available to examine the scope and impact of formal tuition and fees on the education sector.

54. **Private contributions.** Some educational institutions may generate revenue from numerous activities such as entrance examination fees, rents, and other business activities. In addition, fees may include payments for kindergartens, extra-curricular activities, and housing for secondary school students. District or regional administrations encourage non-budgetary funding of schools as a way to reduce the adverse effects of budget cuts. School directors have some flexibility in the use of these funds and they often use them for school operation, maintenance, and minor rehabilitation.

55. **Informal payments.** Qualitative surveys suggest that parents are required to pay the schools and teachers for extra lessons, and for sending their children to quality schools. According to the Poverty Assessment, more than 40 percent of students in basic and secondary education reported making such payments to schools and teachers (see World Bank, 2003, p.99). These trends are likely to have serious negative implications for both the quality and equity of access to education, but no empirical evidence exists to examine the nature and net effects of informal payments in education.

56. **Out of pocket expenditures (e.g., textbooks and other direct expenditures).** In 2003, as part of its poverty reduction strategy, the Government adopted a new textbook policy to

provide a set of core textbooks free of charge to all basic education students. Private tutoring has become a significant share of education expenditures, especially at the secondary education level, but there are also significant variations by income level. For example, it was reported that about 20 percent of the secondary school students living in households in the upper income quintile received private tutoring, in contrast to less than one percent of those living in the poorest income quintile receiving private tutoring (see, World Bank, 2003).

## SECTION 4: BENEFIT-INCIDENCE OF PUBLIC EXPENDITURES ON EDUCATION

57. Education, especially basic schooling, is one of the priority sectors of the NSSED. As a result, the Government has agreed to increase its budget allocations to the sector. Unfortunately, an increase in the budget allocated to education does not necessarily improve access to quality education to the poor. For instance, an increase in allocation to education might favor the budget for administration and not necessarily the schools. Similarly, resources might be diverted from their intended recipients or, even if they are available, they might not necessarily benefit the poor.<sup>9</sup> This section will examine the latter issue, namely, whether public expenditure in education benefits the poor in Albania.

### A. Benefit Incidence of Public Expenditure on Education Across Income Groups

58. The benefit incidence analysis of public expenditure on education across income groups combines the information given by enrollments in these groups with the variation of per-student subsidies across schools, or in this case, across districts. This analysis provides insight into who benefits more from the public resources allocated to education. A progressive distribution of the subsidies, here approximated as the per-student recurrent expenditure on education, might indicate that enrollments in public schools are higher at lower levels of the income distribution, that the subsidies to education are higher in poorer districts, or a combination of the two.

59. As discussed previously, there are two main sources of public expenditure on education. The MOES finances teacher and non-teacher staff salaries, supplies and teaching materials, and capital investment. The local governments or municipalities finance the repair and maintenance of the schools out of their own resources, which come from unconditional grants and local funds. The MOES transfers salaries to the local governments through conditional grants. It also transfers resources through conditional grants for supplies and teaching materials to the regions and districts, which then distribute the supplies in kind to the schools that ask for them. The procurement of capital expenditure is done by the district for amounts lower than LEK 10 million, otherwise the procurement is done by the MOES (see Tibi et. al., 2004). The distribution of the MOES resources does not depend on the number of students, but on the number of teachers and whether or not the schools ask the district for materials. It is not clear to the authors what are the criteria used by the local governments to distribute the resources for the maintenance of the schools.

60. Table 4.1 presents the findings of a benefit-incidence analysis on education in the year 2002. As indicated in the table, the distribution of public expenditure on education is slightly progressive, benefiting the poor more than the rich. For instance, while the

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<sup>9</sup> See World Bank (2004). World Development Report. "Making services work for poor people".

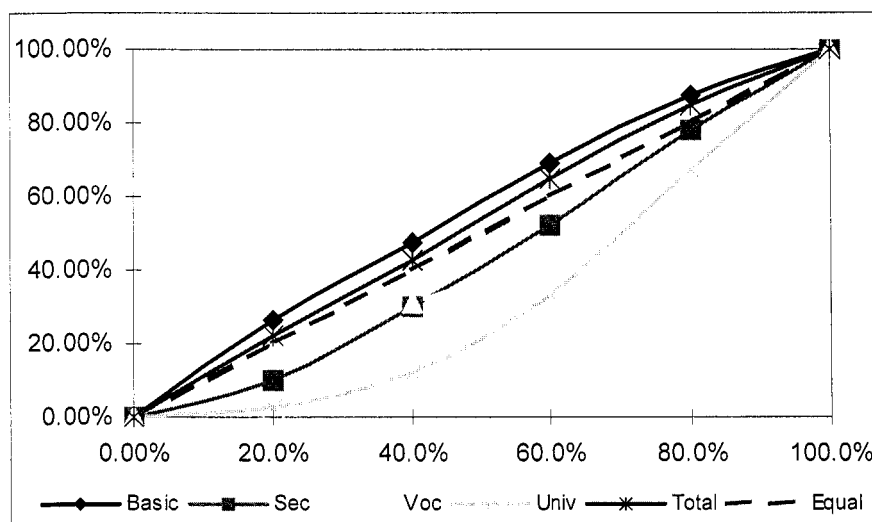
poorest 20 percent of people receive 22 percent of the public resources spent on education, the richest 20 percent receive only 16 percent of the total public resources spent on the sector. This is mostly driven by a highly progressive distribution of the subsidy to basic education students as will be detailed below.

**Table 4.1: Benefit Incidence of Public Expenditure on Education, 2002**

	Basic	Upper Secondary	Vocational	University	Total
Poorest	26.3%	9.8%	17.9%	2.5%	22.1%
Second	21.3%	20.0%	13.1%	9.8%	20.6%
Middle	21.5%	22.1%	12.9%	20.8%	22.0%
Fourth	18.3%	26.1%	23.4%	34.3%	19.8%
Richest	12.7%	22.0%	32.6%	32.5%	15.5%
Concentration Index <sup>10</sup>	-0.121	0.122	0.159	0.338	-0.056

Source: Albania LSMS for data on students ranked by income quintiles, MOF data on education expenditure.

**Figure 4.1: Concentration Curve of Public Expenditure on Education**



Source: Calculated based on Albania LSMS 2002, and MOF expenditure data.

