FINANCING VOCATIONAL EDUCATION AND TRAINING: PRIORITIES AND MECHANISMS IN SOUTH EASTERN EUROPE

PEER LEARNING 2006

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David Parkes
European Training Foundation
2007

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Luxembourg: Office for Official Publications of the European Communities, 2007.

ISBN: 978-92-9157-540-4

Printed in Italy

PREFACE

Between 2002 and 2005 the European Training Foundation (ETF) launched a peer review programme for South Eastern Europe. Although its main aim was to provide policy recommendations to national policymakers, it also aimed to contribute to capacity building and regional networking.

In 2006 the ETF shifted its focus from peer review to peer learning, with the main goal being to contribute to national stakeholder capacity building through in-depth analyses and comparisons between education and training systems and policies in different countries.

The key goal for peer learning in 2006 was to facilitate policy learning through:

- improved mutual knowledge and understanding of vocational education and training (VET) systems, issues and developments in countries and territories in South Eastern Europe;
- promotion of regional networking, exchanges of experiences and cooperation among VET experts, stakeholders and policymakers;
- increased awareness and expanded opportunities for transfers of VET reform experiences from EU member states and candidate countries;
- development of linkages between national policy reform initiatives and the Instrument for Pre-accession Assistance programming cycle.

In 2006 the peer learning project concentrated on the issue of financing VET in Albania, Kosovo and Montenegro. Four peer policymakers and four peer VET experts from Albania, the former Yugoslav Republic of Macedonia, Kosovo and Montenegro – through interviews and discussions with national stakeholders and with peers – gained not only a deeper understanding of differences in financing VET in Albania, Kosovo and Montenegro, but also of the similarities of the problems, and, in a few cases, of the chosen policy options.

The peer group consisted of:

- Mr Maksim Konini – Director, Human Resources Development Directorate, Ministry of Education and Science, Albania
- Mr Alqi Mustafai – Institute for Curriculum Development, Albania
- Mr Cazim Fetahovic – Deputy Minister of Education, Montenegro
- Ms Ivana Petricevic – International Cooperation Unit, Ministry of Education and Science, Montenegro
- Mr Fehmi Ismaili – Permanent Secretary, Ministry of Education, Science and Technology, Kosovo
- Mr Rame Likaj – VET expert, Kosovo
- Mr Tale Geramitcioski – Member of Parliament and former Deputy Minister of Education, former Yugoslav Republic of Macedonia
- Mr Konstantin Petkovski – Professor, University of Bitola, former Yugoslav Republic of Macedonia
- Mr David Parkes – EU expert
- Ms Margareta Nikolovska – ETF
- Mr Xavier Matheu de Cortada – ETF
- Mr Arjen Vos – ETF.

The peer visits took place in Albania between 23 and 27 September, in Montenegro between 27 and 30 September, and in Kosovo between 22 and 25 October 2006. The peers would like to thank all the interviewed stakeholders for their hospitality and for the open and enriching discussions.

This report was written by David Parkes but reflects substantially the intensive discussions of the peers and the contributions of the ETF staff involved.

CONTENTS

1. INTRODUCTION

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As stated in the preface, the ETF peer learning process is organised as a regional activity in South Eastern Europe and covers all actual and potential candidate countries (see Section 2). In 2006 the ETF involved four peer policymakers and four peer VET experts from Albania, the former Yugoslav Republic of Macedonia, Kosovo and Montenegro in peer visits that took place in Albania, Kosovo and Montenegro. These countries and territories are currently designing and implementing VET reforms, to some extent driven by foreign donor contributions and often undertaking similar activities but without necessarily sharing ideas. European issues are also high on the agenda.

Following a preparatory stage of visits and subsequent analyses, the initial intended readers of this report are the peers themselves (the mix of high level policymakers and experts from Albania, Kosovo and Montenegro) and their equivalents in their own and other Balkan governments. Readers from Albania, Kosovo and Montenegro are likely to wish to first contextualise their own country/territory (in relation to the others) in a broader international context, and then to take on board comparative (cross-national) comments and observations. As background for the non-Balkan reader there are annexes that provide a more detailed (although edited) version of the peer evaluations of their own situations.

Sections 2 and 3, respectively, describe the rationale for the 2006 peer learning exercise (what it is and how it was organised), and provide an explanation of the choice of theme (VET financing) and of the approach to the question framework that guided the peers (described in full in Annex 9).

Section 4 is a comparative analysis of the countries and territories examined. Always with finance in view, the key issues addressed both for the individual countries and territories and the broader international scene include: context, key financing dilemmas, continuing vocational training (VT) and the labour market, donor contributions and coordination, legislation, the location of decision-making authority (including decentralisation and school autonomy), efficiency measures, and key issues for the future.

Section 5 describes a possible way forward using a (real) scenario that illustrates, in particular, the need for ministry steering capacity and for flexible management by schools and training centres within the bounds of public responsibility (the main preoccupation of the peers throughout the exercise). As this is a peer learning rather than peer review exercise, there are no policy recommendations as such but Section 5 describes a practical response to the main concerns raised by the peers.

The annexes (compiled from the peers' briefing papers) provide an extended analysis of VET financing in Albania, Kosovo and Montenegro. They also include the question framework and a matrix – based on Section 5 – that compares historic models of financing and a new integrated (or dynamic) funding model. The comprehensive rationale and the suggested approach to, and structure of, the 2006 peer review are described in *ETF Peer Learning 2006. Guide for Preparation.* The concept is described in *Peer Review 2006. Finance in VET: Priorities and Mechanisms, Concept and Method*. Both are available on request from ETF (info@etf.europa.eu).

2. PEER LEARNING RATIONALE

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Within Europe, policymakers are increasingly looking across borders – seeking information, good practice examples and policy or peer advice – in order to launch, develop or implement new policies in their own national context. One way of developing awareness of the importance of skills development for poverty reduction is to let policymakers meet, talk with, and hear from, people who are, or who have been, involved in developing the skills of impoverished people as a tool for reducing poverty.

Peer reviews and peer learning are among the instruments that engage policymakers in policy learning. ETF experiences in South Eastern Europe would indicate that the peer learning process is perhaps a more effective learning tool than the final report of a peer review exercise, which risks ending up in a drawer together with other reports.

The ETF initiated a first round of peer reviews in 2002 and 2003 in 10 countries and territories in South Eastern Europe[1]. The intention was that the peer reviewers would learn as peers and, at the same time, that policymakers from the country/territory under review would learn from the analyses and recommendations produced by the peers. The ETF approach to peer reviews could, perhaps, not only be considered to be a combination of the traditional peer review and more modern peer learning, but also as something of a transitional approach – a shift away from an expert-driven knowledge transfer model towards participatory forms of policy learning.

1 The objectives were to:
- provide an external assessment of VET reform policy initiatives to national policymakers;
- improve mutual knowledge and understanding of VET systems, issues and developments;
- promote regional networking, exchanges of experience and cooperation among VET experts, stakeholders and policymakers;
- increase awareness and facilitate the transfer of VET reform experiences from EU member states and candidate countries;
- contribute to the EU aid programming cycle;
- intensify cooperation between the ETF and national authorities/experts from the region.

The aim of combining capacity building and policy advice objectives appears, however, to have been overly ambitious. The peers often had diverse backgrounds in terms of expertise and functions and often did not hold a similar policymaking position in their own countries/territories. In addition, although some peers came from South Eastern Europe, the majority came from the 'old' and 'new' EU member states. It was difficult to establish a joint learning process for these mixed teams. Peer review has been evaluated as being highly successful in terms of personal capacity building and broadening of perspectives, but the impact on national policymaking has been very limited.

Although peer review reports have been well received by most countries and territories, with analyses and recommendations generally endorsed by key stakeholders, the impact on policy development has been in most cases insignificant. This may be attributed to a time lag between the peer review visits and the completion of reports or to the quality or appropriateness of the recommendations (indeed, most expert reports can be evaluated in a similar way).

The ETF external peer review evaluators have concluded that greater ownership of the peer review would increase the chances for effective use of policy recommendations. They also stressed the importance of follow-up activities to support the implementation of recommendations. In a few cases, peer reviews have played an important role in defining new EU projects or new legislation – as in Bulgaria and in Bosnia and Herzegovina – but these are the exception rather than the rule.

During 2005 the ETF organised a regional peer review on the implementation of curriculum reforms, primarily concerned with the question of why so little national curriculum reform was taking place despite so much international assistance. The peers – all from the region – were curriculum development experts but generally did not have a background in policy development. They also acted as national coordinators for the study visits to their countries and territories. An EU expert facilitated the work of the teams.

Although a comparative synthesis report has been produced, containing region- and country-specific recommendations, it is too early to assess its impact. The lack of policymaking experience has been a major disadvantage in conducting this exercise. The final report, in particular, contributes to cross-country comparison as a tool for policy learning. The question is, however, how much use policymakers will make of the recommendations.

Policymakers the world over take action only when there is a problem and when there is wide dissatisfaction with existing policies. In the context of VET reform, policymakers in transition countries have to try to solve ill-structured problems in a setting with complex stakeholder relationships. Even when we assume that the policymakers know what they would like to achieve, there is considerable uncertainty about how to go about this. It is important to understand contextual limitations of policies and transformations that will work at home. For policymakers therefore – and perhaps even more than for other learners – learning is more than merely a cognitive process: learning is practice.

The reconstruction of ETF experiences with peer review and peer learning has shown that although the initial considerations and argumentation sought to combine process- and outcome-based approaches, this was not easily achieved in practice. The positive dimension of this experience is that it was one of the first attempts to introduce peer learning as an approach to policy development. This peer learning approach has also been a key instrument in EU education and training discussions since 2005[2], with the EU projecting the need to focus on policymakers and policy priorities.

2 As a follow-up to the EU ministerial conference 'A Europe of Skills: Let's Do the Job!' in Maastricht in December 2004, the European Commission has strengthened support to the implementation of the Lisbon objectives at the national level through the introduction of peer learning. The Commission defines this as 'a process of cooperation at the European level, whereby "reform agents" from one country learn, through direct contact and practical cooperation, from the experiences of their counterparts elsewhere in Europe in implementing reforms of shared interests and concern'. It aims at mutual learning and contributing to the European education and training area.

In conclusion, the analysis of recent ETF experiences leads us to conclude that peer reviews and peer learning, under certain conditions, provide a powerful learning environment for individuals to increase their awareness and understanding of critical policy issues. The effect in terms of awareness raising is probably the greatest during pre-policy preparation phases, but peer reviews may also have strong learning effects at later stages of the policy process in terms of developing and monitoring measures that seek to implement policies.

The greatest impact of peer learning activities has been on the learning of those directly involved in the process. The impact has been substantial and, as a vehicle for common policy learning, the peer learning review approach has been valuable.

However, neither peer reviews nor peer learning can achieve individual learning effects that impact on the policy process if organised as isolated stand-alone events. In order for the learning that has taken place during peer reviews to play a role in the policy process, peer reviews need to be embedded in a more comprehensive policy learning strategy that includes a series of complementary knowledge sharing and policy learning activities.

