



# **PLANNING AND LOCAL GOVERNANCE PROJECT IN ALBANIA**

Women, Peace & Security (WPS):

Early Childhood Education in Albania at the  
Intersection of Municipal Finance and Governance

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## EXECUTIVE SUMMARY

Since the early 2000s, Albania has been devolving education responsibilities to its democratically elected local governments. In 2015, Albania consolidated 373 urban and rural local governments into 61 municipalities and made them fully responsible for managing and financing 2,100 public preschools. Most municipalities now spend more on kindergartens and preschool education than they do on any other function and the kindergartens and preschools they manage and finance employ over 6,500 people and serve up to 74,000 children (though estimates vary greatly).

This paper situates the decentralization of education responsibilities to local governments in Albania against broader European trends. It then analyzes how preschools are currently managed and financed and based on this analysis makes specific policy recommendations on how the regulation and financing of this crucial function can be improved.

The most important general arguments of the paper can be summarized as follows.

- The future of early childhood education in Albania is now inextricably linked to the future of municipal management and finance. Policy makers need to look at early childhood education through a municipal lens and to municipal finance and management through the lens of early childhood education.
- Since the early 1990s, Albania has significantly underfunded its preschools. Until the budget priorities of the national government change, little good will happen in either early childhood education or municipal governance.
- Albanian municipalities have inherited preschool networks that are physically run down, and which have radically different staffing patterns, pupil/teacher ratios, and enrollment rates. Some municipalities have too many underutilized facilities in rural areas. Others have too few teachers, classrooms, and support staff to serve the children living in their urban cores. Many municipalities face both problems.
- It will take many years of politically contentious and technically difficult decisions for municipalities to address the complex problems that underfunding and demographic change have bequeathed to them. If they are to have any chance of meeting these challenges, they will require both more funding and funding that is predictable from year to year. This funding should flow to them through a weighted per pupil formula that accounts for the differential costs of providing preschool education in rural and urban setting and which is based on the number of children regularly attending preschools.
- Albania needs to improve the reliability of its data on preschool enrollment and attendance. Without accurate enrollment and attendance data it is impossible to make informed decisions about the best allocation of scarce resources. But precisely because these data are used to allocate scarce resources, there are strong incentives to distort them. As a result, improving the reliability of enrollment and attendance data will require as much focus on changing institutional cultures as it will on developing new reporting systems and procedures.

The paper's more specific arguments and recommendations are as follows:

- The 2015 Local Self-Government Law (LSGL) eliminated the category of “shared functions” from Albanian Law and made preschool education – and other newly devolved responsibilities--municipal “own functions”. In general, in accordance with both the Albanian Local Government Finance Law (LGFL) and the European Charter of Local Self-Government, own functions should be financed from freely disposable general revenues, and not transfers restricted to specific purposes. As a result, the current legal regime requires that financial support for preschool education be provided to municipalities through the freely disposable “Unconditional Transfer”. Providing these monies through the Unconditional Transfer, however, will make it impossible for the national government to require municipalities to spend the funds on preschool education.

- In practice, and for many reasons the national government has thus far failed to put monies designed to support preschool education into the Unconditional Transfer. Instead, it is now supporting the function as an “Unconditional Sectoral Transfer for Preschool Education.” This is precisely the sort of transfer that other countries use to support “shared functions”, but which has been made legally suspect in Albania by designating preschool education as an “own function”.
- In 2019, the government redirected funds from the Unconditional Transfer to the Unconditional Sectoral Transfer for Preschool Education. This was done in the expectation that municipalities that received the extra funding would use it to hire more teachers, and to bring their staffing patterns closer to the national average. But the procedure was non-transparent and further confused how the sector should be financed. In addition, some municipalities did not spend the funds to hire new teachers but on other needs in the sector.
- Short of reintroducing the category of shared functions back into the LSG, we recommend that the funds currently being provided to municipalities for preschool education be increased and folded into Unconditional Transfer. This will require increasing the share of the GDP used to define the size of the Unconditional Transfer, expanding the percentage of the transfer allocated to municipalities on the basis of the number of pupils attending their schools, and introducing coefficients to adjust the allocation in accordance with the differential costs of providing preschool education in rural and urban areas. This means creating the Preschool Education component of the Unconditional Transfer. strengthening the already existing education component of the Unconditional Transfers, which in practical terms means strengthening the already existing education component of the Unconditional Transfers.
- The Unconditional Transfer for Preschool education should be increased to include costs of didactic materials and basic school maintenance. Increasing the size of the transfer for preschool education, however, should not be done by taking funds from the Unconditional Transfer.
- We also recommend that the national government introduces a categorical grant program to provide one free, cold meal a day in all public preschools. If implemented properly, such a program would increase enrollment and attendance rates while also improving the data that local and national officials need to make reasonable decisions about where to invest in preschools. It would also underscore the national government’s commitment to early childhood education, poverty alleviation, and social inclusion.

## INTRODUCTION

In 2015, the Government of Albania (GoA) consolidated 373 urban and rural local governments into 61 municipalities. Shortly thereafter, parliament passed a new organic Law on Local Self-Government (LSGL)<sup>1</sup> and a new Law on Local Self-Government Finance (LGFL).<sup>2</sup> These laws were considered as critical components of a larger strategic plan to expand the role of democratically-elected local governments in Albania by creating larger municipalities and giving them more responsibilities and resources.<sup>3</sup>

In 2016, the GoA also approved a comprehensive Strategy for Pre-University Development. This document identified decentralization as one of the government's top four education priorities and repeated long-standing declarations for increasing public spending on education in general, and early childhood education in particular.<sup>4</sup>

This Policy Brief examines how these reforms have been realized with respect to the financing and management of preschool education, the most expensive, and arguably the most important function that was assigned to the 61 newly consolidated municipalities.<sup>5</sup> The Brief examines the large gaps between what Albania's strategic plans and laws say about how preschools should be financed and managed, and actual practice.

We analyse the current regulation, functioning and financing of kindergartens and preschool education and we argue that efforts to improve Albanian preschool education now require the GoA to both make good on its promise to increase spending on early childhood education, and to do so by strengthening the rights and resources of municipalities. In short, we think that without clarifying municipal powers and increasing their budgets in sustainable and predictable ways, there is little chance that Albania will be able to improve either access to, or the quality of, early-childhood education.

The Brief begins by briefly situating Albanian preschool education in a wider European background. This is not to argue that there is a particular "European" (or other) path to better preschool education. On the contrary, across Europe there is no single or obvious best way to share the function of early childhood education between levels of government, or private and public providers. In Albania, preschool education has historically been financed and managed by the national government. But over the last six years, Albania has joined other European countries in shifting responsibility for preschool education towards municipal governments. But it has done so without adequately financing either education or the municipal governments that are supposed to now run parts of the system.

The Brief continues with a recap of the recent history of municipal involvement with pre-university education in Albania through the 2016 passage of the Law on Local Self-Government. This law continued the process of devolving education responsibilities by making the finance and management of preschools a municipal "own-function". Here we begin by discussing the initial assignment of the responsibility to maintain and improve both preschool and primary school buildings to local governments in the 2000s. We then examine how the legal definition of preschool education as a municipal "own function" – as opposed to a "shared function"- has exposed a set of real-world problems that were previously 'hidden' within the workings of the Albanian state. These problems combined with the legal definition of preschool education as a municipal own function, raise critical and still unanswered questions about how the responsibility should be financed in the future.

The 'hidden' problems we refer to are all related to the fact that prior to its 'decentralization', preschool education had long been both underfinanced and very unevenly provided across the country

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<sup>1</sup> Law no. 139/2015, On Local Self-Government (LSGL).

<sup>2</sup> Law no. 68/2017, On Local Self-Government Finance (LSGFL).

<sup>3</sup> Government of Albania, National Crosscutting Strategy for Decentralization and Local Government (2014).

<sup>4</sup> Government of Albania, Strategy for Pre-University Education (2016).

<sup>5</sup> In the following, we use the term preschool education broadly and as Albania's obvious entry point into what is sometimes called Early Childhood Education and Care (ECEC) or more simply Early Childhood Education (ECE) and which refers to care and educational services provided to children between 3 and 6 years old.

as whole. As a result, the quality and accessibility of preschool facilities, the staffing patterns within them, and the share of preschool-aged children attending them, differs substantially from municipality to municipality --differences that have in turn been compounded by internal migration and falling birthrates.

Before the preschool education was decentralized, these problems essentially remained 'hidden' within the internal operations of the Albanian state. But when preschool education was made a municipal own-function, these differences –and the insufficient and uneven financial flows behind them – all became painfully visible. Indeed, much of the most recent history of the sector is best understood as a chaotic and incomplete attempt to address these differences.

The specific legal expression of this problem is that once preschool education has been defined as a municipal own function, both Albania's Local Self-Government Finance Law of 2017, and the European Charter of Local Self-Governments, require that municipalities should finance the function through some combination of local taxes, unconditional transfers, and parental fees. But this is not the case. Instead, municipalities are now receiving financial support from the national government for preschool education through multiple channels, in a confused and legally precarious arrangement. The largest flow of funds comes from one of a broader set of what are now being called "Unconditional Sectoral Transfers".<sup>6</sup> These provide funds to municipalities for particular functions. Their most important characteristic is that municipalities can spend these monies any way they like, *but only within the specific function (e.g. preschool education) they have been designated for*. Many countries use these sorts of 'block grants' to support decentralized social sector functions. But they are typically used when countries define the concerned decentralized functions as 'shared functions' a category that was eliminated from the Albanian legal framework with passage of the 2016 LSGL.

The overall size of the funds provided to local governments for preschool education is the most important issue the GoA and Albanian local government have to address. The Unconditional Sector Transfer for Preschool Education is now also being supplemented by funds that are being drawn off the larger General Unconditional Transfer that municipalities receive to support their own functions.<sup>7</sup> Supplementing unconditional sectoral transfers by taking resources away from the General Unconditional Transfer was done to help equalize the differences in preschool education that municipalities inherited from the past. But this cross subsidization of grant flows is legally confused. Going forward, the GoA must decide how much is it going to spend on preschool education and whether it wants to support preschool education as municipal own function through the General Unconditional Transfer, or to consider it as a shared function, and continue to finance it primarily through the (Unconditional) Sectoral Transfer for Preschool Education.

An equally important issue that remains to be resolved is the basis on which these monies are allocated to municipalities. Through 2018 the funds were allocated to municipalities based on the number of preschool teachers employed in their schools. In 2019, however the Ministries of Finance and Education, with the support of the USAID's Planning and Local Governance Project (PLGP) put in place a formula that began to allocate funds more on the number of enrolled preschool pupils and less based on teacher employment. This is an important step forward. Nonetheless, the formula needs further development.

But hanging over both the legal questions concerning the type of transfers that should be used to support preschool education, and the 'technical' questions concerning the formula used to allocate them to local government, is a larger issue about whether the national government will put sufficient funds into the system to give all municipalities a reasonable chance of improving their preschools. And,

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<sup>6</sup> Between 2016 and 2018 these were called specific transfers. The concept of sectoral unconditional grant was introduced with Law no. 99/2018, "On the Budget of Year 2019"; and Annex I -The Unconditional Grant: the formula, criteria and coefficients for year 2019".

<sup>7</sup> The LSGL sets the Unconditional Transfer at no less than 1% of the GDP and no less than the amount allocated the previous year; The term "General" Unconditional Transfer was introduced with Law no. 99/2018, "On the Budget of Year 2019"; and Annex I -The Unconditional Grant: the formula, criteria and coefficients for year 2019";

here, unfortunately, long years of underfunding municipalities runs headlong into long years of underfunding pre-university education in general and of early childhood in particular.

The Brief concludes by outlining a strategy to empower municipalities to take the lead on reforming how preschool services are delivered in Albania, while also redefining the role of the national government. The most important for this strategy is for the national government to increase and stabilize the funds that municipalities receive for preschool education.

This can be done by folding the Unconditional Sectoral Transfer for Preschool Education into the General Unconditional Grant, and then increasing the size of the General Grant itself and with it the share of GDP that legally defines its minimum size. Or it can be done by increasing the size of the Unconditional Sector Transfer Pre-school Education.

From the PLGP perspective, going forward, the GoA must anchor the size of the funding for preschool education (as well as for all the other functions transferred in 2016 with preschool education) to a percentage of the GDP that reflects the current costs provided through the sectoral transfers and additional funding to cover additional operational and maintenance costs. This is critical to make sure that local governments have sufficient funds to cover the various aspects of preschool education.

Once the funding is anchored as a percent of the GDP, the GoA may consider two options: allocate the funding to local governments as a freely disposable Unconditional Grant or as a Sectoral Grant. Finally, and under any scenario, the formula used to allocate funds to municipalities for education – whether these be through the Unconditional Grant or a Sectoral one---need to be reformed and put on a stronger per pupil basis.

As the funds for preschool education are being enhanced and stabilized, the national government should make it clear to parents and citizens, that it is their municipal governments that are now primarily responsible for running preschools. But the public assignment of responsibility for preschools to municipalities, and the strengthening of their budgets does not mean that the national government can then simply withdraw from the sector.

On the contrary, the government must take concrete steps to make sure that it can reasonably monitor how municipalities are managing preschools, as well as develop and finance programs to support them. One clear and immediate task is to develop a system that accurately registers preschool enrollment and attendance. Others include improving the training of preschool teachers, providing technical support to municipal officials managing schools, and making decisions about how didactic materials, school transport and other support activities should be financed and managed.