61. Figure 4.1 plots in the horizontal axis the cumulative share of population ranked by their per capita expenditure level and in the vertical axis, the cumulative distribution of the education subsidy they receive. The distribution of public expenditure in education across income levels can also be observed in this figure. A completely equal distribution of expenditure is represented by the 45 degree line where the 20 percent poorest individuals receive 20 percent of the subsidy. Any line showing a progressive distribution of the subsidy will be plotted above this “equality line”, and any regressive

<sup>10</sup> The concentration ratio is a concept analogous to the Gini coefficient. Its values range from [-1,1]; positive values indicate a pro-rich distribution of public expenditure, negative values the opposite.



distribution will appear below this line. As can be observed, while the distribution of the benefit of public expenditure is progressive in basic education, it is very regressive at all other levels. But as the largest proportion of students in Albania are enrolled in basic education (about 77 percent), the distribution of the total benefit of public expenditure in education is then slightly progressive.

62. As seen in Table 4.2, the distribution of the public expenditure in education in Albania compares favorably to the distribution in other countries in Eastern Europe and Central Asia. Only in Bosnia and Herzegovina is the total distribution of public resources for education more progressive. This is again mostly due to the progressive distribution at the basic years of schooling. At higher levels, the distribution of the benefit of public expenditure in education is much more regressive in Albania than in any other country in the area.

**Table 4.2: Benefit Incidence of Public Spending on Education in Selected Countries**

Country	Level	Poorest	II	III	IV	Richest
Azerbaijan	Grades 1-9	19	20	21	21	19
	Technical Grades 10-11	28	19	22	19	13
	College Grades 10-11	19	17	22	14	27
	University	12	19	15	24	30
	Total	18	19	20	21	22
Tajikistan	General 1-11	21	19	20	21	22
	secondary and higher	14	15	21	22	28
Uzbekistan	Total	16				24
Bosnia and Herzegovina	Grades 1-8	27	20	24	18	11
	Secondary	13	23	22	24	18
	Tertiary	8	12	14	27	39
	Total	22	20	23	20	15

Source: Burnett and Cnobloch (2003), World Bank BiH PA Report No. 25343-BIH 2003, Uzbekistan Living Standards Assessment 2002.

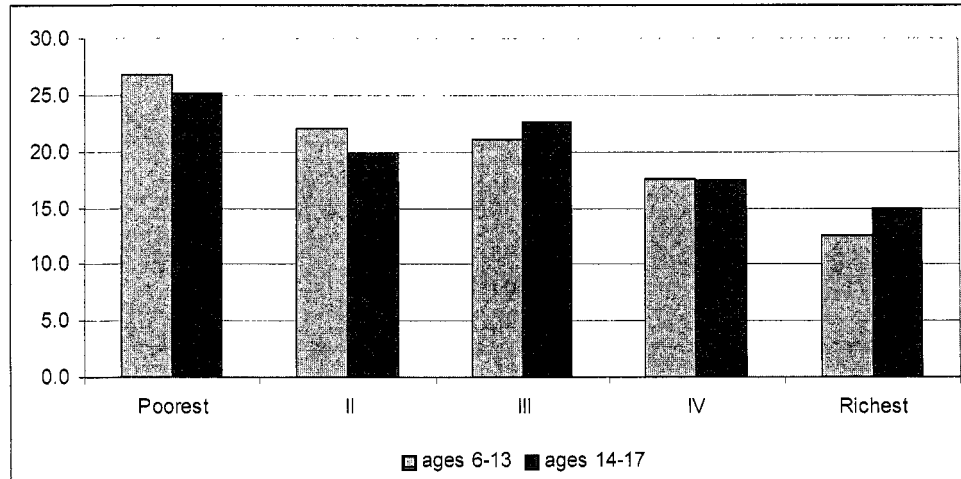
63. *Distribution of public expenditure in basic education.* The highly progressive distribution of the public resources in the basic years of schooling is due to the almost universal enrollment at this level and to the largest concentration of school age children in the poorest income quintiles. This distribution of the subsidy in basic education is progressive, even though the actual per-student subsidy is lower in the poorest districts.

64. As can be seen in Table 2.1, net enrollment rate at the basic level of education is higher than 90 percent across gender, income levels, and across rural and urban areas of the country. It is only among the extreme poor, which represent about 5 percent of the population<sup>11</sup>, which the net enrollment rate is below that level. Additionally, as poorer households have more children (see Figure 4.2), almost half of the total children of basic school age belong to the poorest 40 percent of the income distribution, while only 13

<sup>11</sup> World Bank (2003).

percent live in households belonging to the 20 percent richest end of the distribution. This makes the distribution of the subsidy highly pro-poor.

**Figure 4.2: Percentage Distribution of School Age Children Across Income Quintiles**

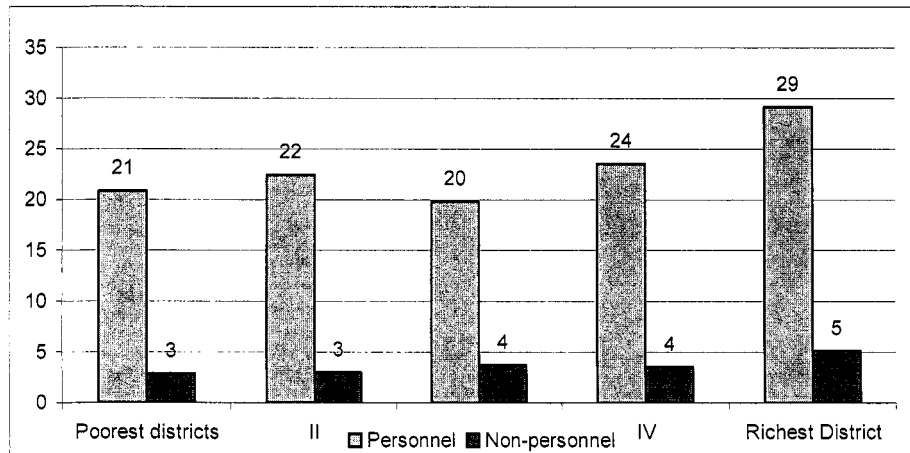


Source: Albania LSMS 2002.

65. Finally, as seen in Figure 4.3, the per-student subsidy in basic education is lower in the poorest districts of Albania. The richest eight districts in the country spend on average about LEK 10,000 more per student than the poorest eight districts. Both per student personnel and non-personnel recurrent expenditures are larger in the richest districts. As the difference in the student-teacher ratio across quintiles of districts is very small (see Figure 4.4), the difference in personnel expenditure is not only due to slightly fewer teachers in the poorest districts but also to the salaries received by these teachers. Poor districts might be less able to attract more qualified or more experienced teachers to their schools and therefore have lower salary bills.