Peer learning in 2006

The key objectives for peer learning in 2006 were to facilitate policy learning through:

- improved mutual knowledge and understanding of VET systems, issues and developments in South Eastern European countries and territories;
- promotion of regional networking, exchanges of experience and cooperation among VET experts, stakeholders and policymakers;
- increased awareness and expanded opportunities for transfer of VET reform experiences from EU member states and candidate countries;
- linking national policy reform initiatives to the Instrument for Pre-accession Assistance programming cycle.

At a preparatory conference held in Sofia on 8 April 2006, it was agreed to focus 2006 peer learning on VET financing. The added value of a common theme is the possibilities offered for comparison, the organisation of a more concise regional learning platform for key actors, the enhanced potential for reflection on national reform activities, and a more targeted dissemination of EU policies. It was concluded also that the combination of policymakers and VET experts would best reflect the way in which policies are developed. It has proved to be a wise decision, mainly because it has enriched the discussions with views expressed from different angles.

3. THEME AND PHILOSOPHY

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The topic for the 2006 peer learning exercise was Finance: Priorities and Mechanisms for VET Reform. The document *Peer Review 2006. Finance in VET: Priorities and Mechanisms, Concept and Method* (hereinafter referred to as the concept paper) sets out the points underlying the exercise (see below). These are simple questions that beg for quite complex analyses. The complete question format stemming from this starting point can be found in Annex 9. The intellectual/theoretical background underpinning VET evaluation can be found in a paper written for Cedefop entitled *From project to policy evaluation in vocational education and training – possible concepts and tools. Evidence from countries in transition* (Viertel et al., 2004). However, the immediate justification for the exercise lies with the need for policymakers/shapers to regionally examine the financial sustainability of VET reform experiments. As one peer puts it:

‘In general, (reform) interventions – while relatively successful in important aspects of VET development such as curriculum development, teacher training, school environment, etc. – are difficult to make systemic, for the following possible reasons: (a) because financial issues go beyond the traditional pedagogic aspects of education; (b) because financial issues have a broad cross-sector impact that requires the consensus of many actors (not easily achieved); and (c) because legislation and finance are traditionally very rigid in nature, in comparison with the flexibility of pedagogic experiments.’

KEY QUESTIONS FOR VET FINANCING

Reform strategies do not exist without a budget line attached. The four key questions for the financing of VET reform strategies are:

- What are the current and future sources of finance?
- How will funds be collected and by whom?
- How will funds be disbursed, by whom and according to what criteria?
- What measures are in hand to reform current financing mechanisms?

VET reform cannot take place without a comprehensive review of the financing of the system. The four key questions are posed in the broader context of whether education and training are integrated into human resource development components of overall government economic and social strategies.

Although there may be some convergence arising from common underlying pressures, national, regional and sectoral aspects of VET are likely to drive national VET systems in different directions – which applies equally to approaches to financing.

> If one asked which individuals in the UK government have the most influence on education policy and strategy, the answer would be: first, the Prime Minister's education adviser, second, the Prime Minister, third, the Minister of Finance, and finally – in only the fourth position – the Minister of Education.
>
> The organisation of technical funding processes cannot be divorced from the political processes of the day.

NATIONAL SUB-THEMES

A sub-theme was determined in advance for each country/territory, as follows:

- Albania: relations between decentralisation and funding mechanisms;
- Montenegro: how to use resources more efficiently and increase investment in VET;
- Kosovo: how to get and manage donor funds.

In the event it was difficult to disentangle these themes in the three countries/territories, Sections 4.5 and 4.7 deal comparatively with decision-making locations and donor contributions, and Annexes 4 and 6 deal with the same themes country by country. The issue of efficiency was more difficult to pin down. Section 4.8 and Annex 7 examine more efficient resource use country by country, although these are mostly projections in policy papers that have not as yet been implemented.

4. FINANCING VOCATIONAL EDUCATION AND TRAINING: A COMPARATIVE ANALYSIS

4

This section contains a number of headings that are broadly mirrored in the annexes. For the peer learning exercise there are no recommendations as such, but the focus of the peers on school autonomy (or relative autonomy) and on decentralisation leads into Section 5 (A possible way forward) which offers practical suggestions for this focus (already adopted in principle by another Balkan government).

4.1 NATIONAL CONTEXT

Context is everything or nearly everything. As can be seen in the three peer-generated national analyses (see annexes), each context results in divergent responses to the same questions because of differences in population size, geographical location, country borders, demographic trends, internal and external migration, employment/unemployment trends, history, recent conflicts, recent or pending independence, and monitoring by the international community. These variables mark the differences between Albania, Kosovo and Montenegro.

Immigration and emigration have a particular impact on Albania and Kosovo. Kosovo is awaiting independence while remaining under international supervision, and its Ministry of Education has only acquired relative autonomy since 2002. Montenegro's separation from Serbia is very recent. All three countries and territories have experienced fairly recent internal and/or external conflicts. All three have labour markets that are still evolving, which means that labour market information and VET responsiveness vary according to VET school and training centre location. All three are struggling to emerge from historically centralised and bureaucratic financing regimes.

The financial mechanisms in all three countries and territories start from the common base of being highly centralised and regulated. There are continuing discussions on decentralisation and deconcentration to regional or municipal levels, and there is a general will to give schools more (if limited) financial autonomy (that is, some capacity for retaining and deploying income raised through commercial services). Consequently there is much discussion of the following: the ability of VET schools and training centres to raise funds in the local market, the detailed analyses and recommendations from donors (especially the World Bank) in regard to budgetary efficiency and effectiveness measures, the analyses of finance ministry (in parallel with the ministries of education and labour) budgeting and regulatory mechanisms, and the issue of public and private funding that is insufficient to enable reform to move forward rapidly. Each country/territory has a different level of GDP and allocates a different percentage of GDP to education.

One danger to be avoided is to apply a common transition formula to each, regardless of their location along the transition spectrum. Donor intervention in Kosovo and Montenegro is a relatively recent phenomenon. Albania has received donor support and has been the subject of analyses since the early 1990s, and so the sophistication and internalisation of reform and financing issues are relatively high (implementation is another matter).

In analysing the policy process – policy formulation (presenting the options), policy determination (making policy choices) and policy implementation (executive action) – for, say, decentralisation, it is important to remember that one may use the same concepts and analytical tools to take quite different directions (England, France and Germany have done just that). It is also important to remember that the three population sizes are at the level at which bigger countries tend to decentralise. Consequently, while all three country/territory administrations agree broadly on (relatively) greater flexibility for schools and training centres, the roles projected for the municipalities are divergent.

> It is important to flag up at an early stage the distinction between *decentralisation* (associated with local political election and local taxation collection and distribution), *deconcentration* (a local manifestation of central government), and relative *autonomy* (enhanced responsiveness to local conditions). These are logically separate categories within the location of decision-making authority.

Local ownership in the national context is also critical. It is disconcerting to find the same external recommendations by the same donor authors for three entirely different contexts. As Francis Fukuyama (2004) clearly states, it is important to build on and out from local history, culture and practice, and not simply to accept a particular definition of best practice from somewhere else; otherwise the body will reject the graft, which, the same author suggests, is more often the case than not.

4.2 THE BROADER INTERNATIONAL CONTEXT

The European Commission regards investment in education and training as 'providing an engine for the new knowledge-based European economy and society'. It is concerned that EU member states (and transition countries) are suffering from 'global under-investment in the development of human resources', and, in particular, in education and training (European Commission, 2003b).

The average percentage of GDP allocated to public sector funding for education and training across the EU member states (5.2% in 2003, according to Eurostat) is not considered sufficient. Within this figure, economic and social rates of return (individual and collective) for different levels and categories vary by country. This situation has led to a debate (within the larger OECD context) of the relative advantages of investment in VET as opposed to investment in general basic and secondary education and higher education.

The Commission's overall conclusion (for EU member states and transition countries) is that 'notwithstanding past efforts and priority already given to human resource development (by the countries themselves as well as by the EU through the ETF, Phare [and CARDS] education and training systems in most applicant countries will need very considerable new investment in the form of funding as well as in qualitative and structural reforms to catch up with the requirements of the knowledge-based economy and society. […] This increase needs to come from a combination of targeted public investments and higher private contributions' (European Commission, 2003b).

Within this broad view, the question raised in regard to VET (initial VET and continuing VT in Albania, Kosovo and Montenegro is that of priorities in regard to general and higher education.

The box below describes five broad internationally evident financing trends in VET (Masson, 2006).

These trends/debates are intimately linked to policy debates in Albania, Kosovo and Montenegro, where discussions are still either at the pilot stage (e.g. per capita funding) or in the early stages of implementation (e.g. decentralisation and relative school autonomy).

These issues have already been taken up in the ETF curriculum-focused peer review report (Parkes and Nielsen, 2006). While

Financing trends in VET

Per capita funding in simple terms is a sum allocated (usually annually) to each student passing through a school. The notion is complicated by the criteria for weighting this sum (for example: full time or part time students; disadvantaged students; rural students requiring transport or dormitories, etc.). In VET the sum may be weighted by occupational sector (as in Albania but not in Montenegro). A staff/student ratio may be determined by multiplying together the size of a class, the number of times it meets and the number of hours taught by the teacher. A modification in any of the variables changes the ratio.

Decentralisation (as opposed to deconcentration). See box above.

Greater autonomy for schools is relative. No institution can be truly autonomous if it depends on funding from elsewhere. The issue is flexibility in the use of marginal monies earned from commercial activities, rather than the overall management of global budgets (as in schools in many English-speaking countries).

Equity is a term with several different applications. In this text it refers principally to schools that benefit from or are hindered by geographical locality and the difficulties of assuming the responsibilities of a community, region or municipality. It can equally refer to minority ethnic groups or to genders.

Private or enterprise funding in EU member states is part of the tendency of governments to shift cost centres, either via decentralisation or towards the private/enterprise sector (for example through apprenticeship or continuing VT levies).

The government and management of VET schools increasingly have to take into account a mixed funding package – from central government and from social partners and municipalities – and take on board the notion of managing commercial activities.

equity of funding partly concerns the school network, per capita/unit funding is a main plank in World Bank education programmes.

The conclusion for the four Balkan countries reviewed in 2005 (Bosnia and Herzegovina, Bulgaria, the former Yugoslav Republic of Macedonia and Serbia) were as follows:

‘Essentially, there is a consensus on greater school autonomy [...]. The understanding, means and implementation are mostly absent.’ Lack of public funding is not much compensated for by increases in funding from enterprises given a background of weak social dialogue and poor labour market information. Future systemic development in Balkan countries cannot be met by EU pilot project funding although the (whole) sector approach developed elsewhere by the Commission (in MEDA countries, for example) could be helpful.

