

MACEDONIA LOCAL GOVERNMENT ACTIVITY (MLGA) EDUCATION FUNDING REPORT



MAY 2011

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MACEDONIA LOCAL GOVERNMENT ACTIVITY (MLGA)

EDUCATION FUNDING REPORT - MAY 2011

DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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I.0 BACKGROUND

With the start of the process of decentralization in Macedonia in 2005, the education function was one of the social sector functions that were decentralized. The process was a two phased one. The first phase was initiated in July 2005 for all municipalities. The second phase began in July 2007, for individual municipalities, as they met the II phase criteria.

In the first phase of the process of decentralization, the municipalities became owners of the school facilities. First phase education responsibilities of the municipalities were the appointment of the school director, maintenance of school facilities and financing student transport. The finances for the first phase education functions came from the earmarked grants for primary and secondary education.

Second phase education responsibilities in financial terms, meant the replacement of earmarked grants with block grants that would also contain teachers' salaries.

In 2009, 67 of the 84 municipalities plus the City of Skopje were in the II phase of the process of decentralization. As a result, these municipalities received block grants for financing education functions. In 2010 this number increased to 73.

The primary school network in the Republic of Macedonia covers the 83 municipalities. The 67 II phase municipalities in 2009, and 73 II phase municipalities in 2010, received block grants for funding primary education functions. The block grant funding includes the teacher salaries and funds for maintenance of the school facilities and student transport.

The 17 I phase municipalities in 2009, and 11 I phase ones in 2010, received funding for financing the maintenance of school facilities and student transport.

The secondary education school network in Macedonia covered 31 municipalities in 2009. This number increased to 32 in 2010 with the establishing of a new high school in municipality of Makedonska Kamenica. Out of the 31 municipalities with secondary education facilities in 2009, 5 were in phase I in 2009 and 4 in 2010. These municipalities and received funding only to cover the maintenance and student transport costs in the secondary education.

The Macedonia Local Government Activity financed by USAID makes annual assessments of the progress in the capacity of the municipal administration in areas covered by USAID assistance. A team of trained surveyors visits every municipality in Macedonia for the purposes of gathering municipal information and data that would assist the USAID/MLGA program in this assessment.

This year, the team was also asked to collect information and data from the municipalities relating to the financing of decentralized education functions. Below is the questionnaire and the report based on the responses of the municipal administration.

The questions posed by the interviewers to municipal staff responsible for the financing of education in the municipalities are the following:

- Q 1. What was the total amount of funds you received for the primary/secondary education in the fiscal years 2009 and 2010? (municipalities were asked to provide the total amount of funds for the two fiscal years separately)
- Q 2. How much of the received funds for the primary/secondary education were spent in the years 2009 and 2010?
- Q 3. How much of the funds received in the years 2009 and 2010 were spent on salaries, transport and other expenses?
- Q 4. Has the municipality spent any municipal funds, other than the grants, for education functions in 2009 and 2010?
- a. If so, what amount of the municipal budget, other than the grants, was spent on education in the years 2009 and 2010?
 - b. What was financed with municipal budget funds in education?
- Q 5. Does the municipality have any outstanding arrears for primary/secondary education at the end of the years 2009 and 2010?
- a. If yes, what is the amount of outstanding arrears for primary/secondary education function in 2009 and 2010?

2.0 ANALYSES OF THE RESPONSES TO THE QUESTIONNAIRE

2.1 EDUCATION FUNDING IN 2009

A total of 831 municipalities are responsible for primary education functions. In 2009, there were 17 municipalities in phase I of the process of decentralization, and as a result, received targeted grants for the financing of maintenance of school facilities and student transport. The rest, 66 municipalities were in phase II of the process, and received block grant funding to finance teachers' salaries, maintenance of school facilities, and student transport.

2.1.1 Primary Education Funding

Amounts of funds received from the Central Government for education funding

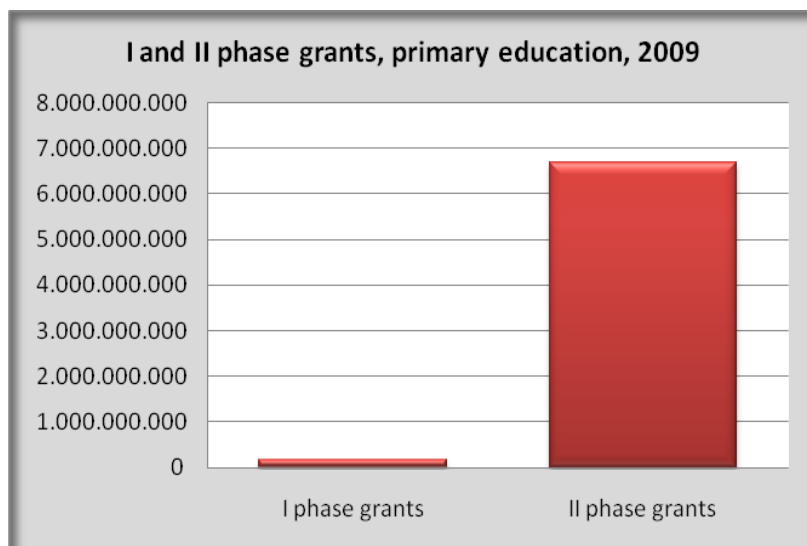
The I and II phase municipalities reported receiving a total of 6.849.736.267 MKD for primary education functions in 2009. This is XX% of the total revenue in the local government sector for 2009.

A total of 17 first phase municipalities received 172.553.696 mill MKD or 3% of these almost 7 billion MKD to finance first phase education functions.

The II phase grants amounted to 97% of the total funding for primary education functions in municipalities. Chart 1 below, shows the composition of the education grants in 2009.

¹ There are a total of 84 municipalities plus the City of Skopje as a separate unit of Local Government constituting this tier of governance in Macedonia. The City of Skopje is responsible for managing the secondary education in its jurisdiction. The Skopje municipalities (ten municipalities) are responsible for managing the primary schools in their respective jurisdictions. The only municipality in Macedonia that does not receive any funding for primary education is Vranestica, as there are no schools located there. So, a total of 83 municipalities are responsible for primary schools.

Chart 1 Composition of primary education grants in 2009



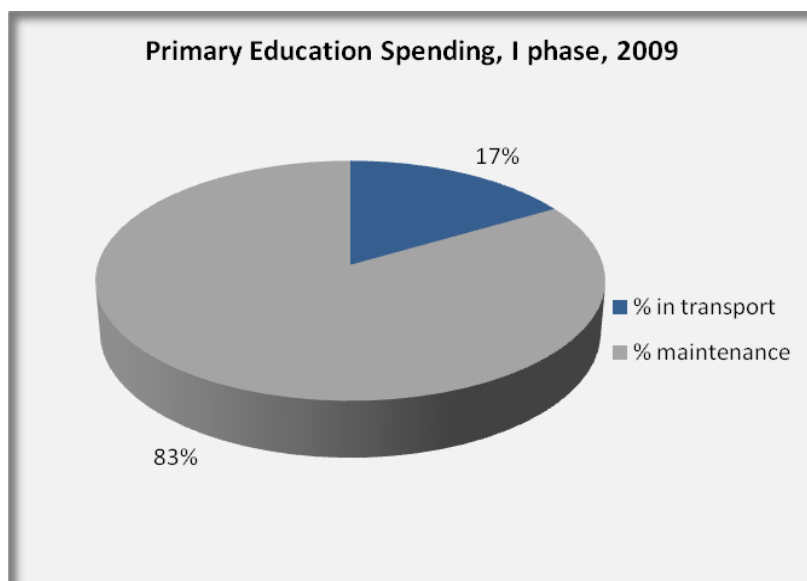
Level of funds spent by municipalities from the education grants

Both, I and II phase municipalities reported spending almost the entire amount of the received funds, with the I phase municipalities spending 94%, and second phase ones spending 98% of the block grant for education.

Composition of spending of education transfers in primary education

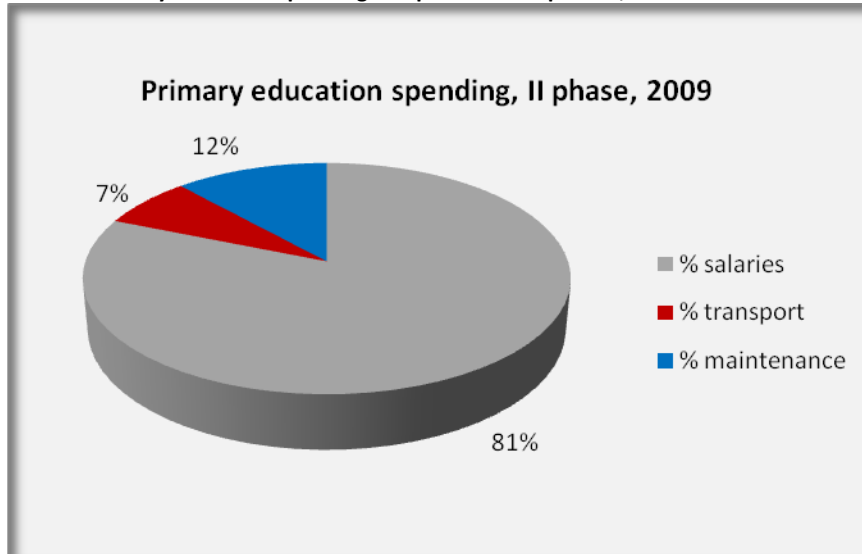
The analyses of the information provided by the municipalities on the composition of the spending of the central transfers show that in 2009., I phase municipalities spent 83% of the targeted grant for maintenance of school facilities, and the balance of 17% of the grant - on financing student transport for primary education. Chart 1 below shows the composition of the spending in primary education for I phase municipalities in 2009.