Last, but not least, we argue that the national government should strongly consider – perhaps with external support – the creation of a preschool *free meal program* funded through a categorical transfer to those municipalities ready to competently administer it. The program would increase parental interest in and oversight of municipal preschools, encourage enrollment, help alleviate poverty and promote social inclusion, while also strengthening municipal managerial skills and information systems at all levels of the education system.

Despite this broad agenda, the note does not pretend to be a comprehensive review of all the issues that affect preschool education in Albania. Nor is it an attempt to address all the problems that need to be resolved in order to create an adequate, equitable, and predictable intergovernmental finance system.

Instead, our primary purpose is to show how the decentralization of preschool education has now made questions concerning access to, and the quality of early childhood education and care inseparable from questions of municipal finance and governance. Our hope is that it will help generate a working consensus across education specialists, municipal officials, and national government policy-makers that to improve the access of Albanian children to better quality preschools, the funds municipalities receive from the national government must be substantially increased, allocated fairly, and put on a solid legal foundation.

## I. EDUCATION DECENTRALIZATION IN EUROPEAN CONTEXT

The relative “weight” of local governments in a country’s governance structure is largely determined by the role they play in the education sector. When local governments begin to manage and finance schools, and particularly, to hire, fire, and pay teachers, their role in public governance expands significantly. The basic reason for this is that paying teachers’ wages is expensive and requires both substantial revenues and the institutional capacities to plan and manage them.

As soon as local governments start paying the salaries of any group of teachers, teachers’ wages typically become one of their largest expenditure items. They also begin to grow the administrative capacity to manage school payrolls and budgets. In countries in which local governments finance and manage all pre-university schooling, spending on education not only accounts for between 40 and 70% of any individual local government’s budget but total local government expenditure typically exceeds 15% of total public spending.<sup>8</sup>

The role of local governments in a country’s education system is based on many factors. There is also dizzying variation across both space and time. In many parts of Protestant Europe (and in their colonial outposts) public education started locally. Here, high literacy rates preceded the creation of the nation-state and the national funding of public schools. Instead, first church parishes and then town councils tithed and taxed residents to put kids in school.

In many of these countries, local governments, churches, and non-profit providers continue to play critical –though not unchanged roles in running and financing schools. In others, this early localism was at least temporarily eclipsed by national government efforts to, as Lawrence Wylie put it, “turn peasants into Frenchmen.”<sup>9</sup> Indeed, it is fair to say that the rapid expansion of public education in the 19<sup>th</sup> and 20<sup>th</sup> centuries was driven by the state-building projects of national governments who sought to address critical political (citizenship), economic (competitiveness), and military (survival) questions through mass schooling.<sup>10</sup>

In the post-war period, national governments also stood behind many –if far from all-- efforts to bring younger children into public care. Here, communist and socialist countries took the lead in building and running nurseries, preschools, and kindergartens in order to extend and expand enrolment. But other countries followed suit, most often as part of economic strategies that called for increasing female workforce participation, and thus the expansion of childcare. In many countries, nurseries and preschools were often run by ministries of labor or social welfare because their primary purpose was not pedagogical, but to free-up parents to work.<sup>11</sup>

Since at least the early 1980s, however, the role of national governments in running school systems has changed substantially and in much of Europe, the earlier trend towards centralization has been reversed. In short, countries are increasingly assigning local governments significant responsibilities in school management and finance. Most have also expanded the decision-making powers of schools themselves. This turn towards decentralization, however, has been driven by different forces than those that earlier favored the centralization of power in ministries of education, labor or social welfare.

To be sure, questions about citizenship, economic competitiveness, and national defense still play critical roles in the formation of education policy. Nonetheless, social pressure for greater local control have combined with broader debates about the reform of the European Welfare State to favor decentralization agendas. These debates took off with the election of Margaret Thatcher in Britain and Ronald Reagan in the US, who both argued that the state had grown too big and needed to be rolled back because, as Reagan famously put it, “Government is not the solution. It’s the problem.”

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<sup>8</sup> For international comparisons see various editions of OECD Education at a Glance. For regional figures see NALAS (2018).

<sup>9</sup> Wylie (1964)

<sup>10</sup> For a good summary see Rameriz & Boli (2007).

<sup>11</sup> Kameron (2006).

In some countries, this posture led to the rather mindless “dumping” of school finance and management responsibilities on local governments. In others, it encouraged radical attempts to marketize public education through school vouchers, vouchers that were supposed to increase competition –and eventually school quality—by allowing students to choose freely between schools.<sup>12</sup>

More commonly, however, decentralization agendas were informed by more complicated and nobler intentions: By the recognition that smaller communities have preferences for different sorts of schools and school programming; by the understanding that local officials are better situated to understand these preferences and to align them with school networks; and by the belief that schools themselves need greater independence to adequately and appropriately educate the diverse communities they serve. In short, both efforts to “dismantle” and to “reimagine” the European Welfare State have informed education decentralization agendas for the last 50 years – though often in confused and contradictory ways.<sup>13</sup>

As a result, and almost everywhere there has been an expansion in the role of local governments in financing and managing schools. Paradoxically, however, this broadening of local control over schools has been accompanied by an increase in the dependency of local governments on state transfers. Indeed, this has happened even when the primary motivation behind decentralization has been to reduce overall public spending. The basic reason for this paradox is that there are simply few good local taxes that can yield anything like the amount of revenue necessary to finance the full costs of schooling.<sup>14</sup>

For example, public spending on pre-tertiary education in OECD countries averages about 4.5% of GDP. At the same time, the property tax is the single most important local tax in many of them. But property tax typically yields less than 1% of total local government revenue, making it unreasonable to expect local governments to finance much in the way of teachers’ salaries from it, let alone the full costs of any significant level of schooling.<sup>15</sup>

As result, national governments are compelled to provide local governments with new grants or transfers when responsibilities for school finance and management are devolved to them. Indeed, even when the national governments “dump” education responsibilities on local governments the grants and transfers they receive increase –just not to the levels the national government was spending prior to the dumping.

Equally importantly, when school finance and management responsibilities are devolved to local governments, the role of the national government changes more than it shrinks. To be sure, ministries of education no longer manage the day-to-day operation of schools. But they remain responsible for a whole array of other critical functions including setting teacher qualifications and *often pay scales*, defining curriculum and educational standards, vetting textbooks and teaching materials, overseeing the development and use of standardized tests, and specifying the rules which govern how private and non-profit providers of schooling and school support service engage with the public education system.

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<sup>12</sup> Discussions about “education decentralization” are often problematic because speakers do not clearly distinguish between efforts to marketize public education by making public schools independent legal entities who compete for students (and hence their budgets) and efforts to increase the role of local governments in the finance and managing of schools. In this paper we use the term ‘education decentralization’ solely in the latter respect.

<sup>13</sup> For example, in the 1990s Sweden decentralized school finance and management to municipalities. At the same time however, municipalities were required to provide private schools with same per pupil funding as they spent (on average) in municipal public schools. These private schools can make profits but cannot charge tuition. The subsequent rapid expansion of private schooling was unexpected. It has also not resulted in any clear improvements in quality. See Lundhal et. al. (2013) and Bjorklund et. al. (2005). For a discussion of these tensions in Poland see Levitas & Herczynski (2002).

<sup>14</sup> See Blochlinger & King (2006) They identify a “decentralization paradox” in which the more social sector responsibilities are assigned to local governments, the more their finances become dependent on the state.

<sup>15</sup> Only a handful of countries get more than 2% of GDP out of local property taxes (e.g. Canada, Australia and the USA) with the maximum being around 3% (Canada). So even in these countries it is impossible for local governments to support education from the property tax alone. As a result, over the last 30 years even these countries have seen a rise in transfers from higher level governments. In most of the Balkans, the property tax still yields less the 0.5% of the GDP.

Most importantly, national governments in general (and Ministries of Finance and Education in particular) must develop the capacity to monitor, adjust, and implement policies in a decentralized environment. For starters, it is crucial that monies allocated to local governments for education be placed on a per pupil basis. There are three basic reasons for this.

The first is that the number of pupils being educated in a locality's schools is the single most accurate and equitable measure of their need for funds. Second, funds need to flow to where children attend school –and not where teachers are currently employed-- if the system is to respond to changes in demography. And third, once local governments are made responsible for hiring and firing teachers, they cannot be allowed to hire as many teachers as they want and expect the national government to pay for them.

That said, it is also critical that per pupil formulas be 'weighted' to reflect the additional costs of teaching in sparsely populated communities where class sizes must be smaller, or of teaching children from disadvantaged communities or with disabilities. Developing and implementing weighted per pupil formulas is not easy. But it is not impossible either. More than anything it requires reliable data on attendance and enrollment as well as data on the existing distribution of teachers, teaching time, and wages. In short, it requires a reliable system for collecting and processing basic education data, a system which can begin modestly and be expanded over time.<sup>16</sup>

Practices and procedures must also be developed that at once require and permit national governments to adjust education grants and transfers as conditions change. These include shifts in enrollment, changes in curricular requirements, and the raising of teachers' salaries –which in many countries remain centrally set even after local government are made responsible for paying teachers wages. Indeed, one of the most contentious problems that decentralized systems often encounter is how to adjust per pupil formulas when national governments raise teacher salaries. Here, there are no perfect solutions. But the precondition for workable ones lies in having well developed institutions for intergovernmental dialogue.<sup>17</sup>

Finally, national governments must be able to target and monitor conditional grants to local governments for purposes like school transport, meal and afterschool programs, special services for the disabled and the disadvantaged, and for improving facilities in communities that can't afford to do so themselves.

Since at least the 1990s, efforts to decentralize education have also --and importantly-- been accompanied by a radical reevaluation of what early childhood care should be about. As we have already noted, many national governments in the post-war period supported the development nurseries and preschools more to facilitate the expansion of the female labor force participation than to educate children. In some countries, these efforts to extend childcare were entirely driven by national governments. But in many others, national support for the extension of childcare was layered over earlier, more local efforts to build nurseries and preschools designed to educate and nurture the "whole child"<sup>18</sup>.

Support for more robust early childhood education programs then exploded in the 1990s, as evidence from diverse disciplines began to suggest that such programs had huge individual and social benefits. Neuroscientists demonstrated the critical importance of early childhood education on brain development. Biologists and doctors showed its effects on long-term physical and mental health. And longitudinal studies by sociologists and economists suggested that not only did high quality early childhood education have profound impacts on the life chances and earnings of the disadvantaged, but

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<sup>16</sup> Many efforts to build Education Information & Management Systems have collapsed under the weight of overly ambitious efforts to collect extremely detailed information about students and teachers, and often school finance data as well.

<sup>17</sup> See Levitas and Herczynski (2002) and Levitas (2015).

<sup>18</sup> See Kamerman (2007).

that investment in early childhood education is the single most cost-effective way to improve the socio-economic outcomes of education as a whole.<sup>19</sup>

The explosion of these studies and their promotion by international organizations like UNICEF and Save the Children have in turn –and somewhat paradoxically-- led national governments to get more involved in early childhood education in places where they weren't involved before, and for local governments and private organizations to get more involved in places previously dominated by state institutions. As a result, in many countries the movement towards high quality early childhood education has been accompanied by the growth of systems in which national, local, and philanthropic funding support a variety of private and public providers.

The trajectory of many post-communist countries is interesting in this respect. In Poland, national financial support for nurseries and preschools was withdrawn after the collapse communism, in part because many reformers wanted to roll-back the state's influence on the family, and in part for more prosaic fiscal reasons. As a result, when Poland reestablished democratically-elected local governments in 1990, preschool education was defined as a municipal “own function” to be paid for out of the general revenues of local government budgets, and in many places, preschools were closed or allowed to die with the state enterprises that often ran them.<sup>20</sup>

Moreover, the system of per pupil financing that was developed in the 1990s to support the decentralization of primary and secondary schools to local government never included per pupil payments for preschools. But as soon as the new financing system had been put in place, Polish educators and local government officials began to reassess what had happened to preschools and to demand that the national government support high-quality preschool education.

Luckily for everybody, these demands intensified just as Poland was entering the European Union. In an important diplomatic victory, the Poles convinced an initially reluctant EU bureaucracy to allow them to use substantial amounts of Structural Adjustment funding on preschool education. This has effectively made preschool education in Poland a “shared function” in which a combination of local government revenue and internationally funded grants are used to finance networks of public and private preschools. Nonetheless, and despite this victory, the question of whether per pupil support from the national government should be extended to preschools remains one of the more contentious education policy issues in Poland today.

The main take home points of this brief review of education decentralization in Europe can be summarized as follows. The 19<sup>th</sup> century expansion of public education in Europe was driven by state-building projects in which ministries of education ran centralized and often freshly nationalized systems of primary and secondary schools. By the turn of the 20<sup>th</sup> century, many countries saw the emergence of non-profit and or municipal systems of early childhood education fueled by new ideas about education, childhood, and democratic citizenship.

In the post war period, national governments got more involved in early childhood care, but primarily to free woman up to work. Here, socialist and communist countries took the lead. By the 1980s, however, the tide of centralization began to turn, and more and more European countries began to devolve education responsibilities to local governments. Sometimes this was done to reduce fiscal and managerial pressure on the national government. More often, the idea was to make schooling more responsive to local needs and preferences.