In the original concept paper for this exercise, alternative approaches to VET finance in the EU were described for France and the UK – two countries that traditionally represent the debate between centralisation and decentralisation. Essentially these approaches deal with:

- the requirement to use financing mechanisms as a vehicle to enhance the steering capacity of government, in particular the ministry of education;
- centralisation and decentralisation – in the case of England, giving greater control at both the central and local (school) levels by removing responsibilities from local authorities, and in the case of France, retaining central steering capacities while decentralising (gently) towards the regions (the latest French financing measure (2006) also gives greater budget autonomy to schools);
- the employment of unit costing and not necessarily per capita costing (see the concept paper for the case of England and efficiency and equity objectives);
- in the case of France (Lafond, 2000), the use of payroll taxes for apprenticeship and adult training provision (see box below). The system is deployed in three Maghreb countries but with the danger of reaching too few enterprises (only 3-5% of the total) and so represents ‘a Mercedes for the few rather than a car for the people’ (ETF, 2003a).

Taxes for apprenticeship and adult training provision

The apprenticeship tax, which must be paid by any employer involved in industry, trade or crafts, amounts to 0.5% of the annual wage bill. Continuing VT is financed jointly by the state and business. Companies with 10 or more employees must devote 1.5% of their annual wage bill to continuing VT in addition to the 0.5% allocated to the apprenticeship tax. Additionally, companies with 10 or more employees have to pay 0.15% of their annual wage bill into a training insurance fund.

In order to spend these amounts companies may either train their own employees, reach training agreements with state-run or private training centres, or contribute to a training insurance fund.

These issues – also being debated in the three countries and territories that are the subject of this analysis – reflect (to a degree) the impact of different donor agencies.

Four financing scenarios were chosen (in the original concept paper) from current working documents on selected Balkan countries (but not including the three countries and territories chosen for the 2006 peer learning exercise). They may be seen as alternative future scenarios, based on varying outcomes of possible changes in economic, social, political and constitutional contexts.

In the case of the four alternative scenarios (from the point of view of the peers), these reflect the actual situation of four different Balkan countries and territories, as follows:

1. an historic financing structure in country 1;

2. recommendations for financing reform (strategy and mechanisms), consistent with an agreed overall reform strategy in country 2;
3. strategy recommendations with a time scale and cost centres for country 3, consistent with white paper recommendations accepted by government;
4. a recommended financing approach and mechanisms for country 4, consistent with government steering capacity and an agreed reform strategy.

It is worth noting the following.

1. The historic pattern for country 1 is broadly representative of the Balkans as a whole and may be seen to reflect the peer learning situation in 2006.
2. The recommendations for country 2 are substantially donor-influenced (that is, the perspective is largely that of the World Bank).
3. The recommendations for country 3 are heavily weighted towards donor funding for institution building over a limited period, and greater resources will only be required at a later stage for systemic development.
4. The recommendations for country 4 led to the ministry of finance being represented – actually rather than nominally – on the finance working group for the first time (at deputy minister level).

The three national case studies of Albania, Kosovo and Montenegro move between the first scenario (historic structures) and the third one (tentative movements towards change). The predominant pattern is traditional centralisation, with efforts invested in decentralisation, social partner involvement, and greater school autonomy, (usually) together with piloting efficiency and effectiveness measures such as unit or per capita costing and rolling budgets. These aspirations and realities feature in the three national descriptions (see annexes).

The fourth scenario represents a dynamic way forward since it illustrates, in a practical manner, the preoccupations and dilemmas of Albania, Kosovo and Montenegro. It presents rather more than a broad strategic package, looking, as it does, at how it might be possible to combine a step-by-step approach that would ensure real achievements in relation to developing relative flexibility at the school and local levels, the contribution of municipalities and retained/regained steering power of the ministry of education, all combined with donor and social partner contributions. It is described in Section 5 as a possible way forward.

4.3 KEY FINANCING DILEMMAS

The issues in this section, raised in regard to each of the three countries and territories, are not intended to be inclusive but rather more illustrative of financing dilemmas, and so a broad-brush approach is adopted. Specific concerns are taken up under the different section headings that follow, namely, continuing VT, donors, legislation, location of decision-making, efficiency measures, and key issues for the future.

In each country/territory but for different reasons, there is a perceived lack of adequate overall funding for VET and continuing VT. In Albania a relatively low proportion of GDP is allocated to education and there is little VET activity as such, in comparison with general education. The debate between investment priorities and returns to general education and VET is also a major concern of donors (led by the World Bank). These make the point that unit costs for general education are lower than for initial VET and make an economic case for the fact that investment in secondary general education produces higher returns both for individuals and for economies (for more on this debate, see Ryan, 2003).

In Montenegro and Kosovo, there is no recognition of VET as a separate budget line (despite its higher unit costs), although the percentage of GDP invested in education in Montenegro is around the average for the EU (although necessarily reflected in school budgets). Kosovo spends a low percentage of GDP on education but also has low gross domestic production. Although it has identified education as a top priority, there is a lack of public funding available for education.

A major issue is, therefore, the gap between rhetoric and reality: intentions are good and VET is awarded priority, but this is not reflected either in implementation or in revised financing mechanisms. There is also an important gap between planned and executed budgets. In sum, there is sometimes (if not always) a big gap between vision and mission and getting things done.

An associated problem is the existence of bureaucratic procedures that hinder the political will for reform. In all three countries and territories, agreements at the inter-ministerial level (and legislation and regulations) are often not implemented either because of inertia or because of a lack of motivation. What seems flexible at the top of the ministry of finance tower block is perceived differently on the lower floors. This is particularly true of VET schools having individual accounts; in both Albania and Kosovo this right exists on paper but has not yet been implemented, whether because the lower levels of the ministry of finance have yet to receive the message, or because the advantages to the school are not yet apparent to its director.

There are also motivational issues, such as low teacher and instructor salaries. These are being addressed on a step-by-step basis (with some steps slower in implementation than others). In Albania, for example, the intention of the government is to double teacher salaries in four years; however, implementing salary increases puts pressure on other budget items such as capital expenditure, equipment and maintenance.

Kosovo has simple but dramatic problems. As well as planned and ongoing classic VET school reforms, it has training centres for the unemployed (covering less than 2% of the client base) with a project (possibly less costly) for funding private training provision. Kosovo has no provision for progression to technician level, and there is no consolidated database for continuing VT needs.

Montenegro is developing strongly but has three problems: little legislative and political clarity as to the role of the municipalities; the lack of a clear multiple funding base for institutional development (illustrated by minimal social partner contributions to VET); and the absence of a systematic database for continuing VT.

Montenegro's national employment office represents an interesting phenomenon; this service is funded relatively independently of the ministry of finance via a payroll levy (and one-off privatisation payments), which has provided it with opportunities for undertaking initiatives and enables relative speedy responsiveness. It also reflects the fact that employment reduction is a major policy priority, although the risk exists of the development of a state-within-a-state.

All these issues (lack of funding, lack of clarity as to who decides and funds what, simple lack of provision at certain levels in the system, the gap between political priorities and strategic implementation) are fairly straightforward, and in some – but not all cases – there are steps being taken in regard to remedial action.

Taken together they raise an important overall question: is finance a VET reform tool which can be fine-tuned for better outcomes or is it, in fact, the major player which directs both policy and strategy? A revealing perception of peers is that curricular, pedagogic and organisational (systemic) reforms remain as experimental/pilot projects when no clear financing consequences have been articulated.

4.4 CONTINUING VOCATIONAL TRAINING

Finance is intimately associated with the different elements that make up the architecture of successful initial VET and continuing VT strategies. Irrespective of whether the emphasis is on human/ material resource in a successful strategy, the following elements need to be considered:

- mission: what initial VET/continuing VT aim to achieve;
- demand: the labour market;
- supply: curriculum development and capacity development (for teachers, trainers and management);
- control: assessment, certification and quality;
- organisation: government (including social partnerships), management and finance;
- institutional development (finding homes for functions under development);
- legislation.

All these elements are described in the VET section of the Albanian National Education Strategy 2004-15, drawn up in 2005, although Albanian peers themselves concede that the financial implications, principles and mechanisms remain undeveloped.

Most of the elements making up the overall structure are taken up in other sections. In this section we concentrate on continuing VT in the context of the labour market, social partnership and supporting institutional development – that is, the demand side and VET supporting infrastructures.

Finance and discussions on finance mostly focus on initial VET rather than continuing VT, which is largely seen as a private market issue, even though provision for the unemployed is a preoccupation of the public sector.

Public sector continuing VT in Albania is administered by a national employment service attached to the ministry of labour. There are nine public training centres in the main cities. In both Kosovo and Montenegro, the ministry of labour and the national employment office are responsible for providing continuing VT to unemployed people. All three countries and territories have licensed private sector provision.

But there are at least five dilemmas: the information/databases on continuing VT tend to be weak; where there is a training market as such it tends not to be very transparent; the continuing VT system is parallel to initial VET and run by a different ministry; throughput tends to be low (less than 2% of the unemployed in the case of Kosovo); and certification systems (compatible with initial VET) are still under construction.

In the discussion of decentralisation, training centres (as a parallel system, typically under the ministry of labour) are centrally controlled. There is some cooperation between education and training ministries. It is possible for VET schools (in Albania, for example) to run training programmes for adults. In Kosovo the ministries of education and labour cooperate closely (largely because of recent common problems of survival). In Montenegro, some VET schools and training centres share training facilities (a catering restaurant is one example). But in general, because the labour market is complex and more local, information, data and regulation are less comprehensive (or absent) for continuing VT.

Social partner interests are formalised in all three countries and territories either via chambers of commerce or industry, employer associations, or trade unions. Their direct impact on VET/continuing VT policy remains relatively minor. Formal structures to enable their contribution are still under construction, there are few financial incentives to involvement in apprenticeships (as one example), and enterprise contributions to training funds remain minimal (except for a handful of direct firm training initiatives).

Institutionally, the intention in the three countries and territories is to bring together the different players involved in initial VET and continuing VT in national advisory VET councils. These exist already in Albania and Montenegro and one is projected for Kosovo. Each has (or will have) an executive role as a national VET centre or agency. Quite apart from the prospective influence of the advisory council on government policy and priorities, councils and agencies provide a platform for cooperation between and among ministries (particularly education and labour) and for the involvement of social partners.

There is an absence, so far, of social partner funding, however. In Montenegro the chamber of commerce merely provides premises for meetings. There is, moreover, a lack of credibility; in Kosovo, the director of the chamber of commerce prefers direct links with the prime minister, and premises for the agency do not as yet exist.

The combination of overarching VET council with agency/centre has been tried in a number of Balkan countries and territories. Although its existence is still notional in Macedonia and Serbia, it is functional in Slovenia. There are three difficulties, however: the attempt to give the VET council umbrella responsibility for all VET activities (from occupational standards to curriculum delivery) without funding authority and without the necessary management and administrative substructure; underfunding (in Serbia and Macedonia it is estimated that 10 times the funding provided by the government is required for functioning as per the mandate); and finally, political instability (changes of government and legislation).

Theses bodies work only where they have bite: the British Learning and Skills Council had a budget of €5 billion in 2006; the Bulgarian National Agency for VET (see box below) licenses continuing VT providers.

4.5 DONORS

Donor contributions are a major aspect of VET reform strategies and financing, and, in the case of Kosovo, particularly crucial to sustaining and developing the system.