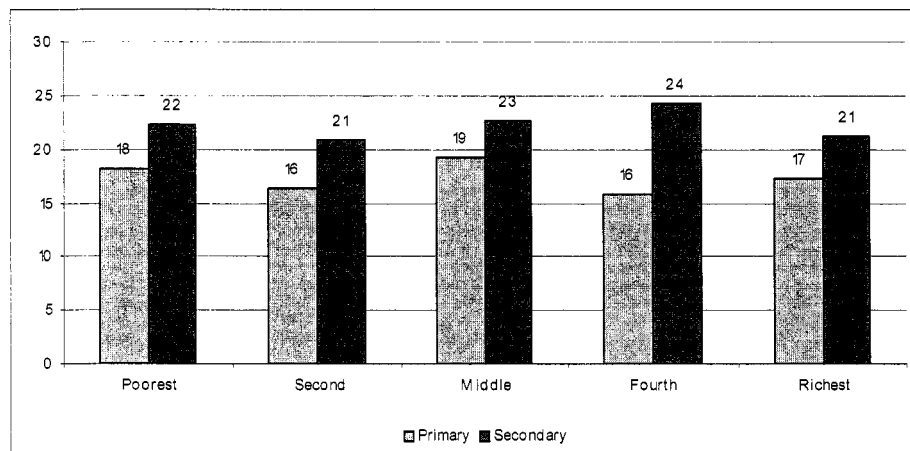
66. There is also a small difference across districts in the per student non-personnel expenditure. This expenditure includes both expenditures in supplies and in repair and maintenance of the facilities. The budget for the first depends on the MOES, whereas the budget for the second depends on the local governments. The differences in the per-student subsidy across districts are the same whether or not we include the expenditure coming from the local governments; in other words, both MOES expenditure and commune expenditure are higher in richer local governments than in poorer ones. A revision of the criteria to distribute these resources is needed to assure not just an equal distribution of the subsidy, but also a distribution that favors the poorest students who are less likely to be enrolled and more likely to drop out of school.

**Figure 4.3: Mean Per-student Subsidy in Basic Education Across Districts Ranked by Percentage of People Living in Poverty (in thousands of Leks)**



Source: Calculated based on Albania poverty map and expenditure data from MOF.

**Figure 4.4: Average Student-teacher Ratio in Public Schools Across Districts Ranked by Percentage of People Living in Poverty**

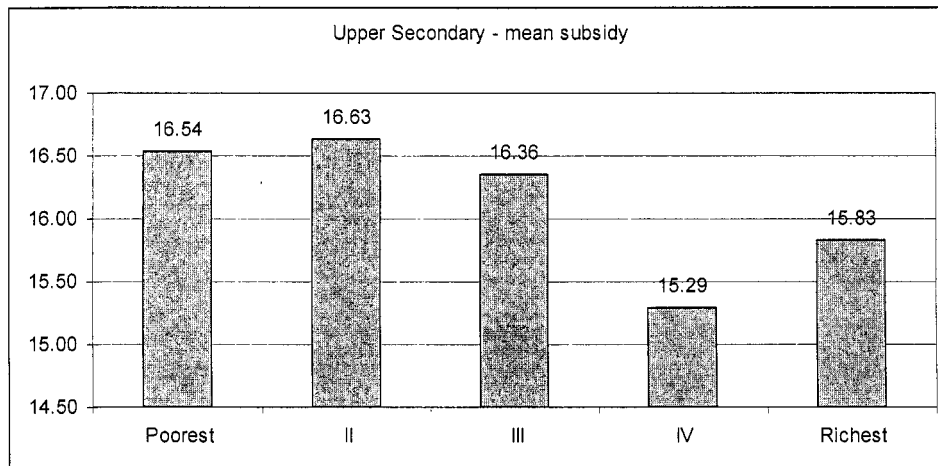


Source: Calculated based on administrative data from MOES and data from Albania Poverty map.

67. *Distribution of public expenditure in upper secondary school.* In contrast to basic education, the distribution of the benefit of public spending at this level of education favors the richest segments of the population as seen in Table 4.1 and Figure 4.1 above. The poorest 20 percent of the income distribution receive only 10 percent of the total resources spent at this level of schooling, while the richest 20 percent receive 22 percent of it. This distribution is much more regressive than that found in other countries in the area (see Table 4.2). However, this is mostly a consequence of very low enrollments of children belonging to the poorest households. Finally, and also in contrast to basic

education, the per-student subsidy in upper secondary is slightly higher in the poorest districts of the country.

**Figure 4.5: Average Per-student Subsidy in Upper Secondary Education Across Districts Ranked by Percentage of People Living Under Poverty (thousands leks)**



Source: Albania Poverty map allowed the ranking of the districts and the subsidy was calculated MOF expenditure data on education.

68. As seen in Figure 4.5, the actual per student subsidy in upper secondary education is higher in the poorest districts of Albania. The difference is nevertheless small and mostly driven by a very low per-student expenditure in some rich districts such as Tirana Municipality, which spends only about half of the national average. The subsidy in upper secondary education is almost all payment to personnel, both teaching and non-teaching staff, as only a very small percentage of the recurrent costs at this level goes to supplies and materials. However, as there is very little variation in the student-teacher ratio per district at this level of education, there is consequently very little variation in the per-student subsidy at this level as well. As can be seen in Figure 4.6, the number of teachers in each district is highly correlated with the number of students in the district and as the expenditure in education at this level follows mostly the number of teachers, it also follows the number of students.

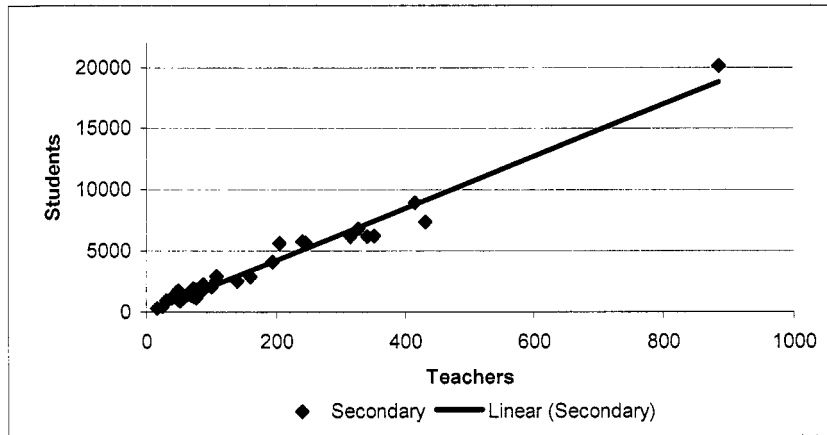
69. Even though the benefit of the subsidy in upper secondary education favors proportionally the richest segments of the population, this subsidy is nevertheless low. The per-student expenditure in upper secondary education is only 0.6 times the per student expenditure in basic education,<sup>12</sup> representing about 6 percent of GDP per capita. In contrast, the average per-student expenditure in upper secondary education in OECD countries in 2000 was about 1.41 times higher than in primary education, representing 26 percent of the average per capita GDP.<sup>13</sup> The expenditure in upper secondary education is not only low but also mainly finances personnel expenditure. About 89 percent of the total expenditure in upper secondary schools covers recurrent expenditure, of which 98

<sup>12</sup> This number includes capital expenditure to make it comparable to OECD numbers.