The decentralization of school finance functions to local governments –particularly teachers' salaries— paradoxically increased the fiscal dependency of local governments on state transfers. More than shrinking the state, the “decentralization turn” forced national governments to develop new capacities to reasonably fund, monitor and regulate what had de facto, if not always de jure, become a “shared function”. States that did this well typically developed institutional mechanisms for intergovernmental dialogue.

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<sup>19</sup> This work was pioneered by the Nobel-prize winning American Economist, James Heckman. For a reasonable discussion of it in the Albanian context see Psacharopoulos (2017).

<sup>20</sup> On preschool education in Poland see Levitas & Herczynski (2002) and Levitas, Herczynski and Golinowska (2001).

At roughly the same time, attitudes towards early childhood care also shifted. Now, nurseries and preschools are understood to be critical sites for improving the life chances of children, particularly the disabled and disadvantaged. This understanding has encouraged national governments to reappraise their earlier focus on childcare, and to investment in more substantive developmental programs for 3 to 6-year-olds. Typically, these investments are made with and through local governments, and often include private providers, effectively making early childhood education a “shared function”.

## 2. EDUCATION DECENTRALIZATION IN ALBANIA

### The Origins of the Current Situation

In the last quarter of the 19<sup>th</sup> century, secular and church affiliated social reformers, national patriots, and local governments opened Albania's first 'public' schools – only to have them repeatedly closed by the ruling Ottomans. With independence in 1912 more local schools appeared on the scene and following patterns familiar in other European countries, the government of Albania nationalized them in 1934.

Since then, public education has been a state-led affair. After WWII, the ruling Communist Party of Albania, built public schools throughout the country including as we have seen at the preprimary level. Much to their credit, these schools largely succeeded in eradicating illiteracy. But the education they offered was intensely politicized, based on rote learning, and extremely centralized.

In the first decade following communism's collapse, Albania's new democratic governments did little to change the centralized system of pre-university education that they inherited from the past. In this system, and until very recently, all schools were effectively run by the Ministry of Education through 12 Regional Education Directorates (REDS) who in turn ran 24 district Education Offices (EO).

REDS and EOs hired and fired school directors and teachers at will; approved the hiring of all non-pedagogical staff, paid everybody's wages; determined class sizes; organized and financed school transport, allocated money to schools for didactic materials and cleaning supplies, and managed most investment projects. They were also responsible for inspecting schools, collecting and processing data on enrollment, attendance and employment and for resolving all local disputes.<sup>21</sup>

For a few years in the early 1990s, public spending on pre-university education exceeded 4% of GDP. Since 1995, however, it has never exceeded 3% of GDP<sup>22</sup>. Worse, between 2005 and 2013 public spending on pre-university fell both as a share of GDP --from 2.81% to 2.7%-- and as a share of total public expenditure --from 10.37% to 9.57%.<sup>23</sup> This is well below the OECD average of 6.3%, and the EU average of 4.8. It is also below all of Albania's Balkans neighbors where with the exception of Macedonia (3.5%), spending on public education has averaged over 4% of GDP.<sup>24</sup> Moreover, per pupil spending on public education has declined despite a radical decrease in the school-aged population.<sup>25</sup>

Not surprisingly, virtually every report written on Albanian education over the last 30 years has decried this underspending and noted that despite declarations and plans to the contrary none of the country's post-communist governments has made significant efforts increase expenditure on public education.<sup>26</sup>

The first major changes in the governance of pre-university education came with the passage of the Law on "On the Organization and Functioning of Local Government".<sup>27</sup> This legislation defined the rights and responsibilities of Albania's 373 democratically elected local governments (61 municipalities and 322 communes) as well as those of its 12 regional authorities (qark). The Law defined pre-tertiary education as a *shared function* and assigned municipalities and communes ownership of all school buildings. As owners, they were made responsible for maintaining and improving school facilities, as well as for paying their utility bills.

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<sup>21</sup> On the functions and organization of the REDs and EOs see Herczynski (2007). As we have already suggested early, many of the state functions that REDS and EOs were supposed to carry out or finance were done inconsistently or not at all because of underfunding.

<sup>22</sup> Palomba and Vidopevic (2001) pp. 33-35; Psacharopoulos (2017) p.17

<sup>23</sup> Gjekutaj (2013) pp. 43-48

<sup>24</sup> World Bank (2014) pp. 12

<sup>25</sup> Palomba and Vidopevic (2001) pp. 35-38;

<sup>26</sup> See virtually all the reports on Albanian education listed in the bibliography.

<sup>27</sup> Government of Albania, Law no. 8652/2000

But the national government did not create a new conditional grant to help local governments pay for the responsibilities that came with the ownership of facilities. Nor did it increase the size of the small Unconditional Transfer that local governments received to support their own and shared functions. Instead, it seems that the national government “saved” the money it had earlier spent on school maintenance and left local governments to pay for the function out of their existing revenues. In short, local governments were expected to maintain and improve long neglected facilities from their own quite limited funds.<sup>28</sup>

In the early-2000s, the situation became more complicated as the national government began to delegate new social sector responsibilities to local governments. In 2003, local governments were briefly given conditional grants to pay the wages of all employees in pre-university educational facilities. In 2006, however these payment responsibilities were recentralized for teachers but left in place for support staff. But instead of creating a clearly defined conditional grant for support staff the Ministry of Finance ‘tacked on’ to each local government’s Unconditional Transfer an additional sum earmarked for the wages of these workers. This served to blur the boundaries between conditional and unconditional funds.<sup>29</sup>

Equally importantly, the value of these tacked on conditional grants was determined by the wage bills of the support staff that the REDs and EOs had allowed schools to employ. Like everything else in education, this support function was underfunded, so the total amount of conditional grants remained insufficient to improve conditions within schools. They were also unfairly distributed across regions and localities. As a result, the tacked-on grants simply reproduced the insufficient and unfair distribution of resources that had grown up over the years.

This tension between historical patterns of resource allocation and ones based on rules that treat all local governments similarly needs to be well understood because it constitutes the single most difficult challenge facing all decentralization projects, and one which continues to haunt Albania today. The problem has two components, one political and the other demographic.

The political component has its origins in the fact that communist states rarely spent public money according to any clear or equitable rules. This is ironic because at least in theory, they ought to have been better at this than more decentralized polities in which substantial control over the raising and spending of public resources has been devolved to independent, but richer and poorer local governments.

The demographic component is that throughout post-communist Europe birth rates fell radically during the 1990s and early 2000s, while at the same time massive socio-economic changes fueled high rates emigration rates and rural-urban migration. These changes decreased the total number of pupils in school while pushing and pulling those who remained to different places. As a result, the existing and already uneven distribution of schools and teachers was knocked further out of alignment with the distribution of pupils.

The geographical disparities in the financing and provision of schooling, however, remained ‘invisible’ so long as the national government ran things and resource decisions were internalized within the state’s educational bureaucracy. But when educational responsibilities begin to be devolved to local governments, these disparities become visible, politically contentious, and financially complicated. In short, resources must now be allocated to local governments by rules that treat them all reasonably fairly.

As we have already discussed, this requires developing some form of weighted per pupil formula. But moving towards some more equitable and rational allocation system is incredibly difficult because changing resource flows always creates “winners” and “losers”. Worse, if no new money is put into the system when functions are devolved then losers are often forced to lay-off workers and close

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<sup>28</sup> On the underfunding of local governments in the 2000s see Levitas (2011)

<sup>29</sup> In the mid-2000s, the GoA also started allocating categorical investment grant to local governments for education purposes. These grants were eventually made part of a wider system of development grants that are allocated to local governments through the Regional Development Fund on a competitive basis.

institutions that the national government had previously maintained, while winners may well not have enough money to create the institutions that the national government never built. In short, decentralizing unevenly and historically underfunded responsibilities to local governments almost always requires the national government to increase total spending on the function for the operation to be successful.

The way the GoA delegated to local governments the responsibility for paying school support staff dodged these problems. In the Annual Budget Laws, the GoA stated that it gave local governments the same amount of money it had spent in their schools before; and ‘authorized’ them to add their own local resources if they desired so, to improve the conditions – de facto, leaving LGUs on their own to correct the historical inequities and underfunding. This same posture, however, has become increasingly untenable as the national government has devolved new responsibilities on local governments.

### **The decentralization of preschools and the tension between the legal and financial systems**

In 2014, the newly elected Socialist-led government published a strategic plan calling for the creation of larger local governments and the assignment of new functions and resources to them. This strategic plan was soon followed by the consolidation of the country’s 373 first tier local governments into 61 municipalities (2015), the passage of a new framework Law on Local Self Government (2015), and a new law on Local Self-Government Finance (2017).

The national government was committed to rapidly assigning the new municipalities new responsibilities in the areas of preschool education, social protection, fire protection, forestry and irrigation. But in the discussions of the draft Law on Local Self-Government there was a heated debate about how this should be done. The Ministry of Finance argued that some of these responsibilities – and preschool education in particular—should be defined as “shared function” both to allow closer regulation of the sector by the national government, and to permit their funding through conditional grants.<sup>30</sup>

But local government experts within the working group for the development of the law, opposed this idea because they felt that the category of “shared functions” made it too easy for the national government to shift financial burdens onto local governments. So, they argued for the elimination of the category of shared functions, in the hope that this would solve the problem by forcing the national government to make more realistic estimates of what both own and delegated functions should cost. Ultimately, the opinion of this group of experts was approved, and the new LSGF both eliminated the category of shared functions and made preschool education, fire protection, forestry and irrigation “own functions”.<sup>31</sup>

This in turn put the Ministry of Finance (MoF) in a difficult position when it was called upon to draft the new Local Self-Government Finance Law. In principle, it knew that the only legally consistent way to finance the new functions as “own functions” was to radically increase the general revenues of local governments by giving them substantial new tax powers and/or increasing the size of the Unconditional Transfer.

The Ministry fully expected to give local governments increased powers over the property tax. But it also understood that it would be years before the tax yielded substantial new revenue given the poor state of property registration and valuation. Moreover, it also understood that even when registration and valuation was improved, the tax would yield much less revenue in some municipalities than others, differences that would have to be compensated for if poorer municipalities were to provide critical services like preschool at some reasonable standard.

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<sup>30</sup> The financing of own or exclusive function through conditional grants contravenes the principles of the European Charter of Local Self Governments to which Albania is a signatory. See European Charter (2010 particularly Articles 4.4 and 9.7

<sup>31</sup> Local Self-Government Law (2015) Articles 21-23

This suggested that the best way forward was to expand the Unconditional Transfer to include the funds for the new own functions. But the MoF was painfully aware that it could not quickly develop a reasonable way to allocate the funds for the new functions through the Unconditional Transfer. The most obvious reason for this came from fire protection, where 22 of the new 61 municipalities simply had no fire stations. But the same uneven (and unfair) distribution of spending was characteristic of the other functions as well, including preschool education which was by far the most expensive of them.

As we will examine more closely in the next section, the distribution of teachers (and their wages) was very poorly correlated with the number of pupils attending preschools in different municipalities, as well as with the sizes of the classes they were being taught in. In short, it was obvious to both the Ministry of Finance and the Ministry of Education that allocating money for teachers wages to municipalities on a more equitable basis, and without also putting new money into the system would cause lay-offs and school closures in many places.

As a result, the Ministry of Finance insisted on putting transitional provisions into the new Local Self Government Finance Law that allowed the national government to fund the new own functions through conditional grants, so-called “Specific Transfers” for a period of three years. In the first year of the Law’s operation the Ministry repeated exactly the same procedure it had used when delegating responsibility for paying school support staff to local governments in the mid-2000s: It simply transferred to each municipality the same amount of funding that the individual line ministries declared to have spent on the wages associated with each of the functions in the year prior to its “decentralization”

Table I below shows the total amount of Specific Transfers allocated to local governments between 2016 and 2018 in millions of lek broken down by function. For our purposes, two aspects of the Table are particularly important. The first is simply that the Specific Transfer for the wages of Preschool Teachers and Support staff in Basic Education constitute 54% of all Specific Transfers and are by far the single largest category of them. The second is that total volume of Specific Transfers has increased by 39% since 2016, with the Specific Transfer for Preschool Teachers’ wages growing by 17%.

**Table I. Specific Transfers 2016-2018**

Year	Preschool Teachers & Support Staff Basic Education	Support Staff Secondary Schools	School Dorms	Fire Stations	Social Welfare Centers	Forestry	Rural Roads	Irrigation and drainage	Total
2016	3,951,250	351,442	500,369	635,874	65,671	105,468	500,713		6,110,787
2017	4,124,438	356,745	510,375	866,406	66,985	154,008	510,727	1,156,660	7,746,344
2018	4,623,747	469,375	514,298	1,185,209	87,835	276,130	515,834	847,538	8,519,967
% of 2018	54%	6%	6%	14%	1%	3%	6%	10%	100%
2018/2016	17%	34%	3%	86%	34%	162%	3%	na	39%

Source: Annual Budget Laws, MoF

This growth represents the national government’s (admirable) attempt to come to grips with the fundamental problem we have described earlier: the uneven and unfair distribution of central government spending on these functions prior to their decentralization. For example, and as we have noted earlier, when the LSGL assigned fire protection to the new 61 municipalities as an own function, 22 of them did not have fire stations.