Chart 2. Primary Education Spending in I phase municipalities, 2009



The composition of the spending in II phase municipalities largely differs. It is evident that for the most part, the primary education grant is spent on financing teachers' pay – 80%. The rest of the fund - 14% is spent on maintenance and 6% on funding student transport costs. Chart 2 below shows the composition of financing primary education functions for II phase municipalities.

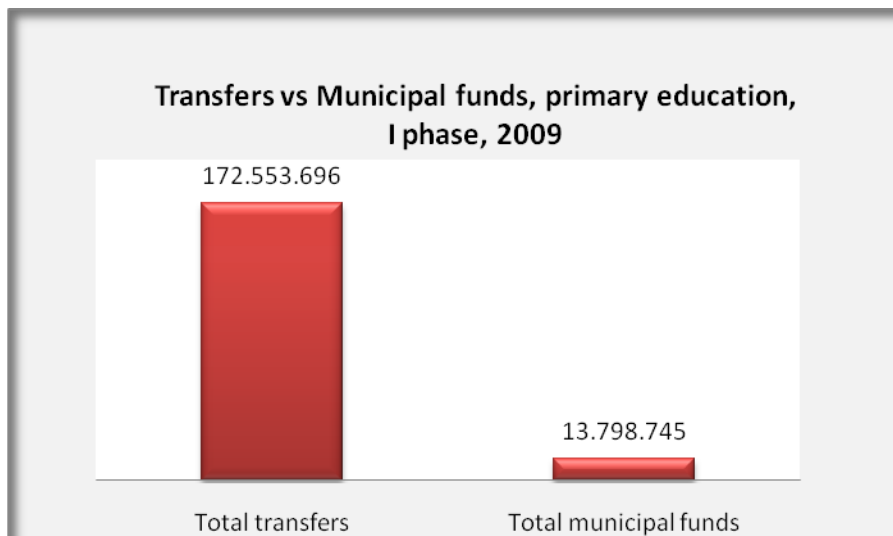
Chart 3. Primary Education spending in II phase municipalities, 2009



Additional municipal funding for primary education functions

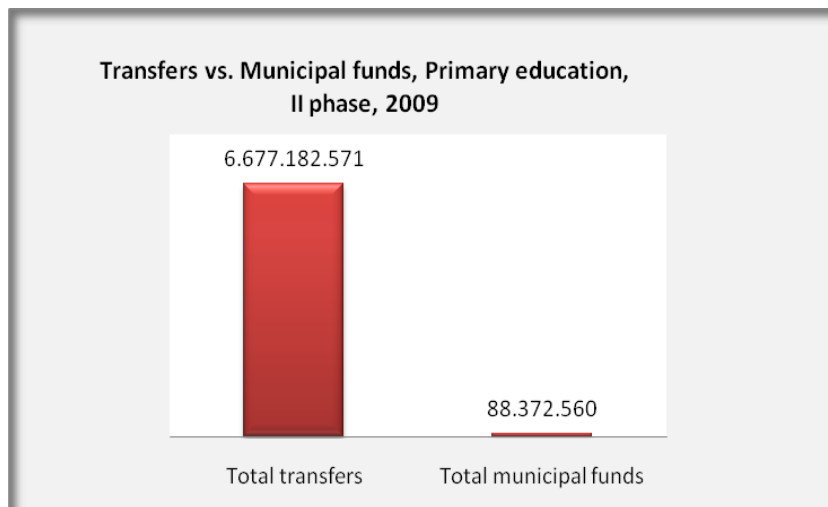
Only one of the 17 phase I municipalities in 2009, Ohrid, provided additional funding for education functions from its own source revenues. It is interesting that the municipality provided an additional 57% revenue to the amount provided through the targeted grant. The additional funds from the municipal budget in Ohrid were spent on the renovation of school facilities.

Chart 4. Total transfers vs. Total municipal funds, Primary Education, I phase, 2009



Almost one half, 35 of the 66 municipalities in II phase, provided additional funding for education functions from their own source revenues. The total amount provided by the municipalities is 88.372.560 mil MKD. These additional funds were spent on co-financing and financing projects for reconstruction of school facilities, including facades, changing the electrical installations, reconstruction of roofs, hiring of additional “technical staff” in schools (usually agencies for protection), heating of schools, insurance of school facilities and similar. This is a small part in relation to the grants received from the central government, but certainly shows that municipalities as owners of schools, are ready to invest in school improvements, and in the education process in general. Chart 5 below shows the relationship between the invested and received funding.

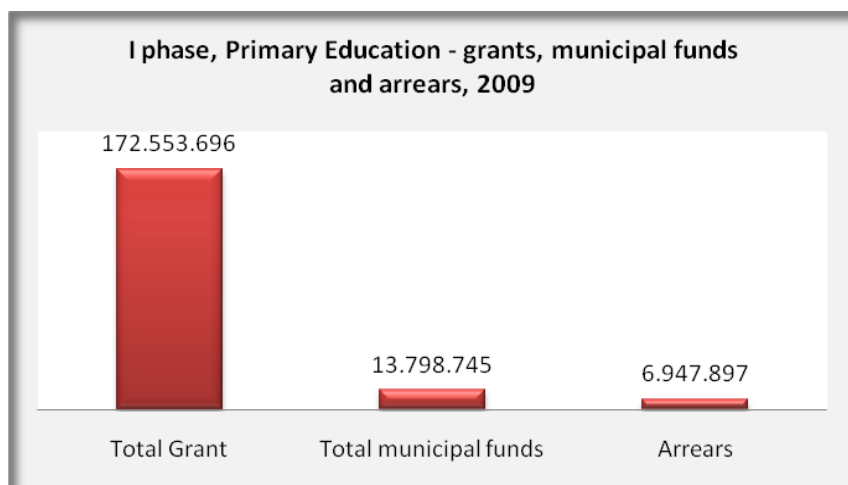
Chart 5. Transfers vs. Municipal funds, Primary education, II phase, 2009



Outstanding arrears

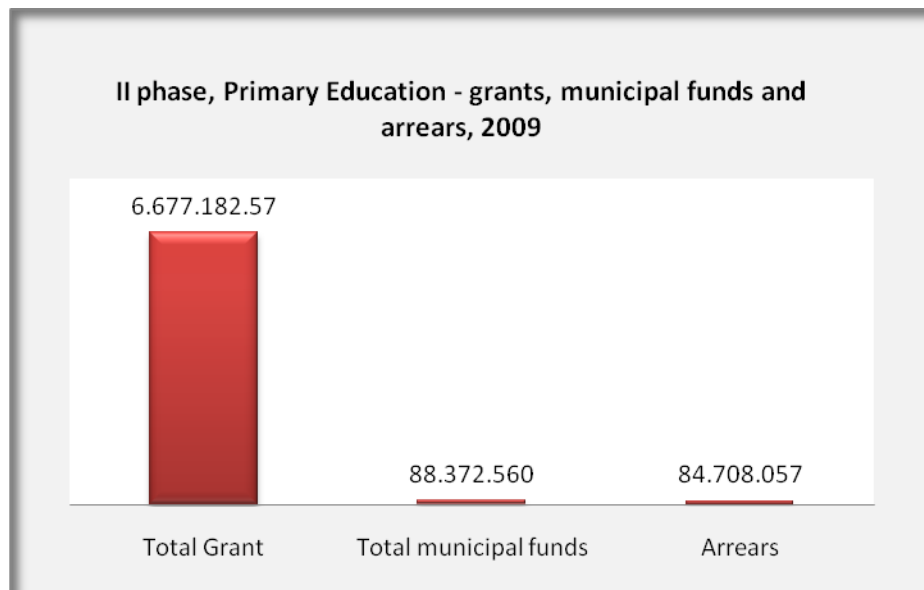
A total of 4 first phase municipalities reported outstanding arrears in the amount of almost 7 mil. MKD. This is 4% of the total targeted grant to the first phase municipalities in 2009. The municipalities reported that they didn’t know the origin of these arrears, as the schools were responsible for their accounting and financial management.