<sup>13</sup> Education at a Glance 2003.

percent goes to personnel, leaving only 2 percent of recurrent expenditure for teaching supplies. In contrast, on average, the OECD countries spend about 20 percent of their recurrent funds on non-personnel expenditure.

**Figure 4.6: Students and Teachers Per District in Upper Secondary Education**



Source: Staff calculations based on MOES administrative data.

70. This low expenditure on supplies has no doubt affected the quality of the instruction, especially considering that the schools might not have recuperated from the vandalism of public property that followed the collapse of the pyramid schemes in 1997. Many school facilities, equipment, and materials were destroyed (see Berryman, 2000). That might explain the sizeable expenditure on capital investments but not the low expenditure in non-personnel recurrent costs.

71. As the main cause of the regressive distribution of public expenditure at this level is the low enrollments of the poor, measures should be taken to lift the possible barriers for poor students of entering high school. A World Bank (2003) study mentioned that one of the main reasons for students not enrolling in high school in rural areas is the distance to these schools, as the number of secondary schools, in particular vocational schools, were closed during the transition years. Similarly, the income of the household as well as the education of the parents is significantly associated with enrollment in high school in both rural and urban areas. Finally, the study also reported that many of the non-enrolled youth considered their schooling finished after completing basic education. This low level of interest in obtaining a high school education suggests the perception among the poor that education at this level is not relevant to the job market and therefore not worth pursuing (this study also found low labor market returns to secondary education).

72. *Benefit incidence of public expenditure on VET.* There are very few students enrolled in vocational and technical education in Albania, as many of these schools, especially those in rural areas, closed during the transition period. As can be observed in Figure 4.6, the distribution of public expenditure at this level of education is also

regressive. The data did not permit distinguishing whether this was due only to differences in enrollment rates or also to differences in the per capita subsidy.<sup>14</sup>

73. *Benefit incidence of public expenditure in tertiary education.* Universities not only receive funding from the Government but also collect their own revenue through student fees. Some of these fees are paid by all students, whereas others are paid only by a sub-group of students, as is the case for fees some students pay to circumvent the admission tests. Only 5 percent of the universities' resources come from their own sources of revenue. As not all students pay the same, the subsidy at this level varies per student. Unfortunately, the data did not allow the estimation of a per student subsidy, or per university subsidy, and thus the information in the benefit incidence analysis gives the same information given by enrollment differences across quintiles. As the fees only represent a small percentage of the subsidy, accounting for different subsidies might not significantly change the results: the benefit incidence of the public expenditure in tertiary education is highly regressive, benefiting the rich proportionally more than the poor. This is not surprising as Albania, with a gross enrollment of 11 percent, has one of the lowest levels of participation in universities in all of Europe (World Bank, 2003). Most of this enrollment is concentrated in the richest end of the income distribution, as less than 1 percent of the poor are enrolled at this level.

## **B. Benefit Incidence of Public Expenditure in Education Across Regions**

74. Figure 4.7 shows the average per-student subsidy across regions. For both basic and upper secondary education, the Tirana Region (including only Tirana Municipality) is the lowest spender, and the Central Region the highest. In the case of basic education, the differences across regions are very small. This is not surprising as the regions do not have any responsibility for financing the sector; it is the central level (the MOES), the districts, and the local governments, which are in charge of financing and/or distributing public resources to the schools. Nevertheless, the Central Region, with a quarter of its population below the poverty line, spends more than both Tirana and the Coastal Regions, which have many fewer people living in poverty. The Mountain Region, with about half of its population living in poverty, on average does not spend more per student than any other region for both basic and upper secondary schools. As the resources are limited and inequality is high at non-basic levels, the country should consider biasing the distribution of public expenditure towards the poor and therefore towards the schools that serve the poorest communities.

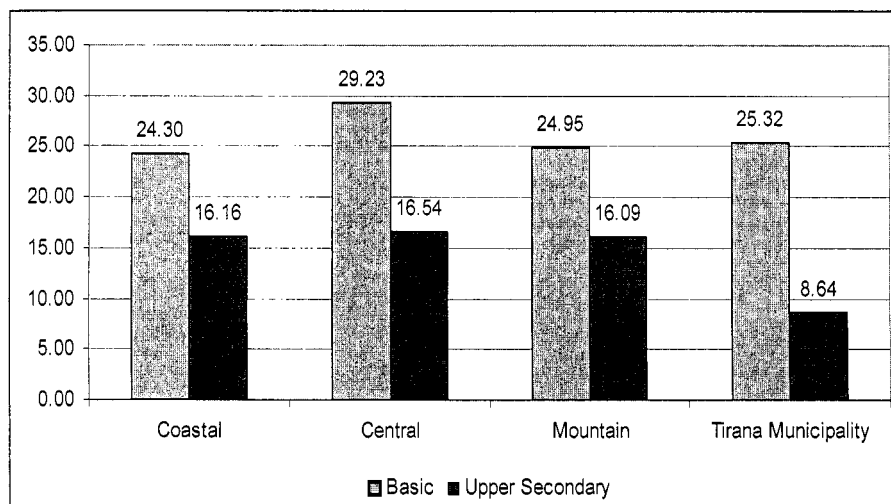
75. In upper secondary education, there is a noticeably lower expenditure in the Tirana Region, which spends per student about half of what the Central Region does.

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<sup>14</sup> In contrast to basic and upper secondary general education, it was not possible to obtain a per district subsidy at this level, therefore Table 4.1 and Figure 4.3 do not add any information to that given by the distribution of enrollments across quintiles. However, to keep consistency we added this level into the analysis.

However, it is important to remember that the Municipality of Tirana only includes one district.

**Figure 4.7: Average Per-student Subsidy in Basic and Upper Secondary School Across Regions**



Source: MOF expenditure data.

76. *Distribution of the benefit across regional income quintiles: Basic.* As seen in Table 4.3, the distribution of public expenditure across regional income quintiles<sup>15</sup> is very similar to the national distribution. In other words, the distribution is very progressive, benefiting the poor much more than the rich. It is in the Central and Tirana<sup>16</sup> Regions where this distribution is more progressive. In part, this is due to a higher concentration of children in both Central and Tirana Regions in the poorest quintiles of the income distribution than in the other regions. For instance, more than 30 percent of the basic school age children in Tirana Region belong to the poorest 20 percent of the income distribution; in contrast, in the Coastal Region, only 24 percent belong.<sup>17</sup> This is also partly due to the fact that these two regions are the ones with the largest percentage of students going to private schools. Most of these students belong to the richest end of the income distribution that partly explains the low level of benefit received by the richest quintiles in these regions. Almost half of all primary school students going to private schools are in Tirana. Similarly, about 22 percent of students going to private basic schools are in the three largest cities in the Central Region, Shkodra, Elbasan, and Berat.