But donors have different philosophies. World Bank consultants tend to adopt the line that general education is a better sector for investment than VET and that continuing VT is better led from the private than the public sector. The EU and the European Agency for Reconstruction tend to support VET reform along the lines spelled out in very similar terms of reference for each country/territory. Bilateral donors generally express a specific national philosophy (dual system, business culture, language teaching, etc.).

Stratmann and Nölke (1996) indicated that the bulk of funding in the mid-1990s was channelled through bilateral (59%) or regional sources (EU 15%) rather than through multilateral institutions. Annex 4 discusses the presence of bilateral donors and NGOs, particularly in Kosovo (where donor contributions are examined in more detail to illustrate their range). The difficulty, of course, is that multilateral donors have a significant political impact whereas bilateral donors tend to have divergent national agendas.

Bulgarian National Agency for VET

The Bulgarian National Agency for VET (NAVET) performs a VET coordinating function and acts as a platform where the efforts and interests of the Ministry of Education and the Ministry of Labour and Social Policy meet. It is intended to hold the system together and provide sustainability.

Since NAVET prepares and designs occupational standards, it is also the body responsible for the certification of non-formal continuing VT short courses prepared and provided by different continuing VT centres on the basis of prescribed standards. The system of certification is also established by NAVET, which manages the evaluation of licensed programmes and courses. The Ministry of Education is responsible for approval of the initial VET curricula.

In the absence of an overall VET strategy (under preparation), NAVET remains the key coordinating institution for VET and continuing VT in Bulgaria, connecting as it does all key stakeholders and approaches in VET.

Parkes and Nielsen, 2006

The first issue for the host country, therefore, is coordination, preferably by the government or at least by the donors themselves. This is rather like a wedding present list: you need to know what you want and how it fits (you don't want four refrigerators). The danger of a lack of coordination is a multiplicity of competing philosophies: for example, an EU curriculum and certification approach alongside an investment in a dual-system initiative with a different view of competences, or, at the local level a tourism school based on the Italian model, a business school based on the British approach and a Scandinavian-style community school.

The second issue is international pressure: EU money brings with it EU criteria, performance indicators, and eventually, acquis communautaire.

The third issue is local ownership which includes negotiation, dialogue, conceptual understanding and the ability and courage to say no. There is a tendency for donors to impose their best practices, rather than build on the culture of what is already there.

The fourth issue is sustainability – so to be able to move from the pilot project to the systemic project. Financial realism is quite critical, as systemic costs for the home country (in moving on from the pilot stage) can be colossal (in teacher development and infrastructure). When a pilot project finishes the individual school may quite simply be left without a budget to maintain equipment, buy paper for the photocopier or pay for the additional staffing necessary to maintain a modular approach to the curriculum.

Historically, the World Bank has handled the analysis of financing reforms and mechanisms, and EU projects have only recently entered this area. The Albanian strategic education plan to 2014 shows a marked difference in approach between the VET chapter (EU-oriented) and the rest (World Bank). The latter is strong on mechanisms, tools and public administration reform and its package is recognisable across the region.

Annex 4 spells out very clearly the specific donor contributions to each country/ territory, and the World Bank recommendations (covering education as a whole) stand out very strongly. Kosovo donor contributions are flagged up since they are an important part of the total financial package and because they illustrate the range of multilateral and bilateral philosophies which impact on a country's policies.

The Albanian case shows that among other difficulties, donor-funded development projects face obstacles in legislation, regulation and financing procedures that impede progression from piloting to implementation. In Montenegro it is perceived as difficult to estimate donor contributions to the national budget. The volume of aid for Kosovo raises the question of sustainability once donors move on to the next crisis region.

The countries and territories themselves put forward some interesting questions. As mentioned earlier (but worth repeating), donor interventions in general – while relatively successful in important aspects of VET development such as curriculum development, teacher training, and improving school environments – are difficult to make systemic maybe because: (a) the financial issues go beyond the traditional pedagogic aspects of education; (b) the financial issues have a broad cross-sectoral impact that requires the consensus of many actors (which is difficult to achieve); and (c) legislation and finance traditionally are very rigid in nature, in comparison with the flexibility of pedagogic experiments.

As far as Montenegro is concerned (relevant also to the other countries), it has been suggested that it is not possible to make estimates as to how much donor interventions add to the national budget, since they are directed towards the provision of consultancy expertise and the delivery of training paid for from the budgets of donor organisations – in crude terms, technical assistance is, in fact, money paid out to EU member state experts.

The Kosovo case is more straightforward. A new strategy for 2007-17 has been developed which relies heavily on continued donor contributions for capacity, infrastructure and institution building.

In the case of our three countries and territories it is important for the peers to ask questions. Given donor pressures, what are the costs of decentralisation and why do we want it, and likewise, school autonomy, unit costs or school accounts? What do they mean in our situation? Why do France, Germany, the Netherlands, the USA, or Norway have different solutions to these questions?

4.6 LEGISLATION

The legislative context for VET varies in the three countries and territories. It is fairly comprehensive in Albania (following a 15-year period of evolving development), fairly recent in Kosovo (with government responsibility for education only since 2002), and quite developed in Montenegro (although progress has been uneven, with local government and education legislation proceeding at different speeds).

Because the labour market is more complex and more localised, information, data and regulations are less comprehensive (or simply absent) for continuing VT.

Legislation by the ministries of education and labour can sometimes be perceived as running on parallel tracks that never overlap. Likewise, care has not always been taken to review possible conflicts and overlaps in legislation for different sectors (education, labour, local government, etc.). In Montenegro, education legislation and regulation has to wait for local government legislation to catch up.

For the three countries and territories studied, the key questions are how far permitting legislation is necessary to take forward initiatives or to implement experimental conditions (e.g. donor dual/curricular/modular/certification pilot projects), and how much actually happens even when the necessary legislation is in place (i.e. is the capacity to implement a project present?). This problem is illustrated by the prospective inability (because of the lack of capacity and will) of the Montenegrin municipalities to actually take up the financial responsibilities allocated to them. The Kosovo problem is very straightforward: the basic laws are in place for VET reform but there is not enough money for implementation.

The issue closest to the focus of the peers is the legal capacity of schools and training centres to make and retain income from the local market/community and to hold and use school accounts to generate income. Even where this is legislated for (or about to be) there is considerable difficulty in terms of operational capacity for a variety of reasons, such as complexity of procedures between centre, municipality or region, and school/training centre; bureaucratic inertia in the ministry of finance or poor communication among ministries; a lack of meaningful flexible funding available to make the effort of the school director worthwhile; the way in which the centre processes (or withholds) funds; and a lack of stakeholder awareness of what is possible (particularly among school directors and governing bodies). In Albania there is a distinction between national VET schools – with a higher level of recognition and the capacity to hold numbered bank accounts (and therefore able to trade) – and ordinary VET schools – with funding administered locally and with an uncertain legal right to hold individual accounts. On the other hand (paradoxically), school and training centre directors worldwide are adept at interpreting or bypassing the rules.

Overall it might be said in regard to financial regulation that the problems lie not with the legislation as such, but (apart from sheer lack of the necessary funds) with the capacity, management, awareness and culture of subsequently making things happen.

4.7 THE LOCATION OF DECISION-MAKING – WHO DECIDES WHAT, WHERE AND HOW?

Albania, Kosovo and Montenegro are simultaneously involved in decentralisation, deconcentration, and developing greater school autonomy – in short, the issue of the location of decision-making authority. The simplest illustration is the responsibility graph for Kosovo reproduced in Annex 6.

The preoccupations in each of the countries and territories are five, as follows:

- the capacity of line ministries to continue to steer the system in the face of pressures toward greater decentralisation;
- the decisive role in overall budget negotiations of the ministry of finance;
- the projected role of the municipalities and/or regions;
- the nature of so-called school autonomy;
- the role of intermediate centralised bodies (such as employment bureaux or VET councils or centres) detached from the government.

Key questions for VET financing

Reform strategies do not exist without a budget line attached. The four key questions for the financing of VET reform strategies are:

- What are the current and future sources of finance?
- How will funds be collected and by whom?
- How will funds be disbursed, by whom and according to what criteria?
- What measures are in hand to reform current financing mechanisms?

In establishing the basis for this central section of the text, we set out below the classic collection and disbursement categories to be found in the three countries and territories (and in the Balkans generally) since, in any given national context, it is important for VET financing to distinguish between how funds for VET are collected and disbursed and to identify who holds which responsibility.

The collection method varies according to the authorities collecting the funds. In our three countries and territories VET is fully or mostly financed by central government from general revenues such as taxes, customs duties and registration fees.

Other government levels outside the central level can be given tax-raising authority to raise funds for VET. A collaborative relationship would need to be developed between governmental levels (mainly central and local), based on clearly defined powers and responsibilities. In our three countries and territories the disbursement of funds (via municipalities) is a different issue from collection. Each country/territory also handles this issue differently. In Albania municipalities disburse funds and deconcentrated divisions monitor this disbursement. In Kosovo after 2008, municipalities will receive a block grant from the Kosovo consolidated fund but without a precept for the education component. In Montenegro, municipalities have little or no role to play in either collection or disbursement. In all three cases, however, central government keeps a firm control over salaries, which represent by far the greatest proportion of expenditure.

One issue always under consideration is the managerial and administrative capacity to collect funds. This is especially relevant when considering a new collection scheme such as a payroll levy. How can one efficiently and effectively manage and administer collection using an existing public authority (a pensions authority, for example) or employer organisations?

Schools and students can also contribute to the financing of VET. Each VET institution can generate funds through the sale of products and services (but as we have seen, with possible problems of legislation and implementation).

Table 1: Collection scenarios

Level	Who collects	Method
National	Government	Taxation system/income tax/VAT/customs, etc.
Municipal	Municipality	Local taxation (property/ VAT/traffic fines or government precept)
Local	Institution	Goods and services
Enterprise/employer/ association	Local firm or national association	Local or national payroll levy Tax incentives
Local/individual	Parents/students	Fees/contributions

As outlined in Section 5 (A possible way forward) it is important that the input-based part of the budget guarantees VET schools basic and stable funding throughout the year and provides them with different possibilities for generating extra income.

It is important to establish the right balance between production and learning objectives, and VET institutions are first and foremost learning units. It is also important to establish to what extent income earned is retained by the institution and not lost to the central treasury. Table 1 describes possible collection scenarios.

The second main issue to consider is the disbursement of funds to different institutions making up the VET system. Disbursement is more than identifying the method for transferring funds from the collection source to the VET institutions; it also offers – depending on the method chosen – management possibilities (i.e. the power to steer the system (see Section 5)).

Provision of VET to young people (initial VET) is normally considered to be a government responsibility and is generally financed from government education budgets through the general taxation system. As a result, the funds for VET are not necessarily earmarked (the Montenegrin case, for example) and VET authorities have to compete with general and higher education authorities at both national and lower government levels. These funds may be administered either centrally or with partial participation by lower level authorities (precisely what level of participation is part of the debate in our three countries and territories).

In such an approach, the major financial, organisational and technical decisions are made at the national level. Lower level authorities are largely assigned administration and control functions.