Chart 6. Primary education I phase – grants, municipal funds and arrears, 2009



The II phase municipalities reported an outstanding debt of 84.7 million MKD, which is about 1.2% of the total block grant for second phase municipalities. The chart 7 below presents a comparison of the levels of the grants, municipal funds and outstanding arrears in II phase municipalities. Municipal funds and arrears are almost equal, and quite insubstantial in comparison with the amount of the block grant received by II phase municipalities.

Chart 7. Primary education II phase – grants, municipal funds and arrears, 2009



2.1.2 Secondary Education Funding in 2009

A total of 312 municipalities reported receiving funds for secondary education responsibilities. Five of the 31 municipalities responsible for secondary education are still in phase I of the process of decentralization, and as a result, received targeted grants to finance maintenance of the school facilities and student transport. The rest, 26 municipalities are in phase II, and receive block grant funding to finance teachers' salaries, maintenance of school facilities and student transport.

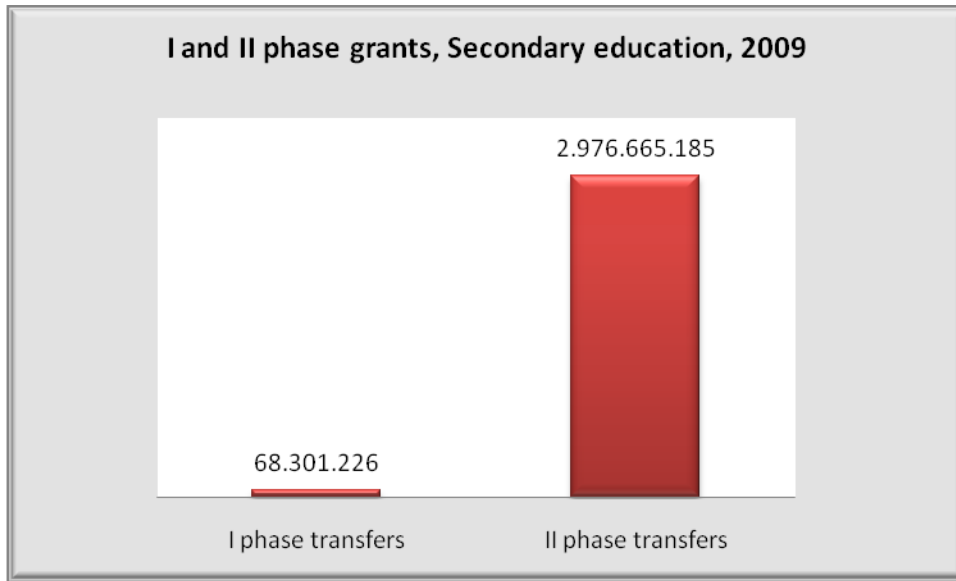
Amounts of funds received from the Central Government for education funding

In 2009, the five phase one municipalities in Macedonia received targeted grants for secondary education in the amount of 68.301.226 mill. MKD, or 2.24% of the total funding for secondary education in 2009.

A total of 26 municipalities received block grant funding for secondary education functions which covers the teachers wages, transport and maintenance of the school facilities. This funding was in the amount of 2.976.665.185 MKD. or almost 98% of the funding for secondary education in 2009.

² The secondary education institutions are located in a total of 31 municipalities in Macedonia. These municipalities receive funding from the central government in a form of targeted grants (if in first phase of decentralization) and block grants (if in second phase of decentralization) to finance the decentralized secondary education functions.

Chart 8 I and II phase grants, Secondary education, 2009



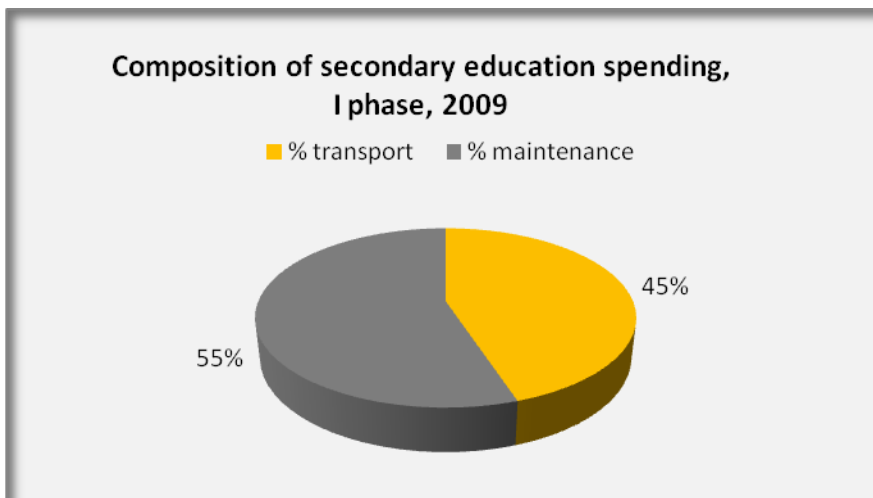
Level of funds spent by municipalities from the education grants

In 2009, the first phase municipalities reported spending 99% of the received targeted grants for secondary education, and the second phase municipalities reported spending 97% of the received block grant.

Composition of spending of education transfers in primary education

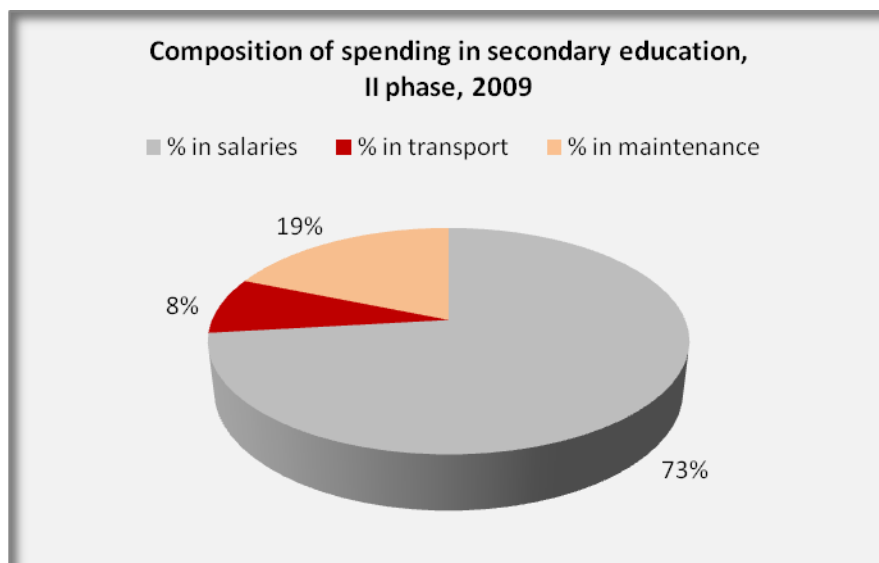
As seen in Charts 3 and 4 below, 45% of the phase I funding for secondary education was spent on maintenance of the school facilities, while 55% of the funds were spent on student transport.

Chart 9 Secondary Education Spending in phase I municipalities, 2009



In the phase II funding for secondary education, however, the municipalities spent 73% on teachers wages, 19% on maintenance of school facilities, and 8% on student transport.

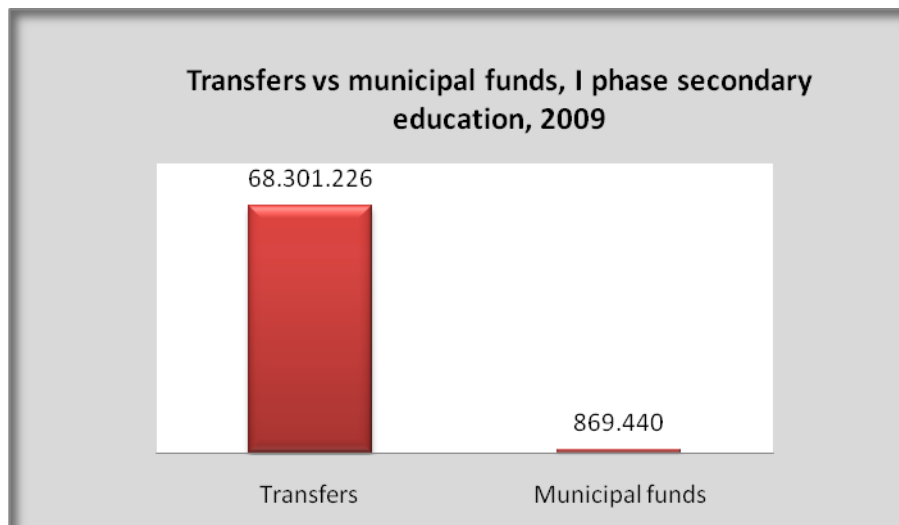
Chart 10 Secondary education spending in Phase II municipalities, 2009.