To its credit, the national government then strategically directed funds to finance the construction and of at least 17 new fire stations. As these fire stations were created, the government then authorized local governments to hire the personnel necessary to staff them. This explains the rapid growth of the Special Transfer to pay the wages of firefighters that can be seen in Table I.

Table II below illustrates similar efforts with respect to Preschool Education. In this Table the wages of preschool teachers are broken out from the wages of support staff in Basic Education, meaning both preschools and primary schools.<sup>32</sup> What the Table shows is that since 2016, the Ministries of Education and Finance have been working to address at least some of the historical disparities in the funding and provision of preschool services by increasing the number of preschool teachers in employed in the system. This has been done by instructing the Regional Directorates of the Ministry to allow individual schools to hire more preschool teachers, and then working with the Ministry of Finance to increase the size of the Specific Transfer that the concerned municipalities received.

**Table 2.**  
**The Evolution of Specific Transfers & Preschool Teacher Employment Since 2016**

Year	Preschool Teachers	Support Staff in Basic Ed	Preschool Pupils	Teachers Wages	Support Staff Wages	Pupils per Teacher
2016	4095	2186	76627	2,936,519	1,014,729	18.7
2017	4178	2186	74730	3,109,709	1,014,729	17.9
2018	4410	2186	74001	3,609,018	1,014,729	16.8

Source MoF and MoEYS

In this context, it is interesting to compare what has happened with the Specific Transfer for Support Staff in Basic Education, with what has happened with the Specific Transfer for Support Staff in Secondary Schools. As can be seen from Table I, the Size of the Specific Transfer for Support Staff in Secondary Schools has increased by 34% between 2016 and 2018. This means that here too the Ministries of Finance and Education agreed to allow the REDs to hire more support staff in some secondary schools and some local governments and worked together to increase Specific Transfer for the function.

But while this is very similar to what they did with Preschool Teachers, it is not what they did with the support staff in Basic Education. As can be seen from Table II, the size of the Specific Transfer for support staff in Basic Education was held stable between 2016 and 2018, as was the number of support staff that the national government was willing to pay for in preschools and primary schools. The different treatment of support staff in secondary schools and support staff in basic primary education, however, should not be taken to mean that the Ministries thought that the allocation of support staff in secondary schools was significantly worse than that in preschools, or that at either level anything close to reasonable universal norms were being achieved.

To the contrary, what this all suggests is that the Ministries were trying –and again to their credit– to make things fairer but doing so not on the basis of any standardized objectives like X number of support staff per school, but simply by what resources they thought they might be able to get away with spending in any given area to make things a little better than they were before. In Basic Education, they decided that the priority should be increasing Preschool Teachers but held spending on support staff stable. In secondary education, however, they added some extra money for support because they thought they could, and that it would be a good thing, but not because they had any illusions that this

<sup>32</sup> The Albania budget classification system does not have separate codes for Primary Education and Preschool Education. This should be corrected, not least because Preschool Education is now a municipal own function.

would fundamentally correct the historical disparities in spending that had been decentralized to municipalities.

Indeed, this well-intentioned improvisation gets more interesting in 2019. In 2019, the three-year transitional period that allowed the national government to fund the new own functions of municipalities with specific transfers expired. But parliament took no action to renew the transitional provisions or to amend LSGFL to require that they be funded through some other vehicle.

The Ministry of Finance, however, decided to rename Specific Transfers, Unconditional Sectoral Transfers. What this name change suggested, in other words, was that the Ministry had come to understand these transfers as what would be called in the American context “block grants”, meaning grants that local governments could spend only on the function they were designated for, like preschool education, but within that function any way they liked.

### Preschool education finance reform: Moving towards a formula-based grant to municipalities

Working together with USAID’s PLGP, both the Ministry of Finance and Economy and the Ministry of Education, Sports and Youth decided to move away from allocating money for preschool teachers on the basis of where they were employed, and to instead take a step towards allocating money on something like a per pupil basis: According to the new formula, 60 percent of funds are now allocated to local governments on the basis of the number preschool children enrolled in their schools, and 40% on the number of preschool teachers they employ.

This decision to move to a new formula is both remarkable and odd. It is remarkable, because it is the first time in the education sector that national funds for the basic operation of schools were allocated to local governments on any other basis than existing employment -- this despite the fact that since at least 2012, all of Albanian legislation on Pre-University education has called for the adoption of per pupil funding. And it is odd because to finance the new formula, the Ministry of Finance decided to take money out of the Unconditional Transfer and add it to the Unconditional Sectoral Transfer for Preschool Education.

Table 3 below shows the amounts of the ‘Unconditional Sectoral Transfers’ allocated to municipalities in 2019, as well as the additional money that was added to the transfer for preschool education from the Unconditional Transfer. What the table shows (when compared with Table 1) is that for the first time since 2016, the total amount of Specific Transfers did not increase. In other words, the national government did not approve any requests for new funds from either line ministries or municipalities.

**Table 3. Unconditional Sectoral Transfers in 2019**

	Proto Per Pupil Formula Preschool Educ.	Support Staff Basic Education	Support Staff Secondary Schools	School Dorms	Fire Protection	Social Protection	Forestry	Rural Roads	Irrigation and drainage	Total
<b>Uncond. Sectoral Transfer</b>	3,609,018	1,018,729	470,375	519,441	1,135,209	88,713	310,940	520,992	847,538	8,520,957
Funding from the Uncond. Transf.	327,000									
<b>Total</b>	<b>3,936,018</b>									

Source: Annual Budget Laws, MoF.

The new allocation formula for preschool teachers’ wages pushed additional money towards local governments with fewer teachers per pupil than others. But it did so without pulling money from local governments that had more teachers per pupil than others. As such the additional funding put into the

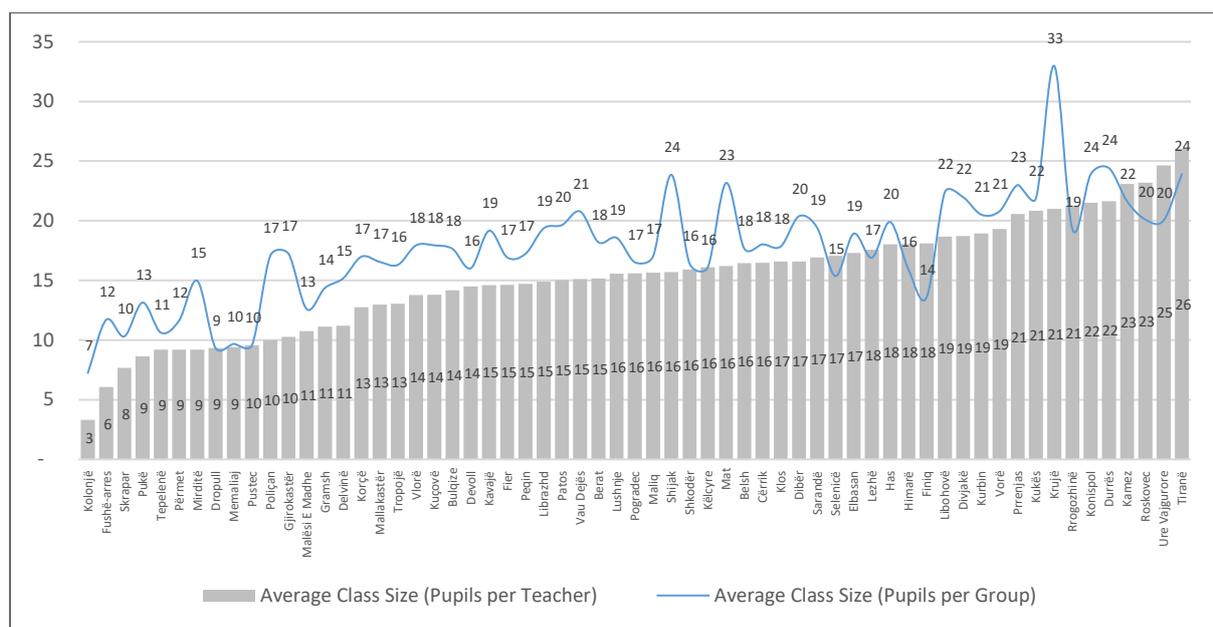
system allowed some local government to hire additional teachers without forcing those with ‘too many’ to fire them.

But this was done without additional funding being put into the Sectoral Transfer for Preschool Education. Instead, the Ministries of Finance and Education added 327 million lek to the Sectoral Transfer by taking it out of the Unconditional Transfer. This procedure has weak legal foundations. It also leaves unanswered the question of whether the financing and management of preschools should be considered a local government own function, financed by freely disposable revenues, or a shared function, financed by some combination of local government own revenues and sectoral grants.

### The impact of the new formula and the reform: expectations vs. lessons learned

What both ministries were trying to achieve by taking 327 million lek out of the Unconditional Transfer and using it to fund Albania’s first attempt at a per pupil formula is best explained by comparing Charts I and II below. Chart I shows pupil/teacher ratios in preschool education, as well as the average sizes of preschool classes across all municipalities in 2018. As can be seen from the Chart, pupil/teacher ratios range from 3 pupils per teacher in Kolonje to 24 pupils per teacher in Tirana, while average class sizes range from 7 pupils per class in Kolonje to 33 in Kruje. Here, in other words, is a graphic representation of the kinds of inequalities in the provision of preschool education that had grown up over the years and which had been handed over to municipalities with the passage the LSGL.

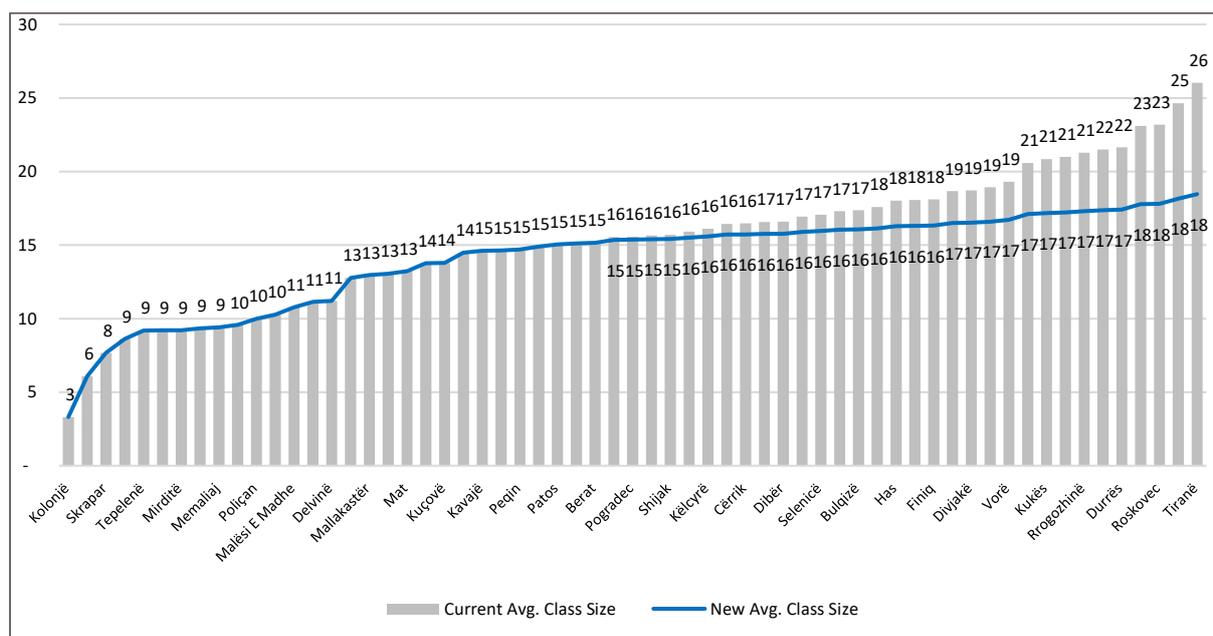
**Chart I. Disparities in Preschool Pupil/Teacher Ratios and Group Sizes in 2018**



Source: MoEYS, PLGP Calculation

Chart II on the other hand, shows what the Ministries *hoped would happen* if 327 million lek was put into the system in a way that allowed municipalities with very high pupil/teacher ratios to employ enough new teachers to lower the maximum pupil/teacher ratio in any municipality to 18 pupils per teacher, while holding all other governments harmless. Or to put the matter a little more prosaically, the formula provided municipalities with pupil/teacher ratios of over 18 enough money to hire the teachers —440 in all or 10% more than before—necessary to bring their pupil/teacher ratios down to a maximum of 18 without forcing any other municipalities to lay anybody off.

**Chart 2. Expected Disparities in Preschool Pupil Teacher Ratios and Group Sizes in 2019**



Source: MoEYS, PLGP Calculations

The Ministries, in other words, were hoping that the new money would further equalize conditions across municipalities and bring them closer to a reasonable standard while at the same time moving the funding system away from an allocation based solely on existing employment. As such, the new formula — as well as all the earlier efforts to increase the number of preschool teachers by increasing the value of the Specific Transfer — represents an attempt to ‘level-up’ conditions by putting new money into the system without taking funds from schools or municipalities who might be getting more than their “fair share” of resources.

But while the attempt was commendable, it remains legally confused in ways that need to be well understood if future efforts to improve the financing of preschool education are to be successful. The first problem is simply that while the 2019 Unconditional Sectoral Grant did provide more money to municipalities and arguably made the allocation resources in the sector fairer, it is unlikely that it will actually reduce the maximum pupil/teacher ratio in the country’s preschools to 18, within 2019, as originally expected by the Ministries of Finance and Education.