Disbursement can be based on different approaches.

- Centrally fixed amounts per student by specialisation. This means that VET institutions receive grants based on the number and level of students they enrol, often within a maximum enrolment

Table 2: Disbursement

Level	Who disburses	What and how
National	Ministry of finance /line ministries	Salaries via regions or institutions Running costs
Municipal	Municipalities	Building/materials/equipment for institutions
Local	Institution	Additional salaries/ equipment/materials
Enterprise/employer/ association	Chambers or individual enterprises	Training or fees to trainers/apprenticeship wages
Local/individual	Parents/individuals	Contributions direct to institutions

Table 3: Collection and disbursement by cost category

Level	Item	Percentage
National	Salaries	65-85
	Running costs	7-20
	Capital investment	1-15
Municipal	Capital/equipment/materials/debt	0-20
Local	Teaching salaries/supplements/materials	2-6
Enterprise/employer/association	Training support/apprenticeship costs, etc.	1
Local/individual	Supplement to institution	0.5-1

quota by specialisation (this is not the case in Montenegro where there is no differentiation in unit costs between general secondary and VET streams).

- A voucher system, where funds follow students who have a free choice of VET institution. This introduces a degree of competition among VET institutions.
- Outputs according to established criteria such as graduation or employment rates.

Possible links between collection and disbursement methods can be used for VET management purposes (Table 3).

Although the levels and percentages vary between countries, they represent a rough and ready guide. There is also a missing dimension. The central level could also create semi-autonomous bodies, such as qualification and funding institutions, to be largely funded by government, but with high degree of autonomy. Examination and accrediting bodies could also be partly funded by client fees.

These are the stark figures, but critical questions remain. What does decentralisation mean for small populations? Where does the pressure come from for decentralisation? (Often it is the international community). Who understands what decentralisation means and how to implement it? Buried in the simple breakdowns are social issues (‘the schools and centres receive our children’); issues of democracy and minorities (hence international pressure for decentralisation); and personalities (do the directors of VET schools, employment offices and training centres see eye to eye?).

As can be clearly seen in Annex 6, each country/territory is asking the same questions but providing different responses. Albania already has quite a sophisticated decentralised and deconcentrated structure. Kosovo intends, from 2008, to provide a budget for municipalities that includes education (but without an education precept). Montenegro is preparing legislation, but municipalities have not been given the capacity to respond. What the countries and territories have in common is budget rigidity and the retention of salary determination at the central level (although not necessarily the disbursement of salaries, which may take place at a more local level, as in Albania).

Decentralisation concerns general education and initial VET but not necessarily continuing VT, whose local employment offices may be deconcentrated but not decentralised.

Local attitudes are different between countries and locations. The municipality of Tirana would like much more authority and has the financial means. A Montenegro municipality would like more visibility (appointment of school directors and membership of the school board) but has neither the means nor the will to assume financial responsibilities.

In each situation the justification for some form of decentralisation may be social and democratic rather than financial (i.e. ‘the school/training centres are on our territory with our local children/students’).

School autonomy is a different question. Although generally considered to be a good thing, one conclusion of the 2005 peer review is that it is much discussed but little implemented. In the three countries and territories, the notion of school autonomy related to finance seems limited to the retention and deployment of marginal sums of money raised through commercial activities, the possession of a school bank account, and modest powers of virement between and among headings.

Autonomy goes hand in hand with accountability. All institutions are at least partially dependent on their financial sources. Schools in the English-speaking world are likely to have the highest level of delegated or independent decision-making freedom, with powers of financial transfer among headings, staff recruitment, fund raising, business activities and in the case of VET, occupational profile choice – all with financial monitoring via a governing body, acting (almost) as a board of directors to a chief executive/school director.

Alongside the technical need for trading accounts and appropriate regulatory changes, the peers took the view that considerable capacity development for school management (and for governing bodies) is required before even limited freedoms can be implemented.

In Albania, as we have seen, there is a distinction between national schools funded at a higher level directly from the centre and ordinary VET schools funded by the municipalities. The former are provided with more flexibility and autonomy partly because they are better funded. They have, at least in theory, numbered accounts with the treasury but even they have difficulties in carrying out trading functions, given anomalies in the legislation. It is also questionable whether particular localities have a labour market in which to trade. For Montenegro by 2007, local government will lose the little influence it already has on school staffing (representation on appointment panels for school directors, for example), and so the gap will need to be filled by granting relative school autonomy. In Kosovo, all the local agencies (decentralised and deconcentrated) believe in greater school independence, but this view sits uneasily with the intention to present municipalities with a block grant. Notionally, however, school accounts are agreed by the ministry of finance.

It is, however, important to remember that school directors are often better and more ingenious managers than they appear to the centre and they often find ways to achieve a goal, even with limited resources. In all three countries and territories school directors want more freedoms but already have the ability to manage the system to some extent.

We should once more remind ourselves that decentralisation, deconcentration and school/training centre autonomy are logically separate concepts within the same broad family of the location of decision-making authority.

In concentrating on school autonomy it must be stated that there is more to capacity development than simple managerial and administrative skills. Firstly, the danger of training only school directors (largely outside the school) means there is a danger of the director returning from ‘a cultural island to a resistant mainland’. Organisational development is required for the whole school. Secondly, widening the freedom for decision-making in a school or centre opens up the probability of politics with a small ‘p’. The internal organisational process needs to be understood in order to be managed, irrespective of whether the model is a predominantly political, bureaucratic or professional one, or – more likely – a mix of all three.

We are left with a classic but basic question for all three countries and territories aspiring to greater institutional autonomy: should school directors in these countries/territories or cultures be largely leading professionals (that is, chosen from among the best pedagogic staff) or largely chief executives (enterprise managers)? Although this debate in EU member states in the 1980s led to a mixture of both, it is only just commencing in Albania, Kosovo and Montenegro.

4.8 EFFICIENCY MEASURES

Annex 7 contains a report on efficiency measures from each of the three countries and territories. In effect, each country/territory has described future possible measures presented in ongoing policy papers rather than specific measures currently in hand, because that is the state of play. The issues are articulated but still awaiting more detailed scrutiny by policy bodies currently in the process of being created.

Concerns focusing on efficiency range from rationalisation of the VET school network (amalgamation of schools, their location and occupational sector coverage), to marketing and community needs, to school size and character (e.g. multi-profile schools), increasing the number of shifts so as to maximise the use of school facilities and deal with specific issues of staff-student ratios, space utilisation, and transport and hostel costs.

In regard to rationalisation of the system, in the early 1990s the Albanians reduced VET provision from 75% to less than 20% of the secondary system; they now intend to raise it to 40% to respond to changes in the economy and the market. This provides an opportunity to create larger or multi-profile schools (or not). In Montenegro, amalgamations (creating schools with a hub and satellites) have so far been restricted to basic education. In Kosovo, proposals are in progress for changing financial management.

Per capita funding in these countries and territories is still at a pilot stage. An approach based on student numbers establishes criteria not only for teaching staff numbers but also for support factors such as administrative and technical staff, materials and equipment. Staff-student ratios are not just a simple matter of head counting but are dependent on an interrelation between class sizes, class frequencies, and the hours taught by teachers.

Movement from a supply-led to a demand-led approach allows for the possibility of measuring outcomes and producing performance indicators (see Section 4.2 and Section 5 in this text, and also the British case study and four country scenarios in the concept paper).

Although the principal efficiency measures listed above are well articulated in current policy documents, they are done so mainly for future implementation.

4.9 KEY ISSUES FOR THE FUTURE

All the issues outlined in Sections 4.1 to 4.8 above are concerned with managing finances for broad reform measures at a systemic rather than pilot level – with greater efficiency but, above all, moving from policy determination to strategic implementation. In general, reform strategies and legislation are (or almost are) in place. Required are funds, time, will, capacity, and conceptual and practical understanding by the actors involved. As one peer remarks:

‘Proposals which are developed or are under development will have to find a solid base for their implementation, meaning that in the coming years the majority of activities will have to be directed towards sharing information and accepting change, but maybe even more towards capacity development for the various parties involved in the implementation of new, more flexible and more cost-efficient systems of financing for the entire education system, including VET.’

What needs to be considered is the distance between externally recommended approaches and solutions and the cultural and structural reality of the country/territory, and also to what extent local ownership of alien concepts is possible. As one peer remarked: ‘We have quite complex and sometimes incompatible recommendations but not the habits and infrastructure to realise them.’

5. A POSSIBLE WAY FORWARD

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The major focus of peer interest has been the financial and budgetary implications of decentralisation and relative school autonomy. A second concern has been donor contributions and efficiency measures (not to overlook effectiveness). Given the nature of the peers (policymakers or shapers, however defined), most of their considerations have been strategic. However, to transform intentions into reality requires mechanisms as well as principles. Below we outline the fourth scenario from the Balkan region, as described in the original concept paper.

ISSUES

As can be observed in the three countries and territories, the existing systems of budgeting and financing for VET have features which inhibit a fair distribution of monies to VET schools, the steering role of the ministry of education, and responsiveness to economic priorities.

For one or another of our countries and territories, and often for all, these features are as follows.

- In even a relatively decentralised system, the municipality has to pay for recurrent costs, investments, infrastructure and teacher training at the local level, very often without the means to do so.
- A system of budgeting and financing has two functions: (1) a fair distribution of money for targeted activities; and (2) a tool for the government to steer schools. The second function is very difficult because the ministry of education often has little flexibility in steering the VET system, since all non-salary budget items are either strictly regulated or likely to be fully decentralised (e.g. Montenegro).
- Being responsive to national economic policy and economic priorities is difficult within the existing systems. Municipalities do not have the budget for upgrading VET equipment and infrastructure.
- Financing of VET may be at the same level as financing of general secondary schools because the real costs of VET are underestimated.

MINISTRY OF EDUCATION REQUIREMENTS FOR STEERING THE SYSTEM

According to EU criteria, a system for financing and budgeting should fulfil the following 13 system requirements:

1. fit within the budgeting cycle of the government;
2. correspond with the policy and management cycle of the ministry of education;
3. acknowledge the self-initiatives of a VET school;
4. be sufficiently flexible to adapt to new developments and needs;
5. incorporate multi-funding resources;
6. stimulate VET schools to attract co-financing from the labour market;
7. value labour-market-oriented certificates;
8. give sufficient steering capacity to the ministry of education;
9. provide stability with adequate financial means for VET schools;
10. stimulate the efficient use of financial means;
11. be simple and transparent;
12. avoid possibilities for deliberate misuse;
13. have controllable development costs.

Items 2 to 7 are directly related to the policy and management structure of the VET system. The others requirements – item 1 and items 8 to 13 – are requirements for any budgeting system that has to submit annual returns.

THE WAY AHEAD

What is suggested is a possible upgrading of the funding and financing mechanisms of VET systems by means of a model that mixes input and output funding and that is supplemented with a co-financing scheme.

The proposed approach includes two elements to motivate VET schools to offer market-driven training programmes and undertake additional commercial activities. These are:

- output-based funding based on the number and kind of diplomas issued by a school; demand-driven diplomas will be better financed by the state budget;
- additional activities and short flexible courses promoted by a co-financing scheme.