Additional municipal funding for primary education functions

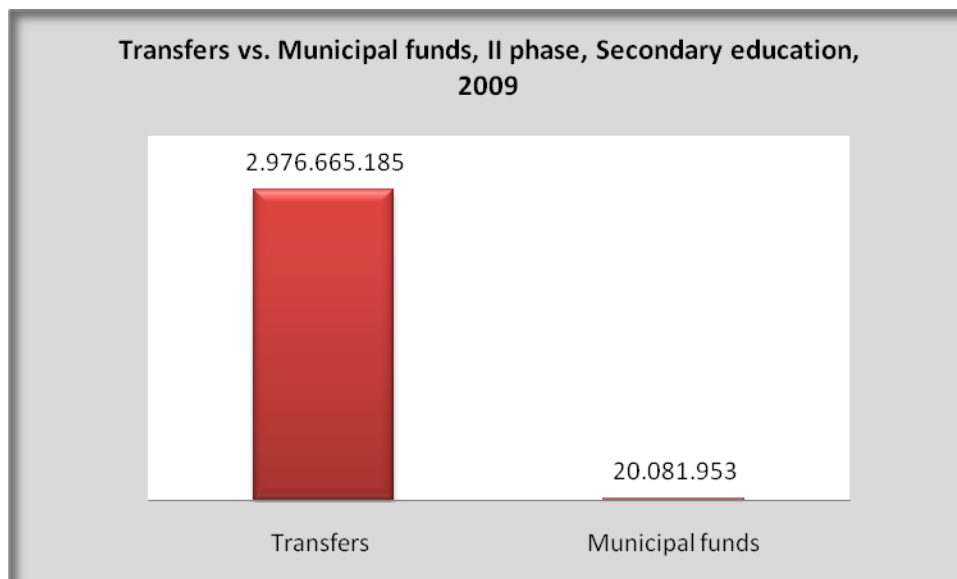
Again, as in primary education, only one municipality in phase I reported providing additional funding for education. Ohrid provided an additional 4% of the total received for secondary education on maintenance of secondary education facilities.

Chart 11. Transfers vs Municipal funds, 1 phase, secondary education, 2009



A total of 20.081.953 MKD was provided by 11 of the 26 second phase municipalities to complement the central government transfers in secondary education. This represents a small percentage - 0,7% - of the total amount transferred to the II phase municipalities for secondary education funding, but as in the primary education sector, is an indication of the intention of the municipalities in improving the education services. The additional funds provided from the municipalities were used to finance the lack of funds for heating, reconstruction of buildings, buying of equipment and insurance of facilities.

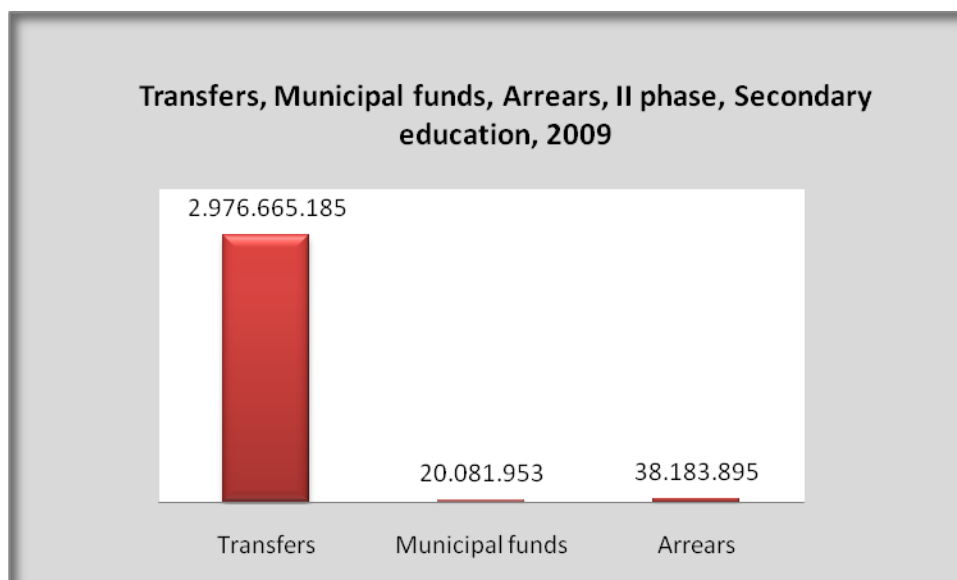
Chart 12. Transfers vs. Municipal funds, II phase, secondary education, 2009



Outstanding arrears

A total of 38.183.895 MKD was reported as outstanding arrears in education by the municipalities in the II phase of decentralization. This constitutes 1.3% of the total funding for second phase secondary education funding. No first phase municipalities reported arrears in secondary education.

Chart 13. Transfers, Municipal Funds, and Arrears in Secondary education, II phase municipalities, 2009



2.2 EDUCATION FUNDING IN 2010

A total of 16 municipalities entered year 2010 in the first phase, and by the end of 2010, 6 of these municipalities moved on to phase II. As a result, these 6 municipalities received targeted grants until the point in time when they entered phase II of decentralization, and continued to receive block grant funding until the end of 2010.

For presentation purposes, and as we cannot separate the amounts they received as targeted and as block grants throughout the same fiscal year, we will analyze the I phase funding only in the 10 municipalities that remained in phase I throughout the year.

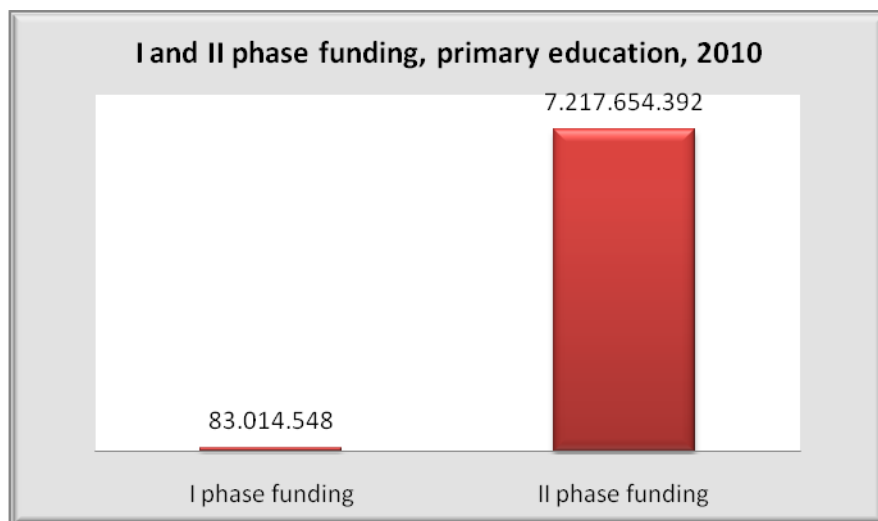
2.2.1 Primary Education Funding in 2010

Amounts of funds received from the Central Government for education funding

The 10 municipalities that received I phase funding throughout year 2010 reported receiving a total of 83 million MKD for primary education functions in 2010. The II phase municipalities (73 municipalities) reported receiving 7.2 billion MKD for primary education funding.

The first phase municipalities received around 1% of the total funding for primary education in 2010, whereas, most of the funding - 99%- went to finance second phase education functions.

Chart 14. I and II phase funding, Primary education, 2010



Level of funds spent by municipalities from the education grants

Both, the municipalities in the first phase, and the ones in second phase of the process of decentralization in 2010, reported spending on average 100% of the received funds for primary

Composition of spending of education transfers in primary education

As reported, in 2010., the municipalities in phase I of the process of decentralization, spent on average, 78% of the targeted grant for maintenance of school facilities. They spent on average, 25% of the targeted grant on financing student transport for primary education.

Chart 15 below shows the composition of the spending in primary education for municipalities in phase 1 of the process of decentralization in 2010.