<sup>15</sup> These quintiles are constructed using only observations inside each region. The distribution of the population in these quintiles differs from the national quintiles. For instance, the Mountain Region has a higher percentage of people living in poverty. Some individuals in the second quintile of the Mountain Region income distribution belong to the poorest quintile in the national income distribution.

<sup>16</sup> Tirana Region only includes Tirana Municipality, only one district, and therefore there was no variation in the subsidy per student. We included the benefit incidence analysis of Tirana to keep consistency across regions.

<sup>17</sup> These numbers were calculated using regional quintiles.

**Table 4.3: Benefit Incidence of Public Expenditure on Basic Education Across Regions and Within Regional Income Quintiles**

	Basic education			
	Coastal	Central	Mountain	Tirana
Poorest	21.4%	27.8%	23.6%	29.0%
II	23.1%	20.9%	25.0%	24.6%
III	22.6%	21.5%	17.5%	19.8%
IV	19.0%	16.3%	20.5%	15.5%
Richest	13.9%	13.5%	13.4%	11.1%

Source: Albania LSMS and MOF expenditure data.

77. *Distribution of the benefit across regional income quintiles: Upper Secondary.* As is the case at the national level, the benefit incidence of the public resources going to upper secondary education is regressive, although in some regions, this pattern is more marked than in others. For instance, in the Coastal and Tirana Regions, the richest quintile of the income distribution receives less of the subsidy than the fourth or third quintile; this is again partly due to the number of students in these quintiles going to private schools and thus not benefiting from public expenditure. In Tirana, for instance, although the percentage of students going to private schools is small (8 percent of total), most of these students belong to the richest end of the income distribution.

**Table 4.4: Benefit Incidence of Public Expenditure in Upper Secondary Education Across Regions and Within Regional Income Quintiles**

	Upper secondary education			
	Coastal	Central	Mountain	Tirana
Poorest	11.4%	7.9%	15.2%	16.1%
II	13.7%	23.3%	12.0%	15.9%
III	29.9%	21.5%	26.4%	29.4%
IV	26.5%	23.4%	21.3%	19.8%
Richest	18.6%	23.8%	25.2%	18.8%

Source: Albania LSMS and MOF expenditure data.

### C. Public Expenditure in Education Across Rural and Urban Areas

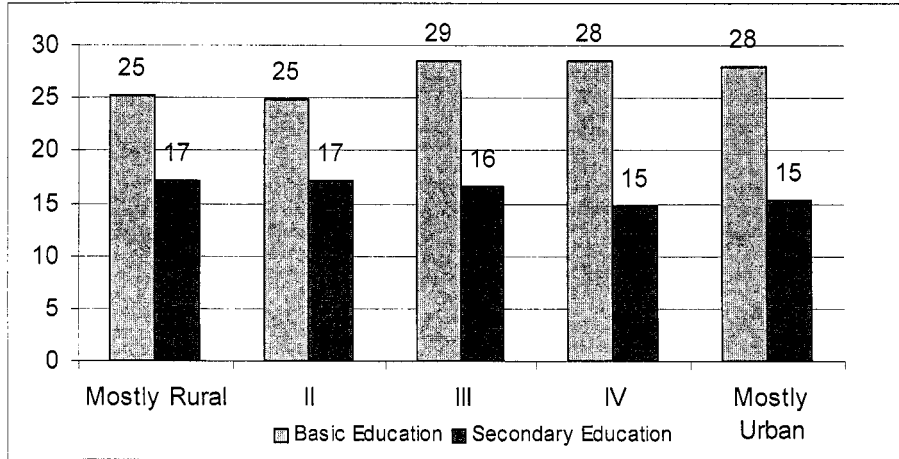
78. There are also variations in the education expenditure per student across rural and urban areas. The per student subsidy in basic education in urban areas is higher than the subsidy in rural areas. As the poor in Albania are concentrated in the latter, this result is worrisome. About 30 percent of the Albanians living in rural areas are poor. In contrast, in urban areas, the poor represent less than 20 percent of the total population.<sup>18</sup> Although the data do not allow a distinction of the subsidy between these areas, ranking the districts by the percentage of population living in rural areas indicates how this subsidy is distributed across rural and urban dwellers. Figure 4.8 shows that the subsidy to basic education is about LEK 3,000 higher in the mostly urban districts than in those where most of the population lives in rural areas. This difference is not due to the number of teachers per students, as there is not much variation across these areas (see Figure 4.9).

<sup>18</sup> World Bank (2003). Albania Poverty Assessment.



However, there may be a difference in the experience and qualifications of the teachers, as it may be more difficult to hire and keep teachers in rural remote areas of the country.

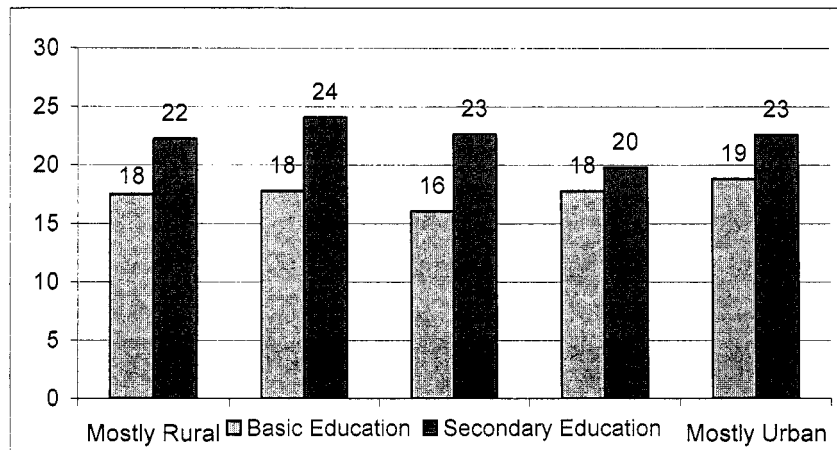
**Figure 4.8: Average Per-student Subsidy Across Districts Ranked by the Percentage of Population Living in Rural Areas (in thousands of Leks)**



Source: Staff calculations based on census data on percentage of rural population per district and expenditure data from the MOF.

