A Formula-based Grant to Municipalities: Preschool Education Finance Reform in Albania
• Education:
  - 3.2% of GDP
  - 11.1% of public spending

• Preschools:
  - 0.5% of GDP
  - Preschools: 74.000 pupils
  - Preschool enrollment rates between 55% and 70%.
  - 14% of preschool pupils
  - Pupils population: 3-6 yo
  - No. of preschool pupils: 74,000
  - 70% of preschools offer a hot meal and charge a service fee (c. 1 Euro per day)
  - 11% of preschools offer a hot meal and charge a service fee (c. 1 Euro per day)
  - 89% do not charge anything.
  - 23% located in urban areas
  - 11% of preschools offer a hot meal and charge a service fee (c. 1 Euro per day)

Background
In 2016, local governments were transferred the responsibility to regulate and administer preschools as an exclusive local function. Money was allocated to LGs on the basis of the number of teachers inherited from the Ministry of Education; the system did not reflect social and demographic developments producing/amplifying serious inequities in teacher/pupil ratios. In 2016, local governments were transferred the responsibility to regulate and administer preschools as an exclusive local function;
Inequities in Pupil Teacher ratios

Source: Ministry of Education, Sport and Youth
Money for preschool teachers’ wages in 2019 must be freely disposable – exclusive local functions cannot be financed by conditional grants.

Inequitable pupil/teacher ratios and the freely disposable nature of revenues for ‘new’ own functions creates financial, technical, and legal challenges.

The most pressing questions:

- What happens if freely disposable funding is spent on other ratios to lower them?
- How should it be allocated to LGs?
- How much money is needed to allow those LGs with high pupil/teacher ratios to lower them?
- What happens if freely disposable funding is spent on other functions?
Moving to a formula-based grant for preschool education

- Specific Transfers to be replaced by freely disposable "sectorally unconditional transfers";
- The size of the transfer for preschool teachers increased by 10% to equalize conditions across municipalities;
- A formula for the allocation of funding: 60% on enrollment and 40% on teacher employment.
Projected Impact of Preschool Teacher Financing in 2019
Projected Impact of Preschool Teacher Financing in 2019

Both small and large, urban and rural, mountainous and non mountainous municipalities benefit from the new system.

- Avg. Class Size is reduced in both mountainous and non-mountainous municipalities.
- Avg. Class Size is reduced in both sparsely populated and dense municipalities.
- Avg. Class Size is reduced in both small and large municipalities.

The new system of Preschool Teacher Financing in 2019 provides benefits to municipalities of all sizes and geographic characteristics.
• Funding came in the middle of the school year!
• Can they hire all new teachers immediately?
• Does this reflect the most pressing needs of municipalities?
• Is funding guaranteed for future years?

The Transitional Situation of Preschool Finance
What do local governments want?

- Reduce class sizes;
- Improve the maintenance, safety and cleanliness of school facilities;
- Provide meals in at least some preschools;
- Reduce class sizes;
- What do local governments want?

The Transitional Situation of Preschool Finance

Municipal Own Spending on Education 2010-18

<table>
<thead>
<tr>
<th>Year</th>
<th>Salaries</th>
<th>Operational</th>
<th>Investments</th>
<th>Total</th>
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<td>1,231</td>
<td>1,280</td>
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NEXT STEPS

• The financing system should be made more stable and predictable;

• Increase the funding to include the indicative costs of support services, material costs and/or school meals into the formula, as is done elsewhere.

• Municipalities should be free to spend these monies as they see fit -- so long as they do not do so in ways that undermine the objectives of improving access and quality.

• Funding to be allocated primarily on a per pupil basis;

• While the national government will decrease its direct control over the function, its ability to monitor and support municipal actions should be strengthened -- and change the organization culture to this end.

• The financing system should be made more stable and predictable;

Joint effort of:

Upcoming events
Thank you!

Elton Stafa,
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Financing of the Social Sector in South East Europe

NALAS Fiscal Decentralization Report

Source: NALAS Report: Fiscal Decentralization Indicators in South East Europe
NALAS’s Fiscal Decentralization Report: The Financing of Local Governments - Local Revenues as a Share of Public Revenues & GDP in SEE

<table>
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Source: NALAS Report: Fiscal Decentralization Indicators in South East Europe