Chart 15. Primary Education Spending in I phase municipalities, 2010

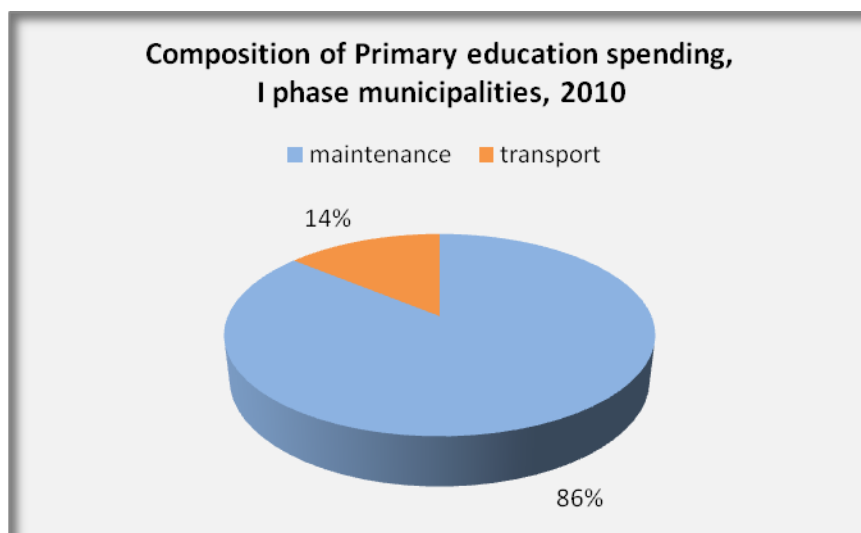
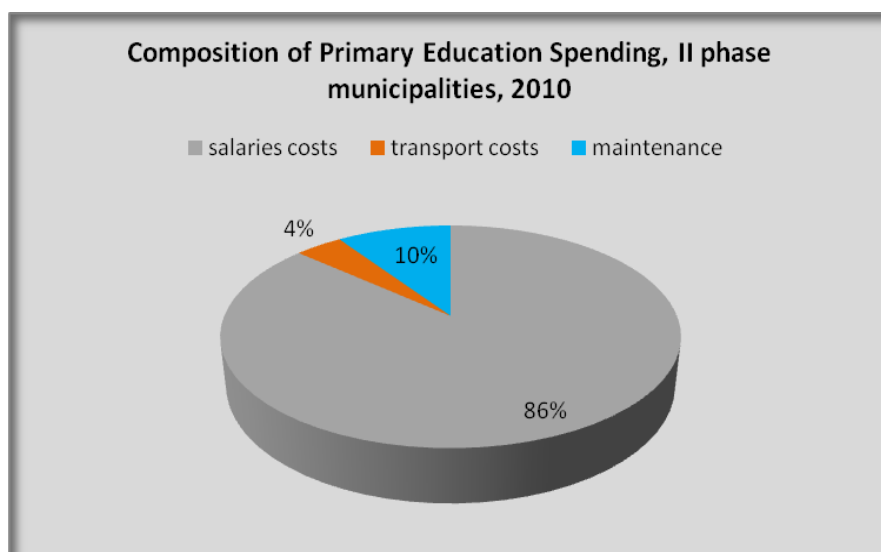


Chart 16 below, shows municipalities in phase II of the process of decentralization reporting of having spent 86% of the block grant funding from the central government for financing teachers' pay in 2010. Municipalities in phase II spent 10% and 4% respectively on financing maintenance and student transport costs.

Chart 16.. Primary Education spending in II phase municipalities, 2010

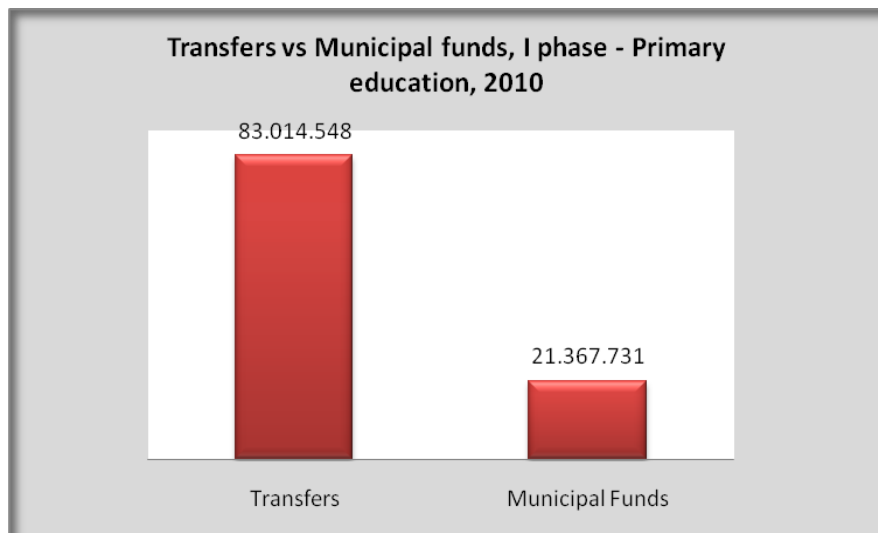


Additional municipal funding for primary education functions

Only two of the 10 phase I municipalities in 2010, Ohrid and Aracinovo, provided additional funding for education functions from its own source revenues. It is interesting that the municipality of Ohrid reported providing additional 114% revenue to the amount provided through the targeted grant. The additional funds

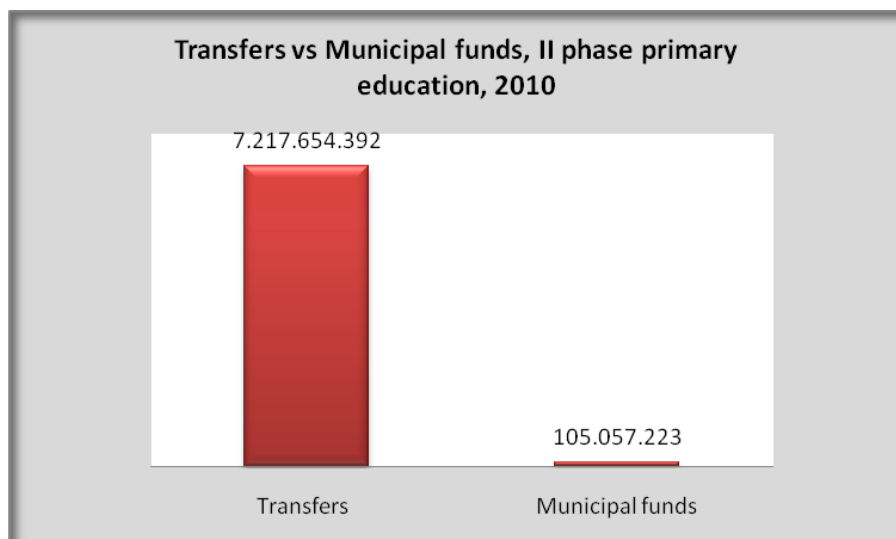
from the municipal budget in Ohrid were spent on the maintenance and renovation of school facilities, and heating.

Chart 17. Transfers vs Municipal funds, I phase – Primary education, 2010



In phase II, 37 municipalities provided additional funding for education functions from their own source revenues. The total amount provided by the municipalities was 105.057.260 MKD, which amounts to 1.5% of the total amount from the block grant. These additional funds were spent on financing and co-financing of projects for reconstruction of school facilities, roofs, changing the electrical installations, payment of outstanding arrears for heating, heating of schools, transport of students, insurance of school facilities and similar.

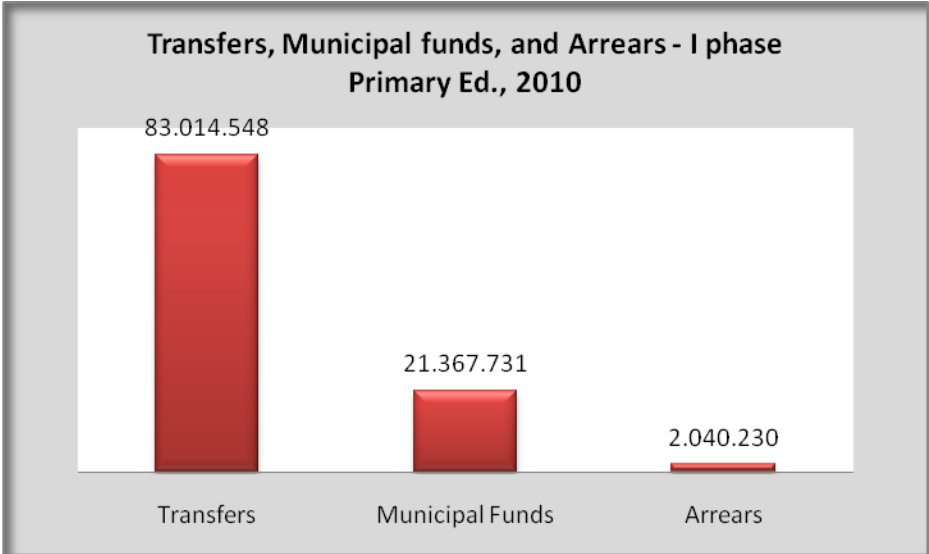
Chart 18 Transfers vs Municipal funds, II phase primary education, 2010