79. In the case of upper secondary education, the difference across districts is also small, about LEK 2,000, but at this level, districts with a higher proportion of rural population receive a higher subsidy. All this said, most of the secondary general schools in Albania are located in urban areas, and as such higher subsidies in districts with high proportion of rural population, does not necessarily implies that there are rural schools in those districts (see Figure 4.9).

**Figure 4.9: Student-teacher Ratio Across Districts Ranked by Percentage of People Living in Rural Areas (in thousands of Leks)**



Source: Staff calculations based on census data on percentage of rural population per district and administrative data from the MOES.

## SECTION 5: FINDINGS: REFORM ISSUES AND OPTIONS

80. The Albanian education sector has not yet been restructured to deal with the sharp declines in public funding, and the cuts at the start of the transition have often been across-the-board without rationalization or prioritization of education spending. Despite significant attempts during the past several years, few structural reforms in the education sector have succeeded in addressing the need to operate with more limited budgets and to deliver education services more efficiently and effectively. Instead, the education sector has responded to constrained budgets in several more temporary or *ad hoc* ways. The main findings and recommendations of this study can be summarized as follows:

- ***Public spending on education has declined during the transition in a non-strategic way, resulting in declines in enrollment rates and disparities in education outcomes.*** Public spending on education as a share of GDP declined during the transition, from 5 percent in 1991 to 2.8 percent in 2002. Consistent with the medium-term expenditure framework (MTEF), however, public spending on education is expected to increase to 3.14 percent in 2004. While the decline during the transition is due to a general decline in public spending, public spending on the sector in relation to GDP is still lower than in other countries in the region at similar levels of development, where on average about 4.8 percent of the GDP is spent on education. The Government's key medium-term objectives articulated in the NSSSED are to sustain growth, reduce the number of people living in poverty, improve infrastructure, and build human capital. One of the main priorities of the NSSSED is to improve human capital through enhanced quality and access to social services, including education. It is, therefore, important to examine whether this priority has been reflected in the education budget in terms of increases or re-allocations of education resources to targeted areas in the past few years. Yet, the evidence from an analysis of public spending on education indicates that public education has been reduced, especially for the poor, during the transition. During the NSSSED, however, the Government has made efforts to protect and increase public spending on education, especially on basic and secondary education. However, much of this increase was attributable to increases in the capital budget, not to recurrent expenditures for textbooks, operational maintenances, utilities, and teachers training. As noted below, inadequate public spending has resulted in rapid deterioration of the quality of education, but also in increased private costs for participating in quality education, often resulting in declining enrollment rates for children coming from poor families, especially in the rural and peri-urban areas. Furthermore, increases in the public resources available for education do not necessarily improve the access of the poor to quality schooling, as these resources might be inefficiently allocated,<sup>19</sup> they might not be fully spent, they might not arrive at their intended destination, or they might benefit the rich

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<sup>19</sup> This study has reviewed the use of public resources in the education sector within the context of a benefit-incidence analysis, but it has not examined issues related to both allocative and technical efficiency in the use of public funds.

more than the poor. This paper examined two of these issues: the distribution of the education budget across population groups and the execution rate of the budget.

- ***The execution rate of the education budget is high.*** In Albania, the execution rate of the education budget is high; almost all of the planned budget is spent. Additionally, there is little variation in the budget execution rate across districts, levels of education, or type of expenditure. The lowest execution rate across districts is still quite high at 96 percent in Tepelene district. Similarly, the execution rate at all education levels is higher than 98 percent. Across all levels of education, almost all the planned budget is executed, regardless of whether it is recurrent or capital expenditure. This compares favorably with other transition economies. For instance, before the year 2000, Armenia, Azerbaijan, Georgia, and the Kyrgyz Republic were only able to execute less than 91 percent of their budget for education
- ***During the transition, enrollment rates declined at all levels of education, except for higher education.*** At the time of transition, Albania had achieved universal basic education, but it had one of the poorest indicators in enrollment rates in secondary and tertiary education and education quality in the region. Since the beginning of the transition, gross enrollment rates in basic education declined slightly, while gross enrollment rates for preschools and upper secondary education declined dramatically largely due to closures of most preschools and secondary vocational schools. Almost 16 percent of the children between the ages of 14-17 attributed their non-attendance at school to distance. Enrollment rates also varied by income levels since there is a strong link between income poverty and educational participation. Net enrollment rates for the poor, especially the extremely poor, are much lower than those of the non-poor; and similarly, enrollment rates in rural areas are much lower than in urban areas. There are no gender disparities in enrollment, with the exception of the tertiary level where women's enrollment is slightly higher than men's.
- ***Inadequate public spending on education contributed to declines in education quality, especially in rural areas, and peri-urban areas.*** During the NSSD, the overall public spending on education increased slightly (1.5 percent between 2002 and 2003) public spending on education as a share of GDP declined by one-third from 5 percent in 1991 to 2.8 percent in 2002. As a result, public spending has been limited, at the expense of basic needs, such as operation and maintenance of schools and the provision of textbooks, materials, equipment, and teacher training.
- ***Increased private spending resulted in disparities in access to schooling, especially in basic and secondary education.*** Revenue sources have been diversified at all levels of education through the introduction of formal or informal school fees and parental and community contributions. Nevertheless, the diversification of revenue sources is limited, and with

significant adverse effects on students from poorer families. Almost all spending on school supplies and materials has been reduced to very low levels, and in most cases, their costs have been switched to families. Inadequate public spending not only resulted in rapid deterioration of the quality of education, but also increased the private costs of schooling. These unguided financing policies have resulted in deterioration of education quality and disparities in access to school, especially basic and secondary education.

- ***Public expenditure in basic education is progressive; in contrast, public expenditure in secondary and tertiary education is highly regressive.*** The distribution of public expenditure on education is slightly progressive, benefiting the poor proportionally more than the rich. This progressiveness is mostly due to the distribution of public resources to basic education where the majority of Albanian students are enrolled. In all other levels of education, the distribution of resources is regressive as a consequence of the low enrollments of the poor at non-basic education levels and the unequal distribution of subsidies across districts. However, it is worth noting that the actual subsidy to some of these levels, as is the case for upper secondary education, is low and mostly covers personnel expenditure. This affects the quality of the education and might explain the low enrollments at this level. The subsidy to education also varies across rural and urban areas. In the basic years of schooling, the per student subsidy is lower in districts where the majority of the population is rural. Finally, at all levels of schooling, the execution rate of the budget is high, and almost all the planned budget is eventually spent.
- ***The poor benefit less from the quality and availability of education services.*** In Albania, there are large income disparities in school enrollment, especially in non-basic schooling levels. The data indicate that declines in enrollments in basic education have been low, but there have been sharp declines in non-compulsory education. Access to higher education is confined largely to those who can afford some of the student fees.
- ***Inflexibility and lack of transparency in the funding mechanisms contributes to inefficiencies and inequities in the use of resources among regions and districts.*** A crucial problem in the financing mechanism is the fact that schools do not have the flexibility to determine the distribution and use of the resources they receive. A second key problem is that decisions regarding staff allocation to schools are made by MOES, supplies and teaching materials by regions and districts, while expenses for operation and maintenance and small repairs are funded by municipalities and communes. While funds for salaries are always provided for in the education budget, funds for supplies and materials are among the first to be cut, when there is a need to reduce the education budget. Supplies, materials and operation and maintenance are therefore systematically under-funded.