One reason we say this is because interviews with representatives from a few of the municipalities that received additional funding revealed that none of them spent all the money in the way the Ministries intended, and this despite a letter from the Ministry of Finance saying that the additional funds should be used to hire more preschool teachers. Officials in one municipality said, that while large classes were indeed a problem, their more pressing need lay in hiring more support staff. So, while they did engage new teachers, they spent about half of the money to hire new support staff. Moreover, they argued –not entirely unreasonably—that their current shortage of support staff was lowering the quality of preschool education more than large classes because teachers were spending an inordinate amount of time and energy trying to keep facilities clean and in good repair.

Officials from a second municipality said they would happily have spent the money to hire new teachers, but that at present they literally did not have the classroom space to use them. So, this municipality spent the money to make infrastructural improvements in their existing preschools while hoping that the funding for new teachers will be repeated next year so they can staff a new preschool that is currently being built. Finally, officials from a third municipality were reluctant to spend the money on new teachers because their classroom sizes were already relatively small. Indeed, they suspected they received the money because of a statistical error and rather than risk hiring teachers

for whom funding might not be repeated in subsequent years, they also used funds for one-time capital improvements.

This is an admittedly small sample from which to draw definitive conclusions, and it will be important to see at the end of the year just how many of the 440 teachers the ministries hoped would be hired, were in fact engaged.<sup>33</sup> But what is more important to understand is that by defining preschool education as an own function, the 2016 LSGL essentially left it up to municipalities to determine not only how much they want to spend on preschool education, but in what way. And this is because both the 2017 LSGFL and the European Charter of Local Self-Governments require that municipalities be given wide latitude in how they provide and finance own-functions.<sup>34</sup>

### **The new tensions between the legal and financing framework**

Indeed, the only legal way the national government could compel a municipality to hire more preschool teachers is if a court determined that by not doing so, the municipality was violating other legally stated norms, such as regulations in the Law on Pre-University Education which define the maximum class sizes in preschools. Such court cases, however, would not only be difficult to win but would raise other hard to resolve issues.

Consider for a moment, the variety of arguments a municipality charged with violating class size norms might make in court. Like the municipal officials we have discussed above, they might well argue that they inherited from the national government too few preschools, and until they have more space hiring more teachers makes no sense. Similarly, they might argue that given the staffing patterns they inherited from the national government and their own financial constraints their more pressing priority is to hire more support staff, not just to keep schools clean and safe, but because having teachers perform support staff duties lowers the effectiveness of instruction.

Worse, these are far from the only reasonable – or even best – arguments municipalities might make. Because preschool education is almost never compulsory, one of the critical dimensions that needs to be considered when assessing its quality is access, meaning the percentage of 3-to-6-years-olds living in a municipality who in fact attend its preschools. As with staffing patterns, however, municipalities inherited preschool networks in which enrollment rates differ dramatically. Moreover, while we have reasonable statistics on teacher employment, Albanian data on enrollment rates is very poor, with national estimates ranging between 40% and 60% and reliable estimates for individual jurisdictions almost non-existent.<sup>35</sup>

Thus, a municipality that had urban preschools whose class sizes exceeded legally stated norms, but also had rural preschools with small classes might well argue that for them it made more sense to spend the money to increase rural enrollment rates than to hire more teachers in the city. In short, there are often hard tradeoffs between increasing enrollment rates and lowering class sizes or pupil teacher ratios. These tradeoffs would make it hard to determine whether a local government has large classes because it is trying to increase enrollment, or because it is trying to cut costs. Similarly, it would be hard to determine whether local governments with small classes has them because they are trying to improve the quality of education, or because they are in effect restricting access to it.

For these reasons, it is unlikely that the national government will be able to effectively use legally stated norms about class sizes to challenge municipal expenditure decisions in court. But this discussion is also useful for thinking more generally about the problems that arise when national governments try

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<sup>33</sup> As of this writing, municipalities had hired 254 or the 440 teachers that the Ministries hope would be hired.

<sup>34</sup>The new own functions of municipalities are now being financially supported by the national government through “Unconditional Sectoral Transfers”. The legality of these transfers is open to question precisely because the LSGL defined the new functions as own functions and not shared or delegated ones. But even if they are legal, the same basic problem remains: While local governments might be charged with financial malfeasance if they spent Unconditional Sectoral Transfers on functions other than the ones they are designed to support, the national government would have very limited grounds on which to question municipal expenditure decisions so long as they spent the funds on the sectors the transfers were designated to support.

<sup>35</sup> See the discussion of enrollment rates on pg. 34 and footnotes 46-8

to hold local governments accountable for the provision of decentralized services like preschool education.

In short, when national governments decentralize expensive and important functions like preschool education to local governments, they typically want to know whether the money they provide is being well spent. Not surprisingly then, decentralization efforts are typically accompanied by efforts to develop standards and metrics that allow national governments to assess the quality of services they are helping to fund at the local level. These include standards like maximum class sizes and metrics like pupil/teacher ratios, enrollments rates, and the share of teachers with advanced degrees. Indeed, there is almost no limit to the number of potentially useful metrics that one can imagine.

At the same, local government officials often demand that the national government provide them with a similar set of standards and metrics. Typically, however, they make these demands not because they think these standards and metrics will be particularly useful in improving the services they provide. Rather, it is because local officials understand that as soon as such standards are articulated, they will be able to argue that cannot possibly meet them without additional funding.

As a result, when major functions are decentralized to local governments, there are almost always calls from both national and local government officials to develop clear service standards and measurable indicators local performance. Moreover, these calls are frequently amplified by international organizations hoping to help countries improve their social services and hungry for the data that might make this possible. In short, decentralization agendas are typically accompanied by major efforts to improve information systems, develop performance indicators, and articulate standards that can be enforced through metrics.

Much of this work is valuable and indeed necessary. But there is a huge and often poorly understood distinction between using metrics and indicators as diagnostic tools to help professionals improve their practices and using metrics and indicators as tools to reward or punish these same groups for their performance.

There are many reasons for this, but the most important were summarized 50 years ago by the American social psychologist and statistician Donald T. Campbell. In what has become known as Campbell's Law, that "the more any quantitative social indicator is used for social decision making, the more subject it will be to corruption pressure, and the more apt it will be to distort and corrupt the process it is intended to monitor." Or as the British economist, C.A. Goodhart put it at roughly the same time, the more a statistical measure is used for social control the more it becomes unreliable.<sup>36</sup>

The best-known examples of the kind of corruption that Campbell and Goodhart had in mind come from education. Here, rewarding and punishing teachers, schools, and/or for that matter local governments for the test results of their students has repeatedly been shown to produce behaviors like "teaching to the test", testing only the better students, and simply falsifying test results.

But there is now a burgeoning literature on how and why the using indicators to reward and punish subordinate actors encourage "goal narrowing", "creaming" and "outright cheating" across a wide set of functionally different domains including health, education, social welfare, and policing. Indeed, the moral of the story is everywhere quite similar: The more a social activity has multiple ends like 'education' and 'health', and the more it requires professional judgement to carry out, the more high-stakes metrics tend undermine overall performance.<sup>37</sup>

The disturbing paradoxes involved with using metrics to hold subordinate agents responsible for their performance are in turn important for thinking through what can be done to improve how local governments manage preschool education in Albania: On the one hand, there is a crying need to improve the statistical and informational bases on which decisions in the sector are made, as well profound reasons to want to improve local government accountability.

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<sup>36</sup> See *Campbell (1979) and Goodhart (1975)*

<sup>37</sup> For a good summary of this literature see *Muller (2019)*.

On the other hand, however, there are equally profound reasons for believing that the use of high stakes indicators to reward or punish local governments for their behavior in the sector will at once fail to account for the unequal circumstances they have inherited from the past, while also distorting their behavior. With these dilemmas in mind, we now try to summarize where Albania currently stands with respect to the decentralization of preschool education.

As we have argued, many of the central problems haunting preschool education in Albania today are attributable to the fact that the sector was under and unequally funded for years before being made a municipal own function. As result, municipalities have inherited preschools that are almost universally in poor condition, but which are staffed very differently, and serve very different shares of the resident preschool age population. Moreover, not only is data on enrollment rates poor, but it has been changing rapidly because of emigration and internal migration to Albania's largest cities.

Until very recently, the funding that municipalities have been provided to run their preschool networks has been based on what the national government said it spent on them prior to their decentralization. Over the last few years, and to their credit the Ministries of Finance and Education have worked together to correct at least some of the most glaring inequities of the past. Through 2018, they did this by authorizing individual municipalities to hire more teachers and then increasing the amount of funding they received through the Specific Transfer for preschool education.

In 2019, however, the Ministries agreed to put into place the beginnings of a much needed per pupil formula to allocate what now became the Unconditional Sectoral Transfer for Preschool Education. But because the national government was not ready to increase overall funding for the sector, the only way the new formula could be paid for was by shifting funds from the Unconditional Transfer to the Unconditional Sectoral Transfer for Education. This shifting of funds is legally confused and leaves unanswered the question of how preschool education should be financed in the future.

The Ministries justified shifting the funds between the two transfer mechanisms because they knew that without new monies from the state budget they could not hope to lower pupil teacher ratios in Albania's more urban municipalities and because they wanted to put in place an allocation formula based for the first time primarily on pupils, and not existing employment. These efforts are both understandable and commendable.

But they did not resolve the question about whether the preschool education should be considered a municipal own function and financed through some combination of the Unconditional Transfer and other local revenues, or whether it should be considered a shared function financed through some combination of local revenues and a block grant that resembles the Unconditional Sectoral Transfer for Preschool Education but whose legal foundation remains unspecified.

If the current definition of a preschool education as an own-function is left in place, then the Unconditional Sectoral Transfer should be folded into Unconditional Transfer and the GDP anchor specified in Local Government Finance Law substantially increased. If however, preschool education is to be considered a shared-function, then the category has to be reintroduced into the Organic Law on Local Self Government, and the Local Self-Government Finance Law amended to include provisions that specify how the size of the Unconditional Sectoral Transfer will be determined and adjusted over time.

Moreover, in both cases more money will need to be put into the system if local governments are to have any chance of improving a critically important social service that for many years has been underfunded by the national government despite repeated declarations to the contrary. Similarly, in both cases the per pupil formula that was put in place in 2019 will have to be further developed if money is really to flow to the local governments in which preschool children reside.

Finally, the fact that at least some municipalities did not use the additional funding they received in 2019 to hire as many teachers as the ministries expected is likely to intensify concerns about accountability and to fuel demands for preschool standards that can be enforced through metrics and performance indicators. But while there is a crying need for better data about what is going on in

preschool education in Albania, efforts to use such standards to reward or punish local governments for their performance are likely to have unexpected and perverse consequences.

On the one hand, the definition by the national government of clearly specified service standards for preschool education will almost surely lead to an explosion of new demands for funding, and while there is question that preschool education needs more money, these demands cannot be met overnight. At the same time, the unequal legacies that municipalities have inherited from the national government with respect to preschool enrollment, staffing patterns and physical infrastructure make it unlikely that reasonable standards can be achieved in the immediate future. Worse, the experience of other countries suggests that any attempt to use these standards to reward or punish local governments will do little to improve the quality of services and instead serve to de-professionalize the municipal officials and educators whose commitment, energy and judgement is now needed more than ever before. So, the question remains, what is to be done?

### 3. A STRATEGIC OUTLINE FOR IMPROVING PRESCHOOL EDUCATION IN ALBANIA

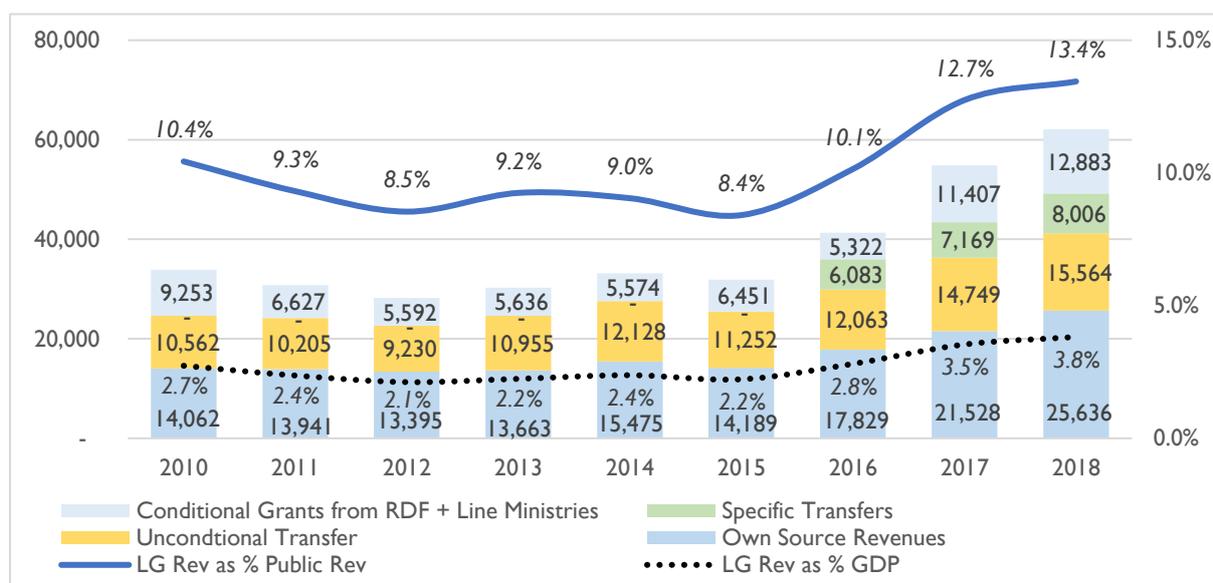
#### The starting point for improving preschool education in Albania

Albania has gone through great trouble to consolidate its local governments into 61 municipalities and to entrust them with new and important functions. The “heaviest” of these functions is preschool education. Expenditure on the operating costs of preschools now constitutes the single largest budget item for the vast majority of Albanian municipalities. Equally importantly, municipalities now control how almost all public money for early-childhood education is spent.