Outstanding arrears

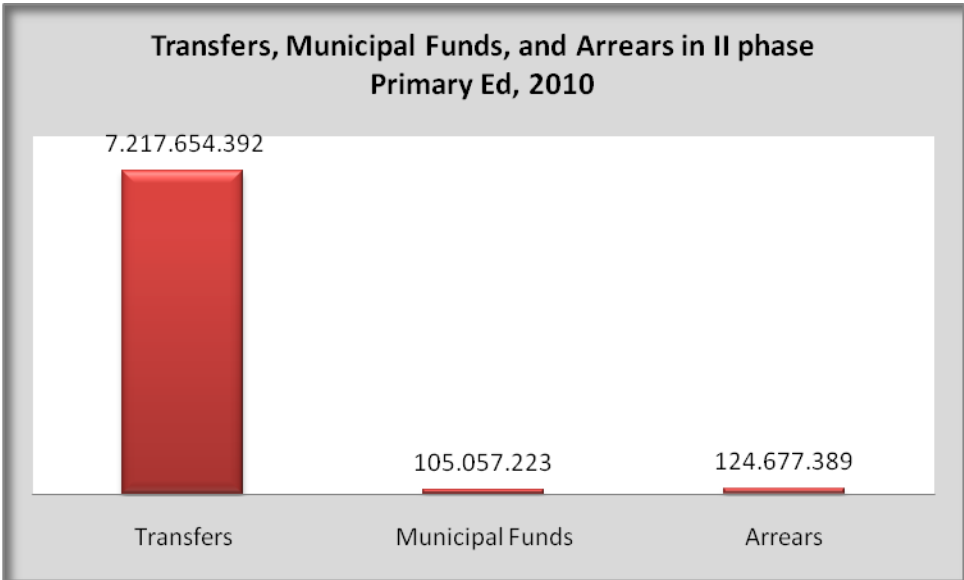
A total of 4 first phase municipalities reported outstanding arrears in the amount of around 2 mil. MKD. This is 2.5% of the total targeted grant to the first phase municipalities in 2010. The municipalities reported that they didn't know the origin of these arrears, as the schools were responsible for their accounting and financial management.

Chart 19. Transfers, Municipal Funds, and Arrears in I phase Primary Education, 2010



The municipalities in the II phase reported outstanding arrears of 124.677.389 million MKD, which is about 1.7% of the total block grant for second phase municipalities.

Chart 20. Transfers, Municipal Funds, and Arrears in II phase Primary Education, 2010



2.2.2 Secondary Education Spending in 2010

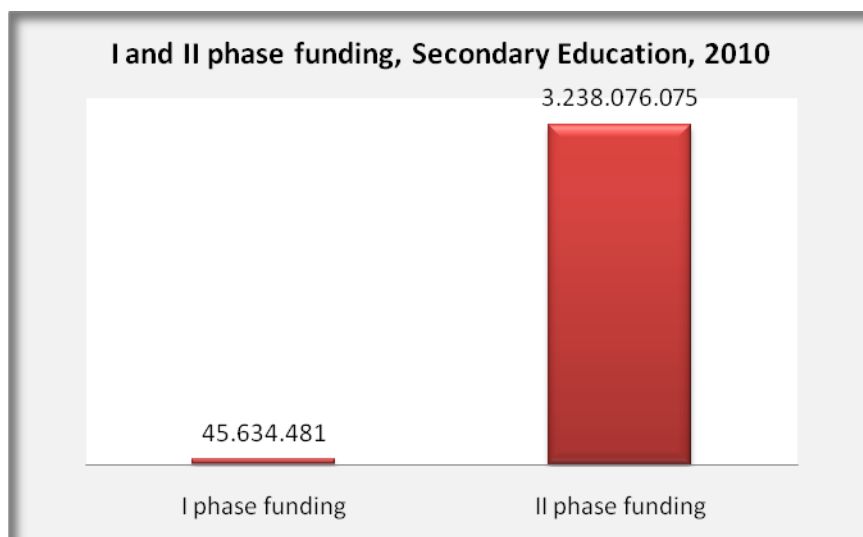
A total of 32 municipalities were responsible for secondary education functions in 2010, one more than in 2009. The reason is the opening of a new high school in the municipality of Makedonska Kamenica.

Amounts of funds received from the Central Government for education funding

Four municipalities remained in phase I of the process of decentralization and received targeted grants for secondary education. The total amount of these grants was 45.6 mill MKD. The other 27 municipalities received a total of 3.238.076.075 MKD for secondary education funding.

As is the case in the primary education, most of the funding for secondary education in 2010, almost 99% went to finance second phase municipalities education functions. The 1% of the total funding went to the four phase I municipalities. Chart 21 below shows the relationship of I and II phase secondary education funding in 2010.

Chart 21 I and II phase funding of Secondary education, 2010



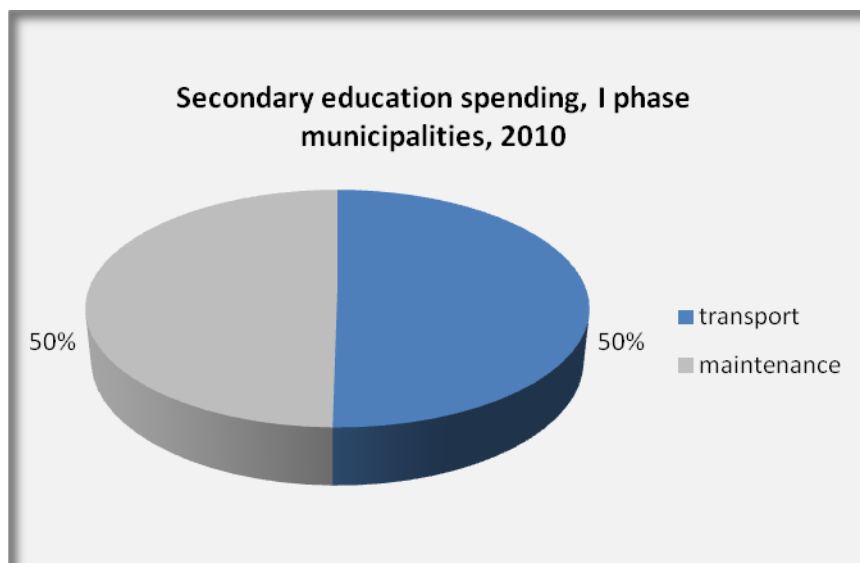
Level of funds spent by municipalities from the education grants

First phase municipalities spent 100% of the total grants received, while II phase municipalities reported spending 97% of the total grants received.

Composition of spending of education transfers in secondary education

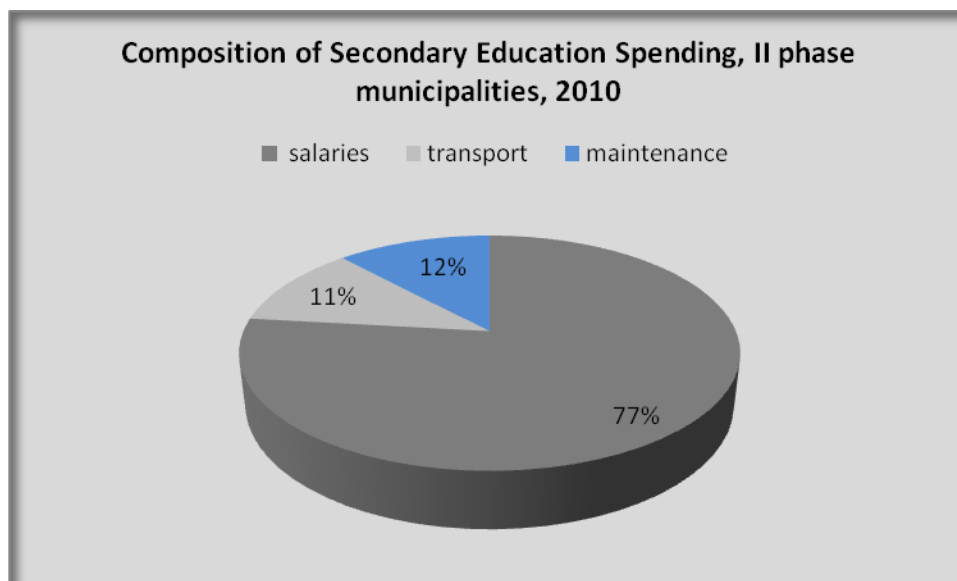
Chart 22 below shows the composition of Secondary education spending in the four first phase municipalities. The municipalities reported spending almost equal amounts to finance transport costs and the maintenance of the school facilities.

Chart 22 Composition of Secondary Education Spending, I phase municipalities, 2010



The composition of the secondary education spending in the second phase municipalities, as shown in the Graph below shows that the costs for financing maintenance and transport of students in 2010 constituted a little above one third of the overall spending. The balance of little over 2/3 of the spending was to finance teacher's salaries.

Chart 23. Composition of Secondary Education Spending, II phase municipalities, 2010



Additional municipal funding for secondary education functions

Only one I phase municipality, Ohrid, invested additional funds in the secondary education functions, whereas 12 municipalities reported investing additional municipal funds in secondary education functions in 2010. Charts 24 and 25 illustrate this.