The functioning of this model has four prerequisites in the policy/strategy context.

1. VET schools would be free to operate in the commercial market, including the training market, although there is the danger that commercial activities may enter into conflict with the education and training role of the school.
2. VET schools would have the opportunity to make savings on the input-based element of the budget to improve the efficient use of their funds.
3. VET schools would be required to keep records and to produce quarterly financial statements (if not already doing so).
4. The model should facilitate enhanced steering capacity from the ministries of education.

WHAT DO WE WANT TO ACHIEVE?

A modified funding system should be efficient and effective. The approach should be balanced and labour market demand-driven while conscious of individual development needs. It should be output- rather than input-oriented, and each locality (whether region or municipality) and school should have a fair share of the state budget. Finally, upgrading of equipment and infrastructure should not rely solely on donor funding.

Strategic considerations should include: a capacity for responsiveness to local needs; coverage of initial and adult provision; relative school autonomy; acknowledgement of the steering role of the ministry of education; and multiple funding resources, including co-financing from the labour market.

Technical considerations should include: compliance with the government budgeting cycle; compliance with legal requirements; a stable funding perspective; a controllable development of costs; and simplicity and transparency.

HOW TO GET FROM HERE TO THERE

In the strategy documents published for each of the three countries and territories it is recommended to move from an input-based funding model to an output-based one. State funding for vocational education and training would then fall into four broad categories: input-based funding, unit cost funding, output-based funding, and a mixed integrated model of funding.

Input-based funding: Budget estimates and the allocation of financial means are based on historical parameters and formulae.

Unit cost funding: Budget estimates and the allocation of financial means are based on student enrolment numbers. Weighted cost factors can be used for specific vocational programmes in demand by the labour market (as currently being experimented in Albania and Montenegro).

Output-based funding: Budget estimates and the allocations of financial means are based on the number of students obtaining a diploma.

Integrated funding: A mixed system of input and output funding, supplemented with a co-financing fund.

The overall advantages of an integrated model (Peer, 2004) are as follows.

- The co-financing scheme (and co-fund) opens opportunities for VET schools willing to upgrade their programmes. If a school complies with the co-financing conditions it can opt for a one-off budget to purchase equipment, upgrade related infrastructures, provide teacher training, etc.
- The output-based part of the funding model rewards schools offering diplomas in demand by the labour market (whether for employees or the unemployed). Year-by-year a school receives extra payments to finance recurrent costs related to its investments.
- The co-financing scheme is an important element for a dynamic funding model. It is also an innovative aspect of any new funding mechanism. Piloting is needed in order to: (1) obtain an understanding of the income-generating and efficiency capabilities of VET schools; and (2) assess the level of

Co-financing fund

The aims of a co-financing scheme are:

1. as an instrument for the government, to promote certain targeted school activities;
2. to activate schools towards additional activities;
3. to attract private money into the public system;
4. to improve the financial efficiency of VET schools.

Different resources can contribute to the co-financing fund:

1. ministries (education, labour, industry, agriculture) which want to promote certain targeted activities in VET schools, for example, to meet economic priorities for certain regions, to facilitate (foreign) investments in targeted regions;
2. donor funding;
3. a regular inflow of money from the ministry of education.

The essential feature of the co-financing fund is that it matches the commercial income of the school with an agreed supplement. It also supports schools in an environment where revenue from commercial activities is difficult or impossible to obtain.

attractiveness of the co-financing scheme for VET schools.

- It provides strong incentives for VET schools to focus on the labour market and to introduce demand-driven vocational programmes.
- It is a fair system because the input-based part of a budget guarantees VET schools basic and stable funding; schools, moreover, have different possibilities for generating extra income. For example, in regions where the labour market is dysfunctional, VET schools can opt for additional activities to qualify for co-funding. In regions where the labour market functions well, schools can opt for output-based funding.
- The system motivates schools towards greater financial efficiency. Initially, savings from input-based funding could be used to opt for co-funding. Neighbouring schools could cooperate to achieve greater savings.

The table which summarises the similarities and changes between the existing model of financing and the integrated (or dynamic) funding model is to be found in Annex 10.

ANNEXES
ALBANIA, KOSOVO AND MONTENEGRO

These annexes supplement and complement Section 4 and should be read as such. More specific details on Albania, Kosovo and Montenegro are given under each heading, written by the peers themselves and edited from the commissioned self-study documents. The complete set of self-study documents is available on request together with a range of supplementary documents and information.

The headings are slightly different in the annexes from those in Section 4. For example, the discussion of the broader international context is sufficiently developed in Section 4.2 not to be reproduced here. The intention is to allow the dedicated reader to examine key issues in more detail. Included below is the question framework that shaped the self-study documents and peer learning visits (Annex 9) and a table – based on Section 5 – that, in summary form, compares the existing financing model and the dynamic funding model (Annex 10).

ANNEX 1: NATIONAL CONTEXT

Albania

Albania (census 2001: population 3,069,275 inhabitants; surface area 28,800 square kilometres) has, in the past few years, undergone a period of difficult social and economic transition resulting in political instability, which in turn has reduced the inflow of direct foreign investment and adversely affected the functioning of essential public services. Population and economic activities are unevenly distributed over the country, with large waves of internal migration to urban areas, combined with massive outward migration (circa 800,000 since 1990). In the last five years, the economy has been growing rapidly

(5-6% annually); however, insufficient new jobs have been created and unemployment remains high at 15-16%. While recent economic growth has been quite rapid and macroeconomic policy has been generally sound, Albania remains relatively poor and undeveloped (about US$ 2,000 GNI per capita).

At the secondary education level there is a serious gap in the provision of VET, and the number of vocational schools has decreased from 308 in 1990 to 40 today, due to the rapidly declining demand for profiles linked to the former centralised economy. The majority of VET schools have been converted into general education schools, while many of the buildings in the countryside have simply been abandoned.

Albania is negotiating membership of the EU, recently confirmed by the signature of a Stabilisation and Association Agreement.

The Ministry of Education and Science has developed a National Education Strategy 2004-15 that addresses different aspects of education governance and delivery. A more prominent role has been given to the development of VET at secondary level. The government target is to increase participation in secondary VET from 17% to 40% of overall enrolment in the coming four years. At the same time there have been actions to establish a sound institutional infrastructure for the implementation of reforms, and a VET agency was established in 2006.

Although total absolute GDP is higher, Albanian budgetary expenditure as a percentage of GDP is currently around half its 1990 level. This decline has resulted from economic and structural reforms, i.e. a more limited role for government (appropriate to a market economy), a considerable reduction of personnel in many public services, and attempts to reduce the budget deficit. According to the Albanian Public Investment Programme, the plan for 2000-03 was that 18.5% of funds would be allocated to institutional development, 20.3% to human resources development and social services, 12.9% to the development of the private sector, and 48.3% to infrastructures, public services and the environment.

Kosovo

Kosovo is a small and landlocked territory in the centre of the Balkan peninsula, with an average height above sea level of 500 metres and a surface area of 10,877 square kilometres. Bordering Macedonia, Albania, Serbia and Montenegro, it is at present divided into 30 municipalities. The capital city is Priština. Since June 1999, Kosovo has been under UN administration (United Nations Mission in Kosovo, or UNMIK). It is densely populated, with about 175 persons per square kilometre. The total resident population was estimated at about 2 million persons in mid-2000 by the UNMIK Department for Local Administration. According to the Kosovo Statistical Office, in 2000, 90% of the population was defined as ethnic Kosovo Albanian, 7% as Serbian, and approximately 3% as belonging to other ethnic groups.

In an ageing Europe, Kosovo is an exception, with 32.1% of its population aged under 16 and 50.6% aged under 25. The Ministry of Labour and Social Welfare statistics show an increasing unemployment rate, which stood at 42.3% by the end of 2004, with more than 300,000 unemployed (an increase of 6.7% on the previous year). Unemployment is higher among women than men, and unemployment is greatest among young people, particularly the 16-24 age group which makes up nearly 30% of the total unemployed. Around 90% of the unemployed are classified as long-term unemployed and no fewer than 59% are unskilled.

Important aspects of the post-war period, which significantly influenced the broader context for the education sector, include the process of implementing standards for Kosovo and the privatisation process. Standards are a series of conditions that the international community has set for Kosovo and its institutions on the road to and as a condition for independence. A number of these standards directly involve the education sector, with others less directly influencing the functioning of the sector.

The slowness and inefficiency of the privatisation process has further deepened the economic crises in post-war Kosovo. This has worsened the material situation and the capacity for adequate investment in the education sector. Thus, the very clear priorities and good intentions of the government in regard to education remain only intentions because of the lack of public funds. Even the relatively high percentage of government funds allocated to education from the consolidated budget is insufficient, due to the low gross domestic production and small government budget.

Talks on the future status of Kosovo are due to come to an end in 2007. These talks have somewhat sidelined other issues in Kosovo society, including investment in education (in spite of the declared prioritisation of the three 'E's: economy, education and energy). However, the prospective successful completion of the status talks may create better conditions for investment, as the settlement of the status issue should allow for faster economic development due to more open access to financial loans with various international institutions, such as the World Bank and the European Bank for Development. In that case, the declared government policy on the economy, education and energy would be of help for the proper prioritisation of education.

The Kosovo budget remains very much dependent on revenues collected at the border, although this dependence is reducing. Taxes collected at the border represented 90% of non-donor related revenues in 2000, 70% in 2004 and 67% in 2005. The fact that this dependence is so high reflects in a huge trade imbalance of the economy. Inland tax collection increased by 12.6% in 2006 compared with 2005. Municipalities in Kosovo collect and receive their own resource revenues, including traffic fines, administrative fees, licenses, and property tax. The main source for municipal revenues is the property tax, which raised €6.68 million in 2005. In order to create incentives for the municipalities to collect more from this tax the Ministry of Finance and Economy, since 2005, has started to apply a new system based on an incentive grant – when municipalities reach a certain level they receive an incentive grant from the central budget to support their activities.

VET public institutions are mainly financed by public funds from the Kosovo consolidated budget; the current legislation allows them to obtain additional financial funds from programme activities covering procurement and equipment maintenance, and through donations, gifts, testaments and other sources permitted by the law. The public VET institutions offering courses (other than those funded from public funds) may make charges (in compliance with terms regulated by the Ministry of Education, Science and Technology). The adult education and training law obliges this ministry and the other ministries involved to allocate a special budget line to finance the annual programme for adult education.

Montenegro

Montenegro was formerly a constituent part of the community of states called Serbia and Montenegro. Following a referendum held on 21 May 2006, the majority of Montenegrins voted for an independent state.

According to the 2003 census, Montenegro has a population of some 620,000 inhabitants, made up of Montenegrins, Serbs, Bosnian Muslims, Albanians and Croats, as well as a refugee population of some 30,000 persons. This population is divided among the three main regions: north, centre and south (21 municipalities overall). Following a decade of stagnation in the 1990s, caused by the various conflicts in the region, progress has finally been achieved in the establishment of a stable legal framework and macroeconomic environment. Different statistical assessments for the last several years indicate positive trends in the economy and a return to growth. Price stability has been a major contributor to economic growth and virtually all prices have been liberalised in the context of a euro-economy.