81. Emerging evidence suggests that closure of many preschools and secondary vocational schools, declines in the quality of education, and a sharp increase in poverty rates, along with the introduction of formal and informal fees for many education-related services have reduced school participation rates for children from poor households. Public policies to maintain and improve access to education, especially basic education are critical to Albania's economic growth and poverty alleviation efforts. A number of policy options, are available to achieve this objective:

- ***Improve basic public education.*** The public system of basic education should be improved and should be protected from cuts in education spending. Moreover, improvements in the delivery of the quality of basic and secondary education can also be achieved most efficiently through reallocation of public resources from tertiary education to basic and secondary.
- ***Provide adequate funding for basic and secondary education, while providing targeted financial support for the poor at the non-basic levels.*** In Albania, the Government bears the largest burden of the education expenditures, despite sharp increases in private spending during the transition. Given dramatic declines in the quality of schooling, and declines in enrollments at non-basic education, public spending should be increased to further enhance the quality of schooling and increase enrollment at the basic education and secondary level, while providing targeted financial support for the poor at the non-basic levels.
- ***Induce private sector participation in the education sector. In Albania, the share of private sector in the delivery of education services is small.*** Private sector participation should be encouraged at all levels as an attractive policy option offering parental choice and increasing institutional competitiveness without any fiscal burden on public funds. Substantial capacity for private sector participation is evidenced by the increased demand for education being met through private spending and by the existence of an informal sector. Public policies towards addressing the issues related to the development of the private sector include establishment of an appropriate regulatory framework to encourage private sector investment.
- ***Address the financial needs of the poor especially at the secondary and tertiary education levels in poor communities.*** The benefit-incidence analysis showed that inequality is high at non-basic levels in the distribution of public expenditures on education. Poor families are increasingly unable to meet the rising direct costs of education at all levels. At the tertiary education level, the benefit incidence analysis indicates that the distribution of public expenditures is highly regressive, benefiting the wealthy proportionally more than the poor. Policy options targeted to the poor include: (i) targeted provision of free basic learning materials (e.g., textbooks) for the poor, including financial aid for transportation, especially in rural areas; and (ii) the introduction of a student financial aid program to provide financial support to

needy tertiary education students, while introducing a tuition policy for all students.

- ***Improve budgeting and resource allocation processes***, through the introduction of a more transparent, flexible and decentralized school finance policy, along with a system of accountability for the use of resources. The resource allocation process needs to be more transparent and should take into account effectiveness and equity criteria, since it appears that an equity problem exists in the financing of operation and maintenance and small repairs. It appears that municipalities and communes are unequal in their funding capacity. Large municipalities benefit from significant resources and a clear potential for economies of scale, while small communes have many fewer resources and are unable to benefit from economies of scale, given their low population density and often declining population due to internal and external migration. While decentralization is certainly needed, it should be accompanied by the establishment of funding mechanisms promoting equity and efficiency, along with a system of accountability for the use of resources. In the medium term, a funding formula can be introduced to allocate resources based on the number of pupils, type of school (basic education, secondary, comprehensive, vocational, boarding institution) and eventually a limited number of additional criteria (e.g., weighting the capitation formula according to the poverty level of the region and/or district).
- ***Strengthen the MOES' planning, management, and monitoring capacity, to improve effective and efficient use of available resources***. Although the sector needs more resources, more money for education should be contingent on better management. Despite limited progress under the Bank-financed Education Reform Project and the PRSC, further support will be needed to strengthen MOES capacity to support tasks such as policy development, long term planning, an effective monitoring and evaluation system, and to strengthen the capacity of local governments in the delivery of education services. It is therefore recommended that: Albania (i) strengthen its EMIS capacity at the MOES and local levels; and policy analysis and planning capacity for an effective policy development, long term planning and an effective monitoring and evaluation system and (ii) carry out regular sample-based national assessments; participate in international assessments to benchmark the performance of its education system against those of competitors and partners; and use the results from national and international assessments to assess the quality of schooling.<sup>20</sup>

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<sup>20</sup> It should be noted that these recommendations are based on the findings of this study, examining to what extent the poor benefit from public spending on education in Albania, based on available LSMS and official administrative data (e.g., public spending on education). The report is not intended to assess the impact of recent reforms, many of which were introduced during the past 2-3 years, in part supported through the World Bank-financed ERP and the PRSC.

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## ANNEXES

**Table A.1: Per Student Subsidy in Current Thousands of Leks in the  
Year 2002 Across Districts**

District	Subsidy per student - Basic Education	Subsidy per student - Upper Sec. Education
BASHKIA TIRANE	25.32	8.64
BERAT	22.61	11.42
BULQIZE	20.07	13.45
DELVINE	45.16	24.86
DEVOLL	26.08	17.20
DIBER	22.33	10.99
DURRES	17.31	15.30
ELBASAN	20.64	9.64
FIER	19.82	12.22
GRAMSH	30.11	13.18
GJIROKASTER	43.02	12.00
HAS	25.20	15.84
KAVAJE	20.01	13.20
KOLONJE	47.84	16.83
KORCE	26.42	18.64
KRUJE	19.83	17.98
KUCOVE	22.05	15.26
KUKES	22.91	21.32
LAC	19.09	18.33
LEZHE	20.65	18.81
LIBRAZHD	23.08	16.27
LUSHNJE	20.57	14.26
M.MADHE	24.83	23.60
MALLAKASTER	23.68	11.83
MAT	24.51	15.32
MIRDITE	34.44	19.16
PEQIN	20.30	12.40
PERMET	39.08	16.19
POGRADEC	26.84	16.37
PUKE	35.14	24.67
SARANDE	31.10	16.10
SKRAPAR	37.35	13.93
SHKODER	21.99	11.76
TEPELENE	35.35	18.38
RRETHI TIRANE	27.04	23.58
TROPOJE	30.98	21.59
VLORE	25.59	16.68

Source: Calculations based on expenditure data on education from the MOF and administrative data on number of students per districts from the MOES.