For these reasons, the strategy we outline below assumes that the future of Albanian local self-government and Albanian early childhood education are now inseparable. We think this is a good thing or at least a huge opportunity for at least two reasons. First, because there is tremendous good will towards children in Albania and it is not hard to imagine most Albanians agreeing that if nothing else, something more should be done for the kids.<sup>38</sup> And second, because locally elected officials are in the best position to reenergize the run-down and haphazardly situated and under-staffed preschools they inherited from the past. But the promise of democratically elected municipalities working productively with parents and the state to rejuvenate Albania’s preschools cannot be realized for nothing. Or more bluntly, nothing good will happen unless the national government puts an end to 25 years of shortchanging pre-university education. We thus begin this section with an overview of local government finances and their intersection with the perennially underfunded education sector.

Chart 3 below, shows the evolution of local government revenue by major economic category since 2010. As can be seen from the Table, between 2010 and 2015 total local government revenues stagnated at a just over 2% of GDP, one of the lowest levels in all of Europe, post-communist or otherwise. Local revenues then begin to rise in 2016. The initial uptick comes from the Specific Transfers used to finance the new own functions that were devolved to the country’s recently consolidated municipalities.

**Chart 3: Local Government Revenue as a Share of Total Public Revenue and of GDP (2010-2018)**



<sup>38</sup> Recently, a surprisingly large number of studies have been conducted on early childhood education in Albania. Most (see bibliography) conclude that despite the poverty of resources that have been invested in preschools, the people who work in them are committed to the children they serve and hungry for new methods, skills, and materials. Anybody who has watched how small bands of Albanian children play and take care of each other under the amused gaze of neighbors and strangers has to believe this goodwill runs pretty deep.

Source: MoF (own calculations)

As we have seen, 60% of all Specific Transfers were for education, with by far the biggest chunk going for preschool teachers' wages (Table I). And as we have already discussed, the initial round of Specific Transfers added nothing to what the national government had been underspending in the past, raising concerns whether the transfer would actually empower local governments. Indeed, in the absence of adequate resources, decentralization can become an exercise in simply transferring unfunded mandates to local governments than a serious effort to empower them.

In 2017, however, the growth accelerates, rising to just under 4.0% of GDP and 13.4% of total public revenues by 2018, still low for European municipalities, but at least on the scale. In 2017 and 2018 much of the growth comes from the radical expansion of the Regional Development Fund, which more than doubled in value from 5.3 to 12.8 billion. In fire protection, the RDF does seem to have used its investment grants strategically, helping 22 municipalities build and equip new fire stations. But there is less evidence of any strategic coordination in education. More generally, the lion's share of RDF grant monies went to more easily programmed and politically visible road and public squares projects.<sup>39</sup>

As we have already discussed, Specific Transfers also increased by a third between 2016 and 2018 (2 bln lek), mostly because the Ministries of Finance and Education were trying to even out some of the disparities in school staffing patterns that had been bequeathed to municipalities with decentralization. But while this growth is important, it can hardly be said to have done much to improve the overall financial position of Albanian municipalities. Worse, the upward trend in these funds stopped in 2019, forcing the ministries to take funds from the Unconditional Transfer in order to continue their efforts at equalizing staffing patterns across municipalities.

The Unconditional Transfer also grew significantly between 2016 and 2018 (3.5 billion lek). The big jump in these revenues came with the passage of the LGFL which anchored the value of the transfer at 1% of the GDP. This was a major victory for local governments and will ensure that the value of the Transfer will grow with the GDP growth in years to come, something that certainly was not the case through most of the 2000s.

The principles governing the distribution of the Unconditional Transfer also ensure that its allocation is at least partially driven by efforts to equalize the financial capacities of municipalities whose tax bases are weak, and/or whose operational costs are high because they have to serve remote rural or mountainous communities<sup>40</sup>. Since 2017, the formula governing the Unconditional Transfer, has allocated 80% of it to municipalities on a per capita basis,<sup>41</sup> 5% according to the number of primary and secondary students enrolled in their schools, and 15% to municipalities with population densities below 110% of the national average<sup>42</sup>. Finally, 3 billion lek are redistributed from municipalities who have per capita revenues from shared taxes substantially above the national average to municipalities in which the per capita yield of these taxes is substantially below the national average<sup>43</sup>.

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<sup>39</sup> The Decision of the Council of Ministers no. 691, dated 29 July 2015, on the National Crosscutting Strategy for Decentralisation and Local Governance, 2015-2020, Official Gazette, No.137/2008 p. 17 recognizes that the RDF has been a source of considerable debate and discussion on the issue of political favoritism in the grant awarding process.

See also news coverage:

<https://www.reporter.al/shkodra-jashte-rilindjes-urbane-merr-me-pak-fonde-se-maliqi-dhe-roskoveci/>;

<http://aam.org.al/qendrimi-dhe-shqetesimi-i-shoqates-se-bashkive-lidhur-me-ndarjen-e-fondeve-nga-komiteti-per-zhvillimin-e-rajoneve/>; <http://top-channel.tv/2017/06/14/top-story-rilindja-urbane-dhe-infrastruktura/>

<sup>40</sup> These principles are defined in Article 24 of the LGFL while the specific components of the formula are set in the annual budget law by the Ministry of Finance after consultation with the country's two municipal associations.

<sup>41</sup> Per capita figures are based 70% on the (contested) 2011 census, and 30% on data from the 2014 Civil Registry. It is worth noting here that the radical difference between these two population counts (2.8 vs 4.4 million people complicates making reliable estimates of preschool enrolment.

<sup>42</sup> The formula uses four population density thresholds, allocating more money per capita to those municipalities that are in the lower bands than to those whose population densities are closer to the national average. For a fuller description of the formula and its problems see Levitas & Stafa (2016)

<sup>43</sup> Shared taxes are used because local governments cannot influence their yield, and thus can potentially game the system by lowering their effort to collect these taxes. Currently, the shared taxes used for equalization are the vehicle tax, the property transfer tax, and the small business tax. The LGFL also calls for 2% of the Personal Income Tax to be shared with local

As result, the Unconditional Transfer provides municipalities with a predictable and buoyant source of freely disposable funds while also ensuring that those with weak taxes bases or high services costs receive additional financial support. So, the expansion of the Unconditional Transfer has helped to improve the financial positions of most municipalities. Moreover, as we shall argue in a moment, its expansion --though not without problems-- is probably the best way to ensure that education funding is adequate, predictable, and buoyant in years to come.

Finally, it is also important to note that while total own source revenue increased dramatically from 14.2 to 26.6 billion lek between 2015 and 2018, this growth is of limited help in thinking about how public education in Albania should be financed in the future. We say this for the simple reason that 9 of the 11.5 billion lek (80%) in own revenue growth has come from Tirana where only 20% percent of the country's population lives. Moreover, the startling increase (166%, 5.1 to 13.5 billion lek) in Tirana's own revenues have been driven by taxes and fees that are fairly marginal elsewhere.<sup>44</sup>

Similarly, it is unrealistic to expect the 2018 reform of the property tax to radically change the situation simply because it will take years before improvement in the registration and valuation of land and buildings begins to yield significant new revenue. In short, if municipalities are to be expected to improve the preschools they now control, additional monies for the purpose must be allocated to them through some combination of conditional and unconditional transfers and through a fully-fledged and fully-funded per pupil formula.

Now let us look briefly at public spending on education in 2018, and the very significant role that municipalities already play in it. Table 4 below presents total public spending on education by level of education and level of government.

**Table 4. Public Spending on Education by Level of Education and Government in 2018, in million lek**

Level of Education	Total (mln lek)	MoESY (MoFE)	Spending from Municipal General Revenues	Specific Transfers for Education	RDF	% of total Educ. Expend.	% from Municipal Budgets
Basic Education	29,401	20,357	2,908	4,624	1,512	56%	26%
Secondary Education	8,419	6,137	1,094	469	718	16%	19%
Vocational Education (MoEF)	2,744	2,465	84	196		5%	10%
University Education	10,507	10,507				20%	
Science	415	415				1%	
Sports	676	676				1%	
MoESY Budget	666	666				1%	
<b>Total</b>	<b>52,827</b>	<b>41,222</b>	<b>4,085</b>	<b>5,289</b>	<b>2,231</b>	<b>100%</b>	<b>18%</b>
% of Public Spending	11.1%	8.7%	0.9%	1.1%	0.5%	na	2.0%
% of GDP	3.2%	2.5%	0.3%	0.3%	0.1%	na	0.6%

Source MoEYS/MoF

As can be seen from the table, total public spending on education is now at 3.2% of GDP, marginally higher than it has been for most of the last 25 years, but still painfully low by regional and international

governments on an origin basis. These provisions have yet to be put into effect and implementing them would help improve municipal budgets.

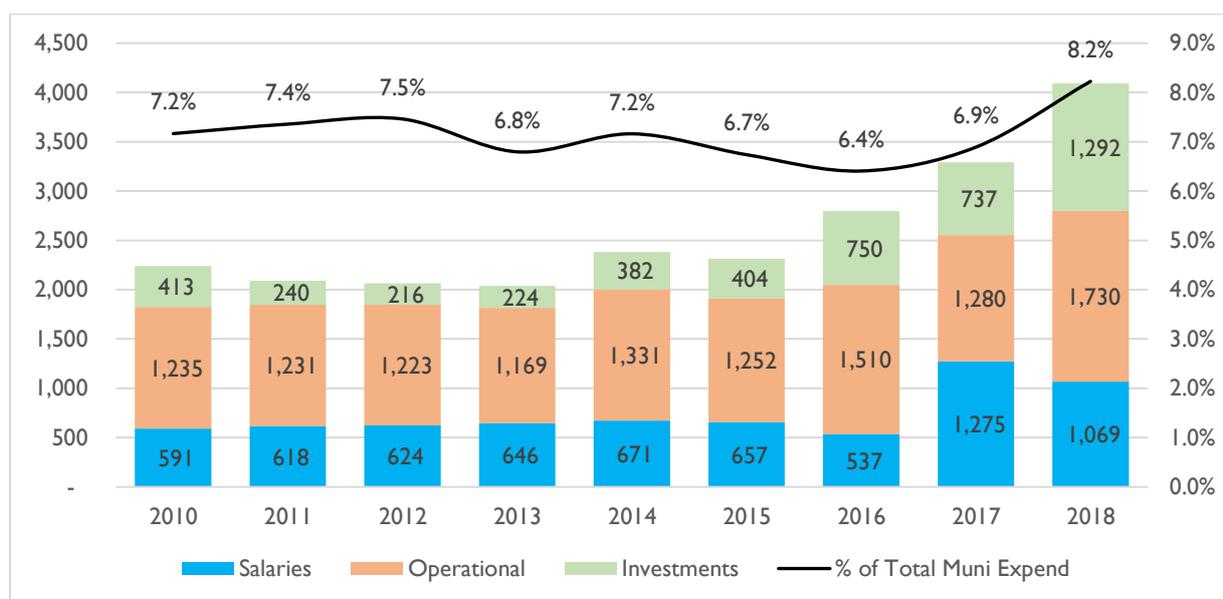
<sup>44</sup> These are taxes on the value of new construction, and fees for city services that are disproportionately assessed on the business community. The calculations are based on line-item revenue data from the Treasury Department.

standards. Municipalities now account for more than 25% of all public spending on Basic Education, which includes both preschools and primary schools. Of this spending, 2.9 billion (39%) comes from their general revenues while 4.6 billion (61%) comes from the national government through Specific Transfers for the wages of preschool teachers and support staff in preschools and primary schools.

Because the Albanian budget classification system does not distinguish between preschool and primary education, we do not know how much of municipal spending goes to preschools and how much to primary schools. Nor can we say exactly how much other spending on preschools is still made by the national government, though we do know that the Regional Education Directorates (REDs) and Education Offices (EOs) still pay for pupil transport, some of which is for preschool children, as well as for didactic materials and perhaps for some teacher training. We also know that some of the 1.5 billion lek in investment monies coming from the RDF for Basic Education are also spent on preschools. But the basic point is still the same: Municipalities now control the allocation of almost all operational funds for preschools, and it is in their hands that the future of Albania preschool education now lies.

Chart 4 below shows the evolution of local government spending on all levels of education by economic category from their general revenues (without conditional investment grants from the RDF/Ministry or Specific Transfers). As can be seen from the chart, the new municipalities have almost doubled the amount of general revenue that they spend on education, with all categories of spending showing increases.