Recent ambitious privatisation initiatives demonstrate that the government is determined to push ahead with economic transition. However, many challenges remain, including the need for stronger initiatives to combat the grey economy and to confront social issues such as redundancies in the public sector, social security reform, and environmental problems. The government's Economic Reform Agenda 2002-07 involves a series of policy measures intended to tackle these issues and to further accelerate enterprise restructuring, privatisation, and private sector development.

The relationship of Montenegro with the EU remains an important factor, given perspectives for eventual integration into EU structures. The priorities specified in the European partnership agreement include public administration reform, judicial reform and the fight against corruption, border management, human rights promotion including freedom of expression and association, restructuring and privatisation of socially-owned enterprises, taxation, customs and trade reform, and modernisation of sector-specific policies (e.g. agriculture, transport, environment). All these priorities are underpinned by the Stabilisation and Association Process for the Western Balkans. Montenegro’s cooperation with its neighbours in the region is considered as a qualifying indicator of its readiness to join the EU.

The education system in Montenegro (up to university level) consists of 20 kindergarten/ preschool institutions, 161 elementary schools (including 374 satellite units, i.e. distance schools belonging administratively to one of the main schools), 12 secondary general schools (gymnasia), 11 secondary mixed schools, and 26 secondary vocational schools.

Political commitment (both policy and implementation) to education investment is high. When it comes to public education expenditure, it is important to note that Montenegro allocates significant funds to this sector, which stand in 2006, at 17.47% of total public expenditure and 4.55% of GDP (excluding the University of Montenegro).

ANNEX 2: FINANCING VOCATIONAL EDUCATION AND TRAINING, AND CONTINUING VOCATIONAL TRAINING

Below are three photo flashes of 2006 priorities and procedures for financing VET and continuing VT in Albania, Kosovo and Montenegro.

The basic structures are outlined, including the distribution of budgetary responsibilities at central, intermediate and local levels; unit cost analyses among the different education sectors; the relationships (if any) between the funding of VET and continuing VT (different in the three countries/territories); the formulae for financial transfers among ministries, localities and schools (also different); contributions from parents and students; the availability or otherwise of data (especially for continuing VT); and the state of play in terms of financial regulations and structures.

Albania

The VET sector in Albania is composed of two main sub-sectors: (a) initial VET (vocational education), under the responsibility of the Ministry of Education and Sports; and (b) continuing VT (vocational training), under the responsibility of the Ministry of Labour, Social Affairs and Equal Opportunities.

Currently, initial VET represents only 11% of secondary education and, together with the so-called social-cultural schools, represents about 17% of the secondary level (83% of secondary level students are attending gymnasia).

Central government transfers grants to local government for funding pre-university education – except for the initial VET sector, which still remains the business of central government. In an administrative instruction of the Ministry of Education and Sports and the Ministry of Finance (Implementation of the Investment Budget for Pre-university Education 2006), it is stated that investment in secondary vocational schools and their dormitories will be financed from the budget of the Ministry of Education and Sports.

In the past, local government was involved only in small repairs and maintenance of schools (including vocational schools). With the development of a Strategy on Decentralisation and Local Government Autonomy and the approval of Law No 8652, dated 31 July 2000, on the organisation and functioning of local government, indicators show that the involvement of local government (through a pilot scheme) has increased significantly in comparison with previous years and that, in 2004, 25% of the education investment fund of the Ministry of Education and Sports for the municipality of Tirana was allocated to the local authority.

Unit costs are roughly two times higher in vocational schools, compared with other types of pre-university schools. This is mainly because of material expenses for workshops (five times higher) and the use of a relatively high number of non-teaching staff.

For students in full-time vocational schools, there are no direct fees although students have to pay part of the cost of textbooks (the state subsidises part), and if staying in a dormitory, students have to pay for food and accommodation. There is a scholarship mechanism for initial VET students in national schools. They receive full or half bursaries according to the decision of local government bodies (municipalities/communes), which are based on very strict criteria. As for part-time students (evening schools) in the vocational sector, the number is very limited and the mechanism is the same as for the full-time students.

Continuing VT is provided in vocational training centres administered by public entities, private entities and NGOs. The public sector is administered by the National Employment Service under the Ministry of Labour, Social Affairs and Equal Opportunities. Non-public training centres have to be authorised by the National Employment Service. At present, there are nine public VET training centres in operation in the biggest cities of the country. Short-term vocational courses offered by the training centres are of one to six months' duration. In many cases, public and non-public training centres have to use part-time instructors. The most popular courses in both sectors are those teaching foreign languages and computer skills.

Kosovo

The provision of VET in Kosovo is school-based and largely aimed at young people. VET programmes offered by the Ministry of Education, Science and Technology last two, three and four years. The Ministry of Labour and Social Welfare offers short training courses for adults.

Initial VET education in Kosovo is mainly financed by public funds from the Kosovo consolidated budget. Article 30 of the VET law states that programmes delivered by formal vocational education and training institutions will be financed from the funds of the Kosovo consolidated budget and other sources. Until now there is no evidence of any financing mechanism developing for VET in the form of a combination of private and public funding, partnerships, etc.

Students at all levels of education have to pay for their textbooks. However, in 2006, the Ministry of Education, Science and Technology allocated €200,000 to cover the costs for pupils from classes I to V of elementary education (considered as specific social categories).

According to the primary and secondary education law, regular students are exempt from any kind of payment, while students in upper non-formal secondary education pay a specific amount in accordance with a decision (No 26/02-1) of the Ministry of Education, Science and Technology.

This ministry, in cooperation with other ministries and social partners (in accordance with Article 13 of the VET law), is in the process of establishing a VET council.

Private VET schools licensed by the Ministry of Education, Science and Technology are financed by private sources, mostly fees paid by the students. The contribution of companies is very low and there are no incentive measures foreseen to encourage their support for initial VET.

Donor funding of education and training still remains crucial for reform and development. International donors financed initial VET and continuing VT with €5 million in 2004 and €3.1 million in 2005. Parents and members of the community also make voluntary contributions to support the schools. These voluntary donations are different from the fees that may be charged for education services such as pre-school education.

Primary and secondary education is financed from the Kosovo consolidated budget, in the form of funds transferred to the municipalities. The Ministry of Education, Science and Technology is responsible for financing higher education, special-needs education, in-service teacher training, and curriculum development and administration.

The Ministry of Labour and Social Welfare is responsible for financing VET for unemployed people. The VET and adult education and training laws allow public secondary schools to offer fee-based extension programmes for adults, and a number of the vocational schools offer adult programmes. It is thought that most of these represent a compensatory provision that allows those with uncompleted secondary education to return and obtain the certificates they did not obtain while attending school. In addition, the Ministry of Labour and Social Welfare offers training courses in eight vocational training centres, based on short modular job-related programmes. This training is offered to unemployed people and job seekers referred by local employment offices.

Government funds mainly cover the running costs of education and training, primarily teaching salaries (86.4% of primary and secondary education costs and 59% of higher education costs in 2004). Little remains for investment and development. The development funds for education and training in 2005 (2%) consisted of funds for curriculum development (€1.26 million) and teacher training (€0.4 million), with education expenditure distributed by budget lines, namely, wages and salaries, goods and services, and capital expenditure.

The municipalities are another source of finance. However their funding also comes mostly from the Kosovo consolidated budget. In 2006, the latter provided municipalities with a total of €172.55 million, of which €77.08 million was an earmarked special-purpose grant for education, and €34 million was estimated as the municipalities' own revenues from taxes, fees and charges.

The financial needs of education are related to the number of students, and a basic formula has been developed for this purpose. For the basic funding formula for the municipalities, four sets of data are analysed: teaching staff and operational costs in primary and secondary schools; operational costs (including goods and services and the cost of employing administrative and support staff, including school directors); the actual amount of funding available for municipal education grants for the respective school year; and other factors affecting the cost of schools. Other factors included in the formula are the cost of small and remote schools, and the extra cost of educating minority students.

The formula is essentially as follows.

- For each school with less than 150 students, the municipality receives additional operational funding. For each minority student, the municipality receives an extra 25% in operational funding and teaching salaries.
- For the same number of minority students compared to majority students, 30% more teachers can be hired. This is to ensure that the majority community is not disadvantaged because of the costs associated with smaller classes in minority schools, the extra cost of language resources, and the difficulty of providing education to small communities and enclaves.

Montenegro

As a part of the reform process, Montenegro is seeking to establish a VET system based on the principles of social partnership. These principles are applied in different areas of work, but it is still questionable whether social partnership is recognised when it comes to common financing of the VET system.

All requests for payment are currently sent to the Ministry of Finance/Treasury from where they are disbursed, based on the priorities and funds available. This can create a situation where, even when the expenditures do not exceed the upper limit of the agreed instalment, there are insufficient funds to cover them.

Starting from the fiscal year 2005, the Ministry of Education and Science started to apply a programme-budget, with specific lines defined for the main activities the ministry plans to undertake in a specific year and with budget sub-lines allocated to each programme.

With respect to the processing of payment requests, the system allows expenditures up to the amount of a monthly instalment (constituting one-twelfth of the annual budget) used as the (notional) upper limit for the expenditures of the ministry.

The education sector was the first in Montenegro to propose changes, including the proposal for involvement of the municipalities in education financing. These could not be accepted, however, due to the fact that reforms at the municipal level (including new legislation and proposals related to financial issues) had not yet been completed.

It is interesting to note the weak alignment between the different reform processes in Montenegro. In this specific situation, education proposals were not accepted because public administrative reform was not occurring at the same pace and at the same level as educational reform.

Currently, the Ministry of Education and Science is preparing proposals for amendments to the current legislation, including proposals related to education financing, such as the exemption from payment of certain taxes which schools (i.e. the ministry) pay to municipalities for the following purposes:

- use of communal services;
- maintenance of buildings and land;
- remuneration for land use and taxes related to school public signs and notices;
- other taxes and levies collected by local authorities.

The issue of school buildings (property) has to be agreed, since currently all school facilities and land belong to the Ministry of Education and Science (i.e. to the Republic of Montenegro).

Any spending unit (e.g. a line ministry) can apply virement to allocated funds for certain programmes and expenditure up to 5% of the amounts defined in the budget and with prior clearance from the Ministry of Finance.

Article 137 of the general law on education (Official Gazette of the RMN No 62/02) specifies that institutions that are financed fully from public revenues may not ask students or apprentices to contribute to educational costs.

Allocations to schools are mainly related to salaries for employees, given that most of the budget available is taken up by salaries. Each school submits its payroll list to the finance department of the Ministry of Education and Science, where it is checked; calculations are then made for each education institution, and these are submitted to the Ministry of Finance. Based on this, funds are transferred to the respective school account for disbursement to the individual accounts of school employees.

In some cases schools have to transfer funds to school accounts for specific purposes. Heating and electricity costs, however, are covered by the Ministry of Education and Science directly.