Chart 24. Transfers vs. Municipal funds, I phase municipalities, Secondary education, 2010

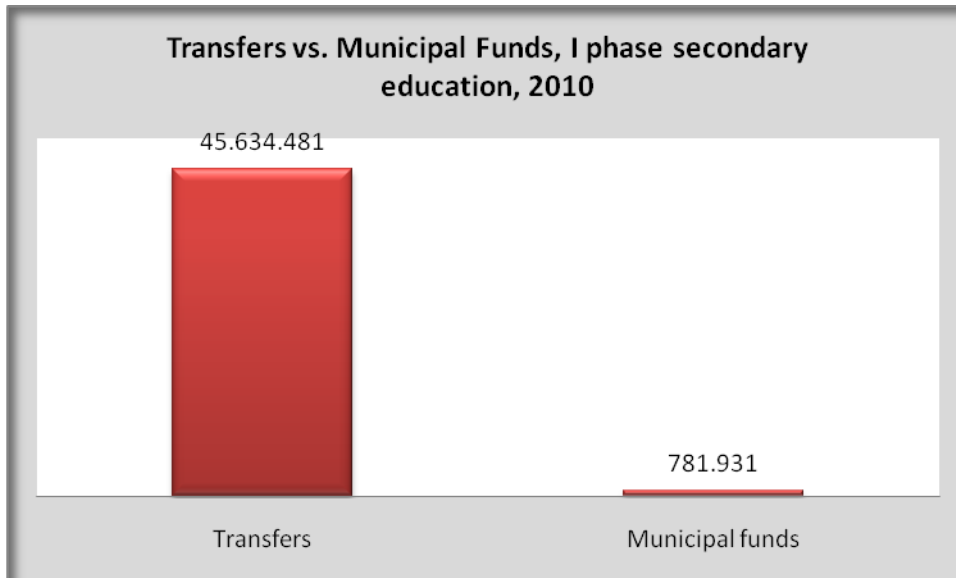
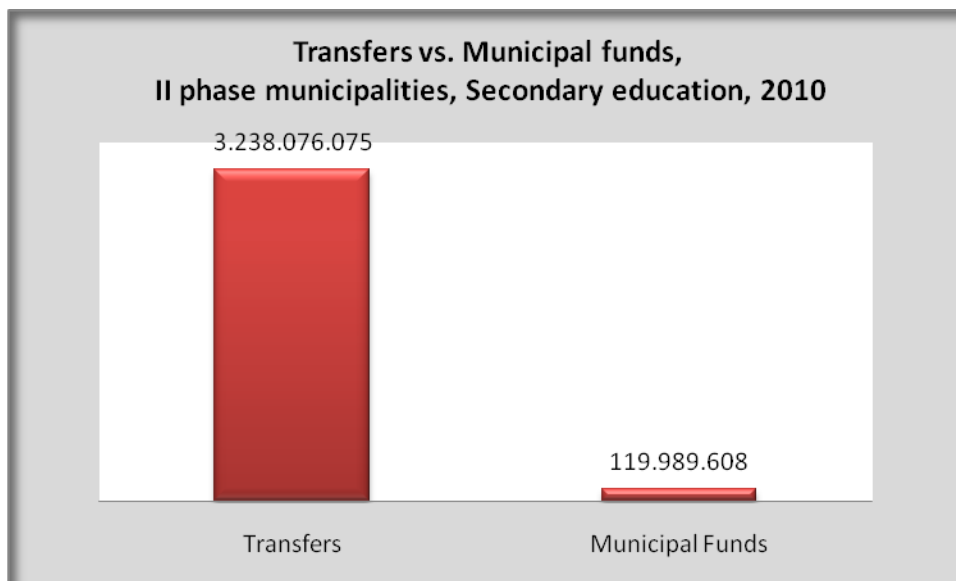


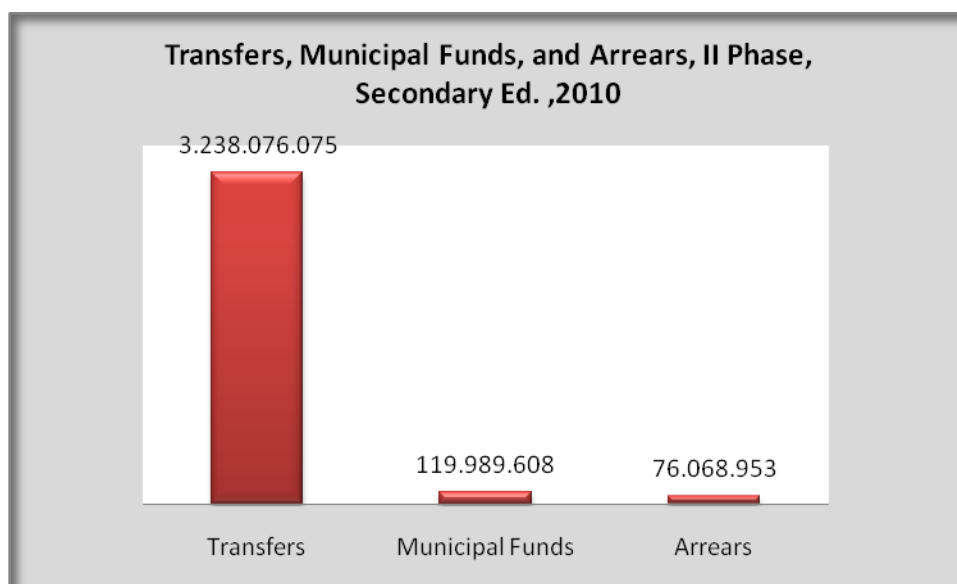
Chart 25. Transfers vs. Municipal funds, I phase municipalities, Secondary education, 2010



Outstanding arrears

None of the I phase municipalities reported arrears in the education sector, while 14 II phase municipalities reported a total amount of 76 mil. MKD. The chart below shows the amounts and relations between central government funding, funds municipalities invested and outstanding arrears in the secondary education sector in 2010.

Chart 26. Transfers, Municipal Funds and Arrears in Secondary Education, II phase municipalities, 2010



2.3 COMPARISONS 2009 – 2010

2.3.1 First and Second Phase Education Funding

As evident from Charts 27 and 28 below, with the six new municipalities moving into the second phase of decentralization, the I phase funding of both primary and secondary education has decreased from 2009-2010. As a result, and mostly due to the transfer of teachers' salaries for these new municipal entries into the second phase, there is an increase in the amount of the block grants in both primary and secondary education from 2009 to 2010.

Chart 27. I and II Phase Primary Education Funding, 2009-2010 funding

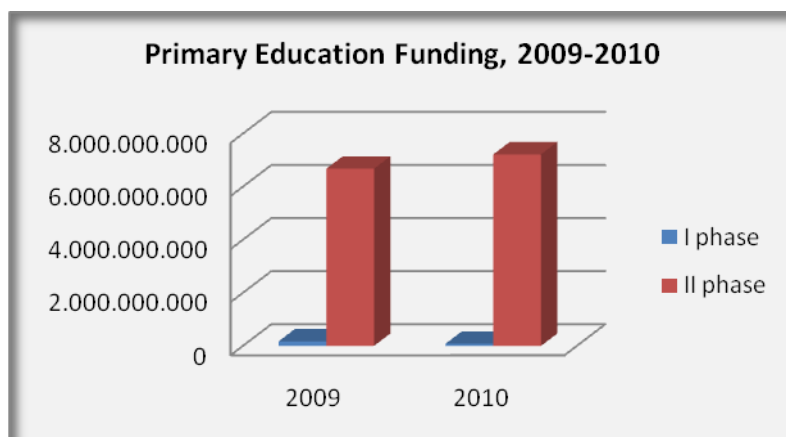
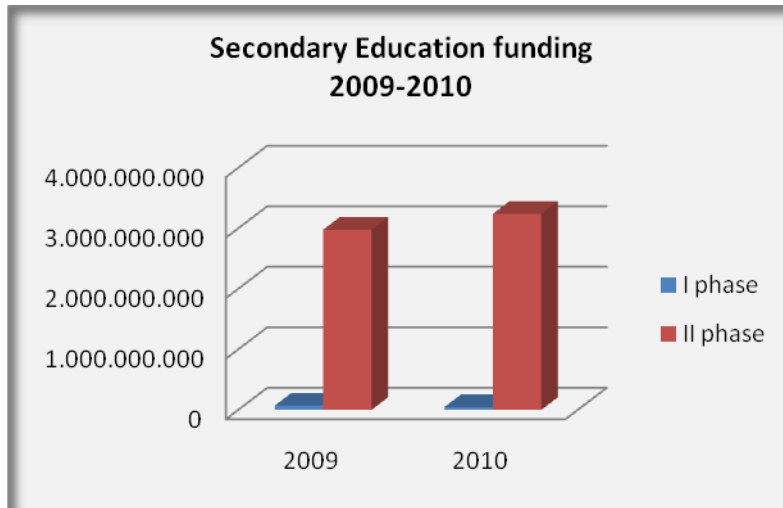


Chart 28. I and II phase Secondary Education Funding, 2009-2010



2.3.2 Composition of Spending for First Phase Education Functions

The composition of the spending for first phase education functions in primary and secondary education for the years 2009-2010 shows an interesting variation. While maintenance costs are the driver of the costs for primary education in both 2009 and 2010 and are almost four times greater than the transport costs, the secondary education funds are almost equally split between maintenance and transport. The reason for this is mostly because while primary school children attend the schools in their jurisdiction, the number of secondary education facilities is much smaller than the primary education ones. The secondary schools are not located in each municipality, and one school covers greater areas, including more than one municipality.