**Chart 4. Municipal Own Spending on Education 2010-18 (mln. lek)**

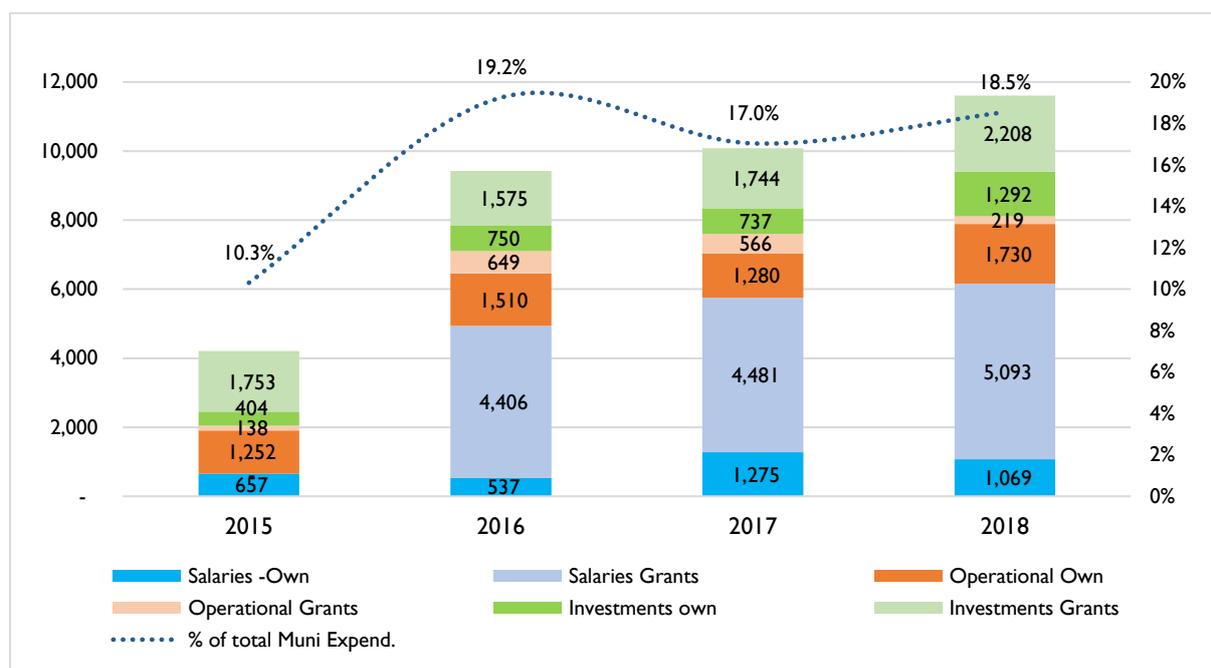


Source MoF own calculations

About 45% of this spending is coming from Tirana, and there are still some municipalities that contribute relatively little to the sector. But the vast majority of them have increased their spending on education, strongly suggesting that most are taking their responsibilities in preschool education seriously and recognize its importance to their electorates.

Chart 5 below shows all municipal spending on education since 2015, including spending coming from national government grants and transfers. While there was a jump in investment grants from in 2018, the big increase in transfers from the national government came for salaries. At the same time, grants for other operational costs –such as didactic materials—have declined. Most importantly, education spending now constitutes close to 20% of total municipal spending, and since 2015 has become the single largest position in most municipal budgets.

**Chart 5. Total Municipal Spending on Education 2015-2018**



The fact that municipalities have substantially increased their own spending on education in the last few years, and that education expenditures now constitute close to 20% of their budgets should not be taken to mean that they can effectively manage preschool education at current levels of funding. On the contrary the central point remains that pre-university education has been radically underfunded for years, and while there has been a marginal improvement in the financial position of municipalities over the last few years, they are still underfunded.

All of which returns us to the central issue of how this funding should be increased and through what mechanism it should be allocated. And unfortunately, while reasonable suggestions can be made, all them are complicated by the fact that data on preschool enrollment in Albania is extremely unreliable.

The official enrollment rates recorded by the MoEYS and repeated in many reports, suggest that the number of preschool age children attending preschools is very high. For example, UNICEF – using this data – estimates that the net enrollment rates for pre-primary education in Albania have risen from 60% to 80% between 2009 and 2017.<sup>45</sup> Similarly, the World Bank’s data series suggests that net enrollment rates have risen from about 50% in the late 1990s, to about 90% today.<sup>46</sup> These estimates, however, would put Albania on par with the best performing northern European countries and way ahead of its regional neighbors Montenegro, Serbia, (52%) and Northern Macedonia (24%).<sup>47</sup>

But other estimates paint a very different picture. A study conducted by MoESY and the Tirana Office of UNICEF argues that the official enrollment data of the Ministry are wildly misleading because they are not based on reasonable estimates of actual attendance. This study uses data from a 2012 World Bank Living Standard Measurement Study to estimate actual attendance and arrives at a national net enrollment rate for 3 to 6 year-olds of 33% (48% in urban areas, 28% rural areas, and a net enrollment rate for 5 year-olds of 59% (66% urban, 47% rural)<sup>48</sup>.

Similarly, a 2015 World Bank Saber Report using a similar methodology also estimates national net enrollment rates for 3 to 6 year-olds at 33%, while a 2013 study financed by Save the Children reports

<sup>45</sup> <http://uis.unesco.org/country/AL>

<sup>46</sup> <https://databank.worldbank.org/reports.aspx?source=Education%20Statistics>

<sup>47</sup> [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=educ\\_uoe\\_enrp07&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=educ_uoe_enrp07&lang=en) (Eurostat does not report a net enrollment rate for Albania.)

<sup>48</sup> Van Ravens (2016). These estimates are also used by Peeters (2016)

a significantly higher net national enrollment rate of 55% for 3 to 6 year-olds<sup>49</sup>, but still well below those used by MoEYS, or contained in the UNICEF and World Bank data series.

Part of the differences in these net enrollment rates may be based on whether Civil Registry or Census data is being used to estimate the total number of 3 to 6 year-olds in the country. But as Van Ravens argues the real issue is how many of the pupils that preschools report to MoEYS as being enrolled in fact attend preschool on a regular basis. And here he finds huge differences between what apparently statistically reliable surveys of parents suggest and the enrollment rates reported by schools.

In short, his best explanation of the difference is that preschools throughout the country have been overreporting attendance to maintain funding and employment levels. Here, in other words we have a good example of Campbell's Law: Because preschools were extremely underfunded, and because until recently the Ministry of Education allocated money for teachers' pay based (on loosely) enforced per pupil standards, over time the data used to make these decisions appears to have been severely corrupted.

Unfortunately, we do not know exactly by how much. But whatever the reality, the radical discrepancies in estimates of net enrollment rates have at least three critically important implications for thinking about how to improve the financing of the sector. The first is simply that Albania is in desperate need of better data on actual rates of preschool attendance. The second is that without more reliable enrollment data it will be hard to move to a more rational system of allocating money to local governments for preschool education. And the third is that any rapid movement towards a true, weighted per pupil system of financing without more reliable statistics on enrollment and attendance risks exacerbating the problem of false reporting.

### **Improving Preschool Education in Albania**

The central dilemma facing Albanian policy makers is how to improve the financing of preschool education when we know that existing funding is insufficient and unfairly allocated, and that data needed to make this allocation fairer and more rationally is unreliable. Worse, not only do we know that the basis for reporting enrollment must be strengthened in order to move towards a fairer and more adequate system of financing, but we know that the very attempt to improve reporting could well lead to its further distortion.

In the following we propose a two-pronged strategy that we think holds the best promise for improving early childhood education in Albania. On the one hand, we argue that at a minimum the funding currently being spent on all Unconditional Sectoral Transfers for Education, as well as other funding still being spent by the REDs and EOs should be increased and folded into the Unconditional Transfer.

At the same time, the share of the GDP used to define the size of the Unconditional Transfer should be adjusted upward. Here, the crucial issue is to ensure that the amount of money designed to support preschool education includes funds other than those needed for salaries, and that these funds increase with GDP growth so that municipalities have a little more money every year to address the complex and costly problems they have inherited from the national government.

Furthermore, we propose that the national government –perhaps with external support—develop a universal preschool meal program that provides at least one free meal to all pupils regularly attending municipal preschools. Like school meal programs in other countries, this program should be funded through a categorical grant to municipalities and overseen by Ministry of Education through the REDs and EOs.

To participate in the program, municipalities would have to demonstrate their capacity to manage the funds, and to improve their reporting of enrollment and attendance. As such, the program would have multiple objectives: increasing enrollment, alleviating poverty, promoting social inclusion and cohesion,

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<sup>49</sup> Saber (2015), Gjokutaj (2013)

and improving reporting. But before elaborating on both elements of this strategy, it is useful to recap where things stand now.

For many years, the national government under and unequally funded all the services that it devolved to municipalities as own functions in 2016. Between 2016 and 2018, it added additional monies to some Specific Transfers in an effort to address the most glaring inequities it had passed on to municipalities. But the value of these Specific Transfers was based on the number of employees that specific line ministries thought municipalities needed to provide a particular service, and not on any objective measure of relative need (such as citizens served). As such, the Specific Transfers were calculated as if they were narrowly focused conditional grants that could only be used to hire specific numbers of employees in specific sectors.

In 2019, the legislative provisions allowing for Specific Transfers expired, and the government renamed them Unconditional Sectoral Grants. Nonetheless, the national government continued to allocate them on the same employment basis as before and without adding any new money to them. This suggests that the national government feels that it has done about as much as it can do to equalize conditions across municipalities. It also suggests that policy makers still don't know how to address the contradiction between allocating money to municipalities on the basis of the employment figures that specific line ministries set for different sectors, and the legal requirement that own-functions finally be funded by unconditional transfers.

But at least two things should be clear. The first is that if the national government continues to fund these new own functions at the same level of absolute lek as before, municipalities will have little chance of significantly improving preschool education. The second is that not only are "Unconditional Sectoral Transfers" still being calculated as if they were narrow grants designed to support specific levels of employment, but that their place in the existing legal framework is unclear at best.

This is because the LSGL defines all the responsibilities assigned to municipalities in 2016 as "own functions" and in accordance with both 2017 LSGFL and the European Charter of Local Self Governments, own functions should be financed from freely disposable general revenues and not conditional or block grants (read Unconditional Sectoral Transfers). Given the fact that in practice education is almost always a shared function, there are strong arguments for amending the Law on Local Self-Governments to make at least preschool education a shared function. At a minimum, this would allow the national government to be able to allocate monies on a 'conditional basis' and be sure that all monies it provided to local governments for preschool education were spent on it.

But this alone would not solve many of the current problems. Decisions would also have to be made about whether only preschool education is to be considered a shared function, or whether the category applied to the rest of the sector. If only preschool education, then it would be logical that the funds the national government is currently providing to municipalities for support staff in primary and secondary schools be transformed into narrow conditional grants for a delegated responsibility. Conversely, if all education is considered a shared function funded through a single block grant, then the national government will have to accept that municipalities are legally free to spend money across levels of education as they see fit.

Equally importantly, rules will have to be defined to determine how big the new Educational Block Grant should be, and how it should be allocated to municipalities. Given the historical underfunding of the sector, the only reasonable possibility for defining the size of the block grant would be to peg its value to a percentage of the GDP so that the value of these education transfers increased with at least economic growth. Moreover, procedures would have to be defined to increasing the transfer if the national government raised wages in the sector or introduced service standards that raised costs.

Similarly, and no matter whether education is defined as an own function or a shared one, the national government will have to further reform the way monies designed to support the sector are allocated to municipalities. In short, and under all reasonable reform scenarios the current system of allocating education funds to municipalities largely on the basis of employment has to be changed. This is true not only because the existing system is unfair, but because going forward the national government cannot be expected to pay for teachers and support staff that municipalities can hire on their own.

Finally, while there are good arguments for defining education (and indeed Social Welfare) as a shared function, the arguments for doing so in the areas of forestry, irrigation, fire protection and local road maintenance are much less compelling. To be sure, these are all important functions. But in most countries, these are considered pure local government functions whose every day costs are financed by some combination of local fees and general budget revenues, with the national government providing support only to help fund some new investment.

But our main point here, is that defining education as a shared function would not resolve the problem of how the other functions that municipalities were assigned in 2015 should be categorized, or how money to support these functions should be allocated to them. Indeed, the temptation might be to categorize them all as shared functions that should be financed through individual block grants. This would preserve the current fragmented structure of the intergovernmental finance system, while doing nothing to resolve the equally thorny problem of how to move away from allocating money for these functions in accordance with historical employment patterns.

For all these reasons we think it is probably best for the national government to accept that all the functions assigned to municipalities by the 2015 Organic Law on Local Self-Government remain ‘own functions’, and that in accordance with both the Law on Local Government Finance and the European Charter of Local Self-Government that they be financially supported by a single, but substantially larger Unconditional Transfer<sup>50</sup>. In the following we outline what the technical steps that would be required to do this, and at least some of the problems and possibilities this effort would entail.

The critical first step is to determine how much new money should be put into the Unconditional Transfer. The absolute minimum that the Unconditional Transfer should be increased should be equal to the sum of all current Unconditional Sectoral Transfers, including the 327 million lek that was taken from the Unconditional Transfer in 2019 to help finance the expansion of preschool funding. This would mean that the Transfer should be increased by at least 8.9 billion lek (see Table IV) and the ‘anchor’ used to define its size raised from its current level of 1% of the GDP to at least 1.51%.