**Table A.2: Albania PRSC: Agreed Education Policy Matrix (items in bold –triggers for PRSC 2 and 3) and Their Implementation Status**

Objectives/ Issues	PRSC1	PRSC2	PRSC3	Indicators	Implementation Status as of December 2004
Increase the adequacy of resources contingent on evidence of sector's effective use of additional resources	2002 recurrent education budget as percent of GDP increases, consistent with MTEF	2003 recurrent education budget increases in real terms relative to 2002, consistent with MTEF  Complete a human resources management plan (see LDP) for 2003 satisfactory to MOF, DoPA, and IDA that, <i>inter alia</i> , justifies any 2003 salary increase for teachers and other education staff.	2004 recurrent education budget increases in real terms relative to 2003, consistent with MTEF, and total budget proposes changes in composition of education financing based on analyses of student performance, as measured by Program of International Student Assessment (PISA).	1. Recurrent education budget moves toward OECD average of XX.  2. Teacher salaries as percent of GDP per capita. <sup>21</sup>  3. Vertical compression ratio <sup>22</sup> of teacher salaries (increases indicate improvement)  4. Increasing % of teaching force meets MOES standards for "qualified" teachers	Public spending as percent of GDP was 2.85% and is expected to increase to 3.14% in 2004. This was lower than other countries in the region at similar levels of development (4.8% of GDP).  Teacher's salaries were increased by 8%, consistent with MTEF.
Improve policy formation and management of sector	DoPA and MOF/S establish a working group to develop four MOES functions (policy analysis, planning, and monitoring; financial management; human resources management; textbook management), and working group specifies schedule and outputs required to complete task. (See LDP)	1. Secure DoPA's and Prime Minister's approval of new MOES organizational structure and required budget. (See LDP)  2. Annually, adequately staff and finance approved organizational structure.  3. Initiate annual performance audits of MOES management and finance, education (including textbooks), and human resources, conducted by independent, international performance auditor according to TOR acceptable to IDA.		1. Reduction from 2002 baseline in number of performance audit negative observations.  2. Realistic Budget Proposal Index: ratio of initial MOES budget proposal to actual budget approved by Parliament, by year	MOF/S established new units and adopted new organizational structure to increase administrative effectiveness  Carried out the first performance audit  Restructured the Institute for Pedagogical Studies by establishing two quasi-autonomous institutions, namely the Institute of Curricula and Standards; and the Center for Teacher Training and Qualifications.

<sup>21</sup> Improvement represents movement toward average OECD teacher salaries as percent of GDP per capita. The range by level of education is the average GDP per capita for preschool teachers to twice the average GDP per capita for university faculty. The OFCD average for non-teaching staff is 0.8 the salary of teachers at same level/type of education.

<sup>22</sup> Vertical compression ratio is the ratio of the average salary for the highest ranking teachers to the average salary for entry-level teachers. Higher compression ratios suggest greater opportunity for salary growth over a teacher's career.

<p>The draft education sector strategy (2003-2013) for pre-tertiary education was completed.</p> <p>The first Statistical Report was published in 2004.</p> <p>Developed and adopted a textbook policy for the education sector</p> <p>Provided core textbooks free of charge for all basic education students.</p>		<p>Policy analysis unit publishes first <i>Statistical Report Card on Albanian Education</i>, with product acceptable to IDA</p> <ul style="list-style-type: none"> <li>Develop detailed implementation plan for textbook rental scheme for grades 1-12</li> </ul>	<p>Policy analysis unit outlines and completes one chapter (education finance) for <i>Statistical Report Card on Albanian Education</i>, with products acceptable to IDA</p> <ul style="list-style-type: none"> <li>Develop a textbook policy for education sector acceptable to Government and IDA (see LDP), including a textbook rental scheme, and competitively bid procurement of textbook publishing and printing.</li> </ul>	<p>Appoint chair and members of the textbook approval authority, establish the Ministry textbook management unit (director and staff), and prepare satisfactory bidding documents for competitive tenders of textbook publishing and printing.</p>	
<p>1. Increased fraction of textbooks published under competitive tendering (# as well as value).</p> <p>2. Increased fraction of contracts for textbooks above \$xx threshold procured through international competitive tendering (# and value).</p> <p>3. Annual, independent survey of physical quality of random sample of published textbooks, using pre-specified index of textbook quality. (Increasing index indicates improvement)</p> <p>4. Government textbook subsidy as percent of MOES budget (falling percent indicates improvement)</p>	<p>Gross enrollment and completion rates for grades 1-4, 5-8, and 9-12 overall, for rural families, and for children of the poorest consumption quintile of families (increases over time indicate improvement, with achievement of enrollment and completion rate targets by end of PRSC).</p>	<ul style="list-style-type: none"> <li>Ministry annually publishes data to show progress in meeting targets for gross enrollment and completion rates</li> </ul>	<ul style="list-style-type: none"> <li>Calculate gross enrollment and completion rates for preschool, primary, lower secondary, upper secondary, and tertiary education and set five year targets for grades 1-4, 5-8, and 9-12</li> </ul>	<ul style="list-style-type: none"> <li></li> </ul>	<p>Increase access and quality of education for poor families by improving teacher quality, reducing private costs of education, improving the quality of secondary academic programs, and improving market relevance and supply of secondary VET.</p>
<p>Published the results of enrollment rates based on the findings of I.SMS.</p> <p>The gross enrollment rate in basic education in 2002-2003 was approximately 98%.</p> <p>The Government also adopted a new policy to extend compulsory basic education to nine years (from eight years).</p> <p>The transition rate from basic education to secondary education increased to 71% in 2003 from 63% in 2000.</p>					

<ul style="list-style-type: none"> <li>Budget unit costs alternative schemes for providing free textbooks for students from low-income households by grade and for different assumptions about poverty definitions.</li> <li>Prepare legislative framework required to establish secondary vocational programs that reflect regional labor market needs</li> </ul>	<ul style="list-style-type: none"> <li>1. Secure MOF approval of free textbook scheme, refining targeting and subsidy cost estimates when LSMS data become available at end of 2002.</li> <li>MOES annually budgets for and provides free textbooks under accepted subsidy scheme.</li> <li>Secure Parliamentary approval of required legislation</li> <li>Initiate EC-supported reform of VET, with some selected pilots being in rural areas.</li> <li>Publish annually in Albanian newspapers list of schools rehabilitated in previous year, including <i>inter alia</i> the following information for each school: location, the amount invested, the amount invested as a percent of the average investment per school, and financing source</li> </ul>	<p>Household survey (LSMS) of households with school-age children measures targeting efficiency of textbook subsidy (e.g., ratio of household spending on textbooks per enrolled child categorized by household consumption categories, with increasing ratio indicating effective targeting)</p>	<p>Adopted free textbook policy.</p>
			<p>EC-supported reform of VET was initiated in 2004.</p>