Also, as shown in the Chart 29 below, the costs of transport in secondary education show an increase in 2010 as a result of the government’s decision that made secondary education mandatory. This decision involved payment of the transport costs for the new generations as they entered the system of secondary education.

Chart 29. Composition primary education spending, I phase municipalities 2009-2010

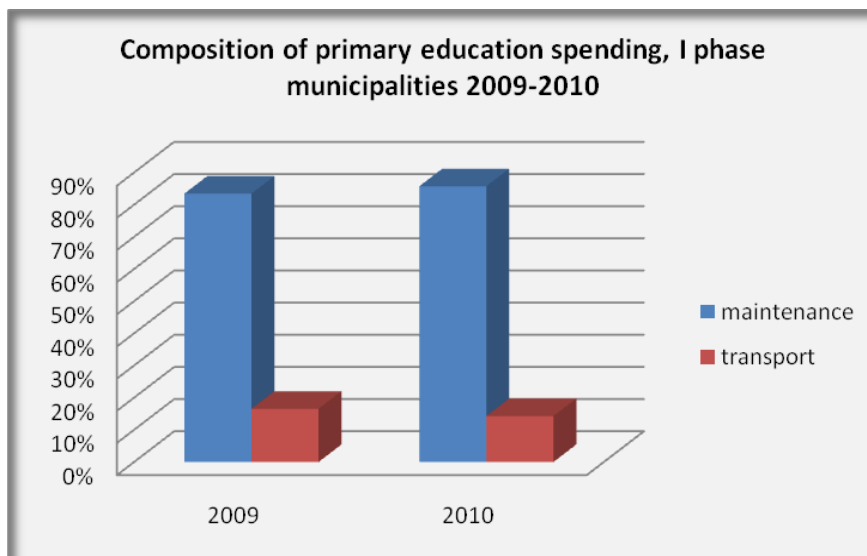
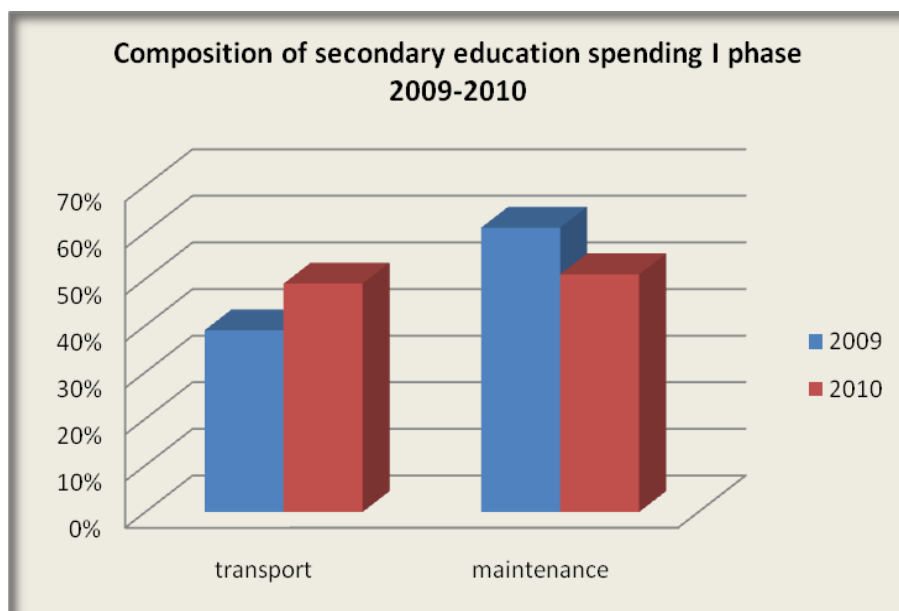


Chart 30. Composition of secondary education spending, I phase municipalities, 2009-2010

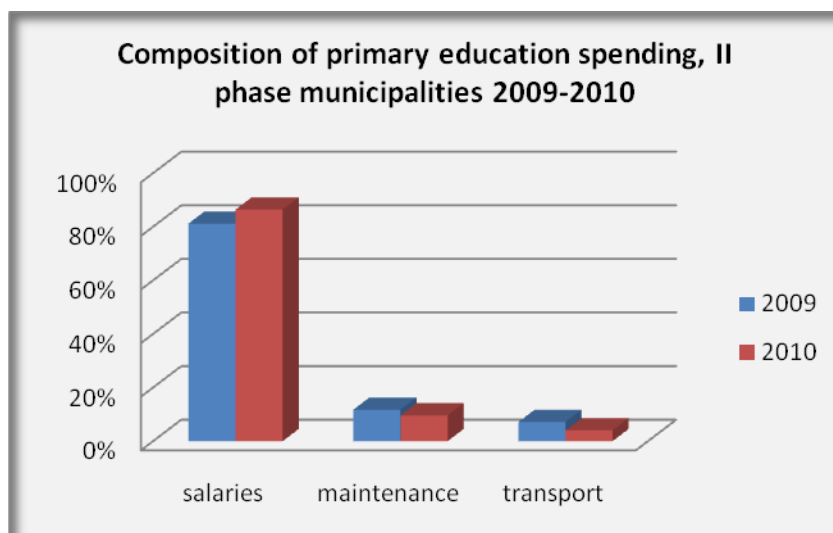


2.3.3 Composition of Spending for Second Phase Education Functions

The charts below that represent the composition of primary and secondary education spending in the II phase municipalities in the years 2009-2010. It is obvious that in both, primary and secondary education, the main driver of the costs is teachers' pay. Over 80% of the funds in primary education cover teachers' salaries, while a little less than 80% of the spending in secondary education, as reported by the municipalities, covers teachers' pay.

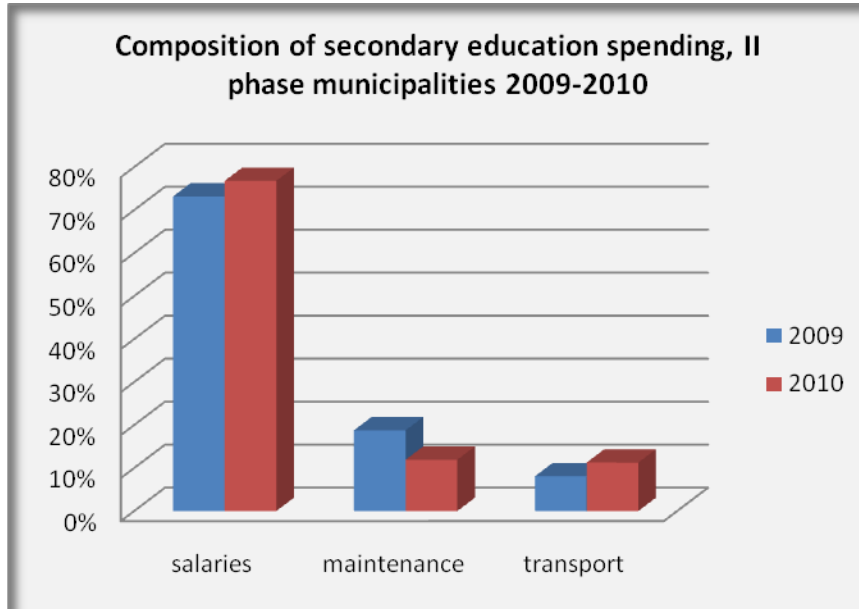
As seen in the Chart 31 below, in 2010, there is an increase of the spending on teachers' pay in both primary and secondary education. This is probably a result of the combination of: movement of the 6 municipalities in the second phase of decentralization, and a small increase of the salaries of teachers in this period. In 2010, a decrease in the spending on maintenance and transport in primary education is evident.

Chart 31. Composition of primary education spending, II phase municipalities 2009-2010



The chart 32 below shows the composition of secondary education spending in II phase municipalities for the period 2009-2010. Similarly to the situation in the primary education spending, an increase in the spending on teacher's salaries in 2010 is evident. As discussed above, this increase could be a result of the combination of new municipalities entering in phase II in 2010, and the increase of teacher's salaries.

Chart 32. Composition of secondary education spending, II phase municipalities 2009-2010



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