Doing this is fully consistent with the existing legal framework and would ensure that the new funding placed in the Unconditional Transfer would grow with the GDP. This growth would provide municipalities with at least some new money every year to improve the dreadfully underfunded services they inherited from the national government. But putting slightly more money into the Unconditional Transfer will not only help municipalities to do more to improve public services, but it will also make it much easier to resolve many of the problems that will arise when the basis for allocating funds to municipalities is moved away from historical employment patterns, and towards formulas that are grounded in objective measure of relative need.

With that said, let us walk through what “folding” existing Unconditional Sectoral Transfers into the Unconditional Grant would require in practice, and what could be done to increase the likelihood that at least in education, funds designed to support the sector are actually spent on it. In 2019, the national government allocated 5.95 bln lek to municipalities through Unconditional Sectoral Transfers related to education. This includes 3.94 billion for Preschool Education, 1.02 billion for Support Staff in Basic Education, 0.47 billion for Support Staff in Secondary Education and 0.52 billion for Student Dormitories.

If this 5.95 billion lek were to be folded into Unconditional Transfer, then the size of the transfer would have to be increased by law from its current level of 1% of the GDP to at least 1.51%. This is equal to the current levels of the Unconditional Transfer and the transfer for education. At the same time, the rules currently governing the allocation of the Unconditional transfer require that 5% of the Transfer -or about 0.8 billion lek in 2019-- be allocated to local governments in accordance with the number of pupils enrolled in their primary and secondary schools.

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<sup>50</sup> It would also be consistent with the current legal framework to provide them with new tax powers or new revenue from shared taxes. In practice however, the magnitude of the sums involved makes this impossible. Moreover, it would raise the question of how to equalize municipalities with weaker tax bases.

As result it is fair to say that in 2019, the national government directed about 6.75 billion lek (5.95 plus 0.8) to municipalities to support their responsibilities in education<sup>51</sup>, a sum which would be equal to about 30% on an Unconditional Transfer pegged to 1.51% of the GDP in 2019. Now let us call this 30% share of the Unconditional Transfer the “Educational Component” of the Unconditional Transfer and divide it into three distinct pools.

The largest pool would be for preschool education and would be set equal to approximately about 58% of the value of the Educational Component ( $3.94 / 6.75 = 58.3\%$ ). For the time being, this money would continue to be allocated by something like the current formula even though we recognize that the enrollment data used in it is very problematic. Similarly, the employment numbers currently used in the formula would have to be frozen going forward, and until they could be phased out entirely, in order to prevent municipalities from hiring staff in the expectation that the national government will pick up much of their wage costs.

A second pool of education funds would be determined by adding together the Sectoral Transfers for Support Staff in Basic and Secondary Education with the 800 million already allocated on a per pupil basis for primary and secondary education. This pool of funds would be set equal to about 34% of the Education Component of the Unconditional Transfer ( $\{1.02 + .47 + .8\} / 6.75 = 34\%$ ) and allocated on per pupil basis as before<sup>52</sup>. But because the Unconditional Sectoral Transfers for Support Staff had not been previously allocated on a per pupil basis, the distribution of these funds will be different than before. How big the differences will be is an empirical question that can only be answered by running simulations.

Some of the differences may be reasonably reduced by weighting the per pupil formula with additional coefficients. But some municipalities will undoubtedly lose money while others will gain. If the magnitude of these losses and gains is large, so-called “buffering provisions” can be added to the formula that phase in these gains and losses over time by, for instance, restricting any municipality’s gain or loss to no more than 10 or 20% a year. Overtime losses will also be ameliorated by the overall growth of the Unconditional Transfer, and would obviously decrease further and/or faster if either the size of the entire Transfer was set higher than 1.51% of the GDP, or the share of the transfer earmarked for the Education Component was raised above 28%.

Finally, about 8% of the Education Component ( $.519 / 6.75 = 7.7\%$ ) of the Unconditional Transfer would be allocated to local governments in accordance with the number of pupils living in student dorms. This allocation will also differ from the current distribution of the Unconditional Sectoral Transfer for dormitories because the pupil/staff ratios in these dorms will differ across the 27 municipalities that have them. Again, it may be possible to reasonably reduce some of these differences by adding additional coefficients to the base per pupil allocation. And as with the monies for support staff, buffering provisions can be added to the formula so that losses and gains are phased in over time. Finally, the national government could encourage experimentation with the provision of the service by allowing municipalities to pay private families to house students and then counting these in the enrollment figure used to allocate the transfer.

In any case, and at the end of the day, municipalities would receive funding for education through the Educational Component of the Unconditional Transfer, a component that itself would be governed by three formula and whatever buffering provisions deemed necessary. The money received through the Component, like all monies received through Unconditional Transfer would be freely disposable, and in theory municipalities could spend the Educational Component anyway they liked.

But every year, each municipality, would receive a budget circular from the Ministry of Finance breaking down how much they were receiving to support their education responsibilities. These budget circulars should be presented clearly and simply so that municipal officials and citizens can easily

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<sup>51</sup> This sum does not include that 327 million lek that was taken out of the Unconditional Transfer to fund the new Unconditional Sectoral Transfer for Preschool Education in 2019, though one could argue it should.

<sup>52</sup> Because primary and secondary education are compulsory, we can be more confident about enrollment figures, though here too reporting should probably be improved.

understand how much funding their municipalities are receiving for education. Most municipal councils will probably treat these figures as minimum spending norms, and for those that don't it is likely that some combination of local and national pressure would relatively easily put them back on track<sup>53</sup>.

Now let us look briefly at what it would mean to fold monies for irrigation, forestry, fire protection and rural road maintenance into the Unconditional Transfer<sup>54</sup>. At present, these funds—like funds for support staff in basic and secondary schools—are being allocated in accordance with historical employment patterns and any shift to a more formula-based system will produce winners and losers. Unlike with support staff however, where the basic measure of relative need is reasonably clear—pupil enrollment—this is less obvious for these functions.

Nonetheless, if we had to imagine formulas for each of them, they would all probably be based on some combination of the number of people living in each municipality and its particular topographical characteristics (e.g. area of agriculture land, area of forested land, length of rural roads, number of rural settlements etc.). So here the question is whether the national government should develop sub-formulas for each of them, a single sub-formula for all of them, or simply adjust relative the percentages of the Unconditional Transfer that are currently being allocated to municipalities on a per capita basis and on the basis of population density.

In thinking about how to answer this question however three things should be remembered. First, there will be significant differences between the current allocation of Unconditional Sectoral Transfers and whatever formula, or formulas are ultimately used to allocate them through the Unconditional Transfer.<sup>55</sup> So as with funds for school support staff, any new formula for allocating these funds will have to be phased in overtime. Second, at the end of the day, these funds will remain freely disposable, so in some ways it makes little sense to try to develop very sophisticated formulas of relative need. And third, it will almost certainly be technically easier to introduce buffering provisions if these funds are treated together and not governed by separate formulas.

For these reasons we strongly suspect that the best way to deal with monies for these functions is allocate them through the existing formulas that govern the per capita and population density components of the Unconditional Transfer. This will probably require increasing the share of the Unconditional Transfer allocated to municipalities on the basis of their population densities. It may also be reasonable to add coefficients for agricultural and/or forested land. But at the end of the day, the biggest issue is likely to remain how fast the new formula is phased in, and what provisions might reasonably be added to hold particularly hard-pressed municipalities harmless going forward.

In any case, there are three basic take home points from this discussion. First, there are no perfect solutions, but there are reasonable ones. Second, determining what these are will require simulations and discussions with key stake holders. And third all solutions will be easier to implement once a commitment is made to fold Unconditional Sectoral Grants into the Unconditional Transfer, and easier still if more than their current value is used to calculate the new GDP peg for the Unconditional Transfer.

Now let us return to the second leg of proposed strategy: the development of a free meal program for all preschool aged children regularly attending preschool and funded by a conditional grant from the national government. In the following, we make no attempt to design the specifics of the program

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<sup>53</sup> In Poland, for example, education is also classified as a local government own function and yet funded through what is called the “Education Component” of the (freely disposable) “General Subvention.” For close to 20 years, almost no local governments have spent less on education than they received through this mechanism. See Levitas & Herczynski (2002).

<sup>54</sup> While it is possible to introduce formulas into the Unconditional Transfer that use some combination of per capita and topographical elements to allocate funds for irrigation, forestry and fire protection, no such formula is possible for social welfare. The reason for this is that only a handful of municipalities have social welfare centers and until this is corrected, or other forms of social welfare provision are made possible by law, it makes no sense to redistribute the money currently earmarked for these centers across all municipalities.

<sup>55</sup> This problem will not disappear even if these functions continue to be funded through Unconditional Sectoral Transfers: Sooner or later the allocation of this funding must be shifted from current employment to some more objective criteria of need if these transfers are to be considered “Unconditional”.

or how it should be implemented<sup>56</sup>. Instead, we focus on the logic of the program and why we think it would do much to catalyze improvements in preschool education, poverty alleviation, social inclusion and cohesion and last, but not least municipal management and intergovernmental relations.

As we have already discussed, there is almost universal professional agreement that investment in early childhood education is one of the most cost-effective ways to improve the life chances of children –particularly those from disadvantaged backgrounds-- across a broad array of outcomes. including health, earnings and education itself. It also clear that Albania has already made substantial investments in preschool education, and that preschools exist in most areas of the country. What is much less clear however, is how well the existing facilities are being used, and to a lesser extent where new facilities need to be built and staffed.

The central issue here concerns the unreliability of the official data on enrollment. According to this data, 80% percent of all 3 to 6-year-olds are enrolled in public preschools, and this indeed may be the case. But enrollment is not the same as regular attendance, which both Albanian and international experts suggest is much lower, with estimates ranging from 33% to 55% of the entire age group.

The basic explanation for the gap between official enrollment data and actual practice seems to be that preschools, desperate to maintain funding levels, try to enroll as many preschool-age children living in their areas in school, but that many of these children don't actually attend on a regular basis. Indeed, the question of why children do not attend on a regular basis is probably more important than the question of why enrollment rates are inflated. Nonetheless, most of the literature on Albania preschool education suggests that low attendance rates are caused by combination of two basic factors: a low appreciation of the value of early childhood education in many Albanian households – particularly poor and rural ones-- and the costs in time and money of getting small children to school.<sup>57</sup>

A universal free meal program will not solve the problems of low attendance rates that arise from the poor state of Albania's roads, or the insufficient funding of school transport. But it would provide a strong incentive for poorer households to make greater efforts to regularly send their children to preschool while also helping to alleviate poverty. Most importantly, a well-designed and widely publicized free meal program could do much to shift the understanding of the value of preschool education among poor and rural households. It would also signal to preschool educators that the national government understands the value of the work that they do.

At the same time, the program could be used not only to increase attendance but to improve the reliability of the data on preschool enrollment. For the foreseeable future, existing data on preschool enrollment should continue to be used to allocate funds designed to support the sector. What this means is that no municipality should be afraid of losing funding because participation in the program might reveal a gap between its current enrollment data and actual attendance rates.

At the same time, however, participation in the program should require that municipalities put in place monitoring and reporting systems that make the enrollment and attendance data more reliable. Indeed, participation in program should be accompanied by training requirements, as well as by the adoption of some basic staffing norms and procedural practices for the municipal administration of the sector.

Here, in other words, the conditional nature of the program can be used to compensate for the fact that as an own function, the national government has limited tools to influence how municipalities manage their preschools. Moreover, the newly established Agency for Quality Assurance in Pre-University Education (AQAPUE)<sup>58</sup> could be tasked with developing these reporting, staffing and

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<sup>56</sup> That said, we think the costs of such a universal program would be relatively modest, if the program is built around cold meals whose ingredients can be easily purchased throughout Albania: If we assume that price of meal per pupil is 100 lek, that 20% is added for administrative costs, and that all pupils who are currently enrolled in preschools (74,000) receive meals for 165 days of the school year, then we estimate the annual cost of the program at about 1.5 billion lek or about 14 million dollars (74,000 pupils\*165 school days\*100 lek per meal +20% in administrative costs = 1.46 bln lek)

<sup>57</sup> In addition to Van Ravens (2015) and Saber (2016) see also Fabbi (2014) and Fuller (2019)

<sup>58</sup> On AQAPUE see Wort et. al. (2019)

procedural norms, while their implementation and oversight could be entrusted to the existing REDs and EOs.

Indeed, the entire project of creating a new universal preschool meal program could be used as a vehicle not only to improve the municipal management of the sector, but to deepen and restructure the roles of the professional community concerned with early childhood education at the municipal, regional and national levels.

Finally, a universal preschool meal program could be used to help dampen trend that is already visible in some urban jurisdictions. In short, the high-demand from middle class households for full-day preschool education is leading some municipalities to focus their energies on preschools that can provide hot meals that only wealthier households can afford<sup>59</sup>.

These efforts risk the development of preschool networks that neglect or even exclude poorer households from accessing early childhood education. As such, a universal free meal program could also be deployed to weaken these tendencies, and to ensure that municipal efforts to improve early childhood education include those children who stand to gain the most from going to preschool.

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<sup>59</sup> On the dangers of segregation at the preschool level see Fuller (2019) and Tahsini et. al. (2014)

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