There are no legally binding provisions to force local government in Montenegro to contribute to the above costs. Schools have funds provided by the ministry (most of which are paid into staff individual accounts). The funds to be used for the payment of operating costs are mostly transferred by the Ministry of Education and Science; additional income is provided by different grades of non-standard students, the rental of gym and sport facilities, and sales of products produced by pupil cooperatives.

Funds are administered and managed by the schools themselves with the approval of the school board; that is, they are not processed via the Treasury. Earnings by pupil cooperatives are not subject to VAT.

Present sources of funding for continuing VT

The basis for continuing VT can be found in two laws. The law on adult education (Official Gazette of the RMN No 64/02) specifies that adult education should be based on the curricula of primary, secondary general and vocational education. The law on labour (Official Gazette of the RMN No 43/03) specifies that employers may send employees for certain types of professional or specialised training, according to the demands and needs of their post and particularly when the company introduces new organisation methods and work technologies.

In addition, the law on employment (Official Gazette of the RMN No 05/02) states that the co-financing of education and training is one of the measures for an active employment policy that enhances competitiveness in the open labour market.

As for the provision of training by different institutions – which is supported by this legislation – Montenegro does not have reliable data on institutions and enterprises or on informal/in-house training provided in these institutions.

None of the institutions playing a significant role in the VET system has a database which contains information on adult training, adult education providers, lists of offers, or lists of participants attending different courses.

The situation should change after the implementation of a new regulation on conditions for the foundation of institutions working in the field of education (Official Gazette of the RMN No 45/05).

ANNEX 3: FINANCING DILEMMAS

Albania

Although almost all governments in power in the last 10 to 15 years have declared that education and training are a priority, statements and strategies are not accompanied by action and interventions in support of development of the sector. Public expenditure on education and training declined dramatically in the aftermath of the tough economic transition of the early 1990s – from more than 5% of GDP (very close to the average for OECD countries) to less than 3% of GDP – and the same occurred with public expenditure on education as a percentage of total public expenditure. Several documents (sometime influenced by political pressures) present different data on such indicators but the main conclusion is that, for the last five years, public expenditure indicators in education have not changed substantially and remain significantly low.

The investment in initial VET for 2004 was low in relative terms (only 2.3% of the total). However, the budget plan for 2006 allocates about 8.6% of total capital investment to initial VET, which represents a significant improvement.

According to 2002 data, the share of local government expenditure in education was also extremely low (about 0.2% of GDP) in comparison with the central government share, which was about 2.72% of GDP.

In the VET sector, salaries for teachers and instructors are poor. A young teacher starts at about €180/month and the maximum (net) salary is about €240/month. Teacher salary levels are based solely on work history (years of working experience, divided into three categories, plus a 2% increase every year). Grades do not take into account other indicators, such as qualifications.

Kosovo

At present there is no higher-level vocational training provision in Kosovo to which students can progress after completing upper secondary school-based programmes, nor are there any post-secondary non-tertiary technical education institutes. Three former higher vocational schools, approved as faculties of applied sciences of the University of Priština, offer bachelor programmes rather than the two-year professional programmes courses that they were originally established to provide.

The current capacity of the vocational training centres (under the Ministry of Labour and Social Welfare) is very small in comparison with the scale of the unemployment problem; moreover, the budget allocated to the VET division is insufficient. Training provision increased in 2004 by 40% and in 2005 by 26% but, despite this increase in provision, the number of places in 2005 was just over 3,928, representing, as a percentage of the number of unemployed, little more than 1.3%.

There is an emerging private sector in VET, with a small number of new vocational schools established under sponsorship from foreign NGOs. However, this market remains small in size, and fees are highly subsidised, since there is no unemployment fund and the fees are beyond the means of most people. It is unclear how private schools will, in the longer term, be integrated into the public education system.

A draft law intended to regulate private education and training providers is currently being discussed. Both the Ministry of Education, Science and Technology and the Ministry of Labour and Social Welfare regard private institutions as potential providers of outsourced public VET provision, although there is still no effective system for licensing and monitoring such providers.

As the special grant for education hardly covers much more than the salaries of education staff, the municipalities have limited resources to cover other running costs – not to speak of new investments to develop education provision. In theory, municipalities may top up the government special grant for education with their own funds for education and training (e.g. for the construction or rehabilitation of school buildings or the purchase of equipment). However, there is no information available on the total amount of this additional municipal investment in education.

Montenegro

The budget of the Ministry of Education and Science does not recognise secondary vocational education as a separate budget line. The only clear reference to the vocational system for the year 2006 is given in a budget heading that specifies that €100,000 is allocated to the VET centre.

At present, all requests for payment are sent to the Ministry of Finance/Treasury, from where payments are disbursed based on the priorities and the funds available. This leads to a situation in which there are insufficient funds to cover all the expenditures made – even when a spending unit has kept within the upper limit of the monthly instalment. These payment requests, which are processed via SAP (software application for accounting) are submitted to the Ministry of Education and Science and released by the Ministry of Finance.

Neither education nor local self-government laws define the legal obligations for participation in the financing of education costs at the local or regional level, except for two private gymnasia, which are covered from the central level only.

It is interesting to note that, although local government is very actively involved in exercising rights directly linked with the education system at the local level – such as the appointment of the school director or the possibility of influencing curricula – it has no real interest in taking responsibility for financial obligations linked with the effective functioning of schools in its territory. Although some financial support is provided by some municipalities in Montenegro, it is not systematic and it does not provide a base for support in the following years.

Education legislation adopted in 2002 leaves open the possibility for the establishment of private education institutions, although this possibility has not been taken up so far for the pre-university level. There are just two private gymnasia (one of which started to function in September 2006).

Symbolising the problem of financing all the partners involved in the system is the issue of co-financing for the Centre for Vocational Education, established on 27 March 2003. The founders of this centre are the government, the Chamber of Commerce, the Confederation of Trade Unions and the Employment Office of Montenegro. Currently it is mainly financed by the Ministry of Education and Science, although it is managed by a governing board composed of representatives

School directors have few decision-making powers with respect to the use of funds. However, before any action is to be taken and providing funds are available, the director has an obligation to first prepare a case and present it to the school board for its approval.

Issues for continuing VT

There is no systematic database on the extent and nature of training provided by institutions and enterprises, due to a lack of regulation, nor is there systematic data on the different types of training providers, whether training centres, worker's or people's universities, NGOs, vocational schools or private providers – for all of whom there will be a market once a system is put in place.

Employers who are involved in the training of unemployed persons (organised by the employment office) have a long-term goal to employ some of the participants, but have little financial encouragement to become involved in apprenticeship programmes or in the provision of job experience during training.

Issues for the unemployment fund

In 2004 the total investment for the implementation of active measures for employment (preparatory programmes, employment of trainees, credits for self-employment) was 31.7% of the total expenditure of the Employment Office; in 2005 this increased to 34.8% of the total expenditure budget. Major changes in the income structure of the Employment Office occurred in 2005, with a significant proportion of income coming from the sale of shares in big companies which were privatised. Income from these sources amounted to €7,500,000. Nominal investment in active employment measures in 2005 was 115% higher than in 2004 (€8,200,000 compared to €3,800,000).

With respect to passive measures for unemployment in the year 2004, a total of €1,500,000 was used for payments to the unemployed (12.5% of the expenditure budget); the spending for 2005 was €4,300,000 (or 18.3% of the expenditure budget). This rise can be explained by the large fluctuation in the Employment Office budget resulting from the sale of shares mentioned above.

A budget line within the Employment Office budget (totalling €5,570,000.00) is described as 'transfers to institutions, individuals, non-governmental and public sector'. Data from the Employment Office reveal that significant funds have been invested in this item in the last couple of years (€1,067,633.14 in 2003; €643,765.96 in 2004; and €1,291,058.97 in 2005).

These funds were used for different forms of training and for equipment for invalid workplaces, in line with measures undertaken by the Employment Office. The main purpose was to provide adequate training for the unemployed free-of-charge and to pay those who delivered it.

The Employment Office is funded as follows:

- 1% of contributions from employee salaries;
- €2.5 daily tax for employment of non-resident persons;
- contribution from the national budget;
- sale of shares in privatised companies;
- other sources.

ANNEX 4: DONORS

Donor contributions are illustrated for all three countries and territories. Those for Kosovo are described in more detail, given that it has a range of donors that are representative of all those operating in the region.

Albania

An important source of funding for the VET sector is donor contributions. It is calculated that overall EU assistance in the period 1991-2005 for the education sector in Albania was about €22.6 million. Many other bilateral development projects, financed by government or non-government funds, have supported VET in the last decade, but there are no precise data on their specific contributions. Currently, the EU is supporting VET through the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme (total €6.5 million).

In general, donor interventions – while relatively successful in important aspects of VET development such as curriculum, teacher training and school environment – are difficult to make systemic. This is possibly because: (a) financial issues go beyond the traditional pedagogic aspects of education; (b) financial issues have a broad cross-sectoral impact that requires the consensus of many actors (not easily achieved); and (c) legislation and finance are traditionally more rigid in nature than pedagogic experiments.

Regarding financial arrangements, there is a clear and strict division of funds between donor funds and those coming from the state budget. If the donor money is transferred to the state treasury, then the rules and regulations governing public funds are strictly applied. Donor support is thus usually organised in the form of programmes and projects managed directly by donors, who make their own specific financial arrangements and implement their own procedures.

In many cases, development projects face obstacles in terms of legislation and finance that mean that piloting interventions are never fully implemented. There are two main obstacles: (a) the development of schools as economic entities; and (b) the lack of links between schools and local enterprises.

Key donors are the World Bank (general education and specific strategic analysis including finance), the EU CARDS programme (curricular, pedagogic and organisational development of VET schools, and labour market information and networks), and a Swiss project for dual system development. There is also a number of bilateral programmes.

Kosovo

International donors are important sources of funds for general and VET education in Kosovo. The main targets for donor funding have been capacity building, infrastructure and institution building.

The World Bank education participation improvement project (EPIP) has been notable in enhancing the implementation of school development plans in a number of ways. The number of children in compulsory education has reached 97%, and inclusion in upper secondary education increased 30% between 1999 and 2004 (the increase in girl student participation was particularly notable). Over 500 primary and secondary schools benefited to the tune of between €5,000 and €15,000 between 2003 and 2006.

The first and second phase of the Finnish Support to the Development of Education in Kosovo (FSDEK) project have played an important role in increasing participation and in promoting and implementing the philosophy of inclusion in education.

After 2002 there was a gradual shift from a focus on school infrastructures by various international donors towards a focus on institutions and municipal authorities. In the period 2002-05 the Ministry of Education, Science and Technology financed the renovation of 39 school buildings (€1,793,001) and the construction of 28 new school buildings (€8,192,425). During this process, however, serious defects were observed, namely, poor coordination, no plans accounting for rural-urban demographic trends, no plans for school network rationalisation, inadequate facilities for technologies installed in some schools, a lack of resources for maintenance, bureaucratic financial management and procurement, etc.

The EU – through its first two phases of assistance to VET in Kosovo managed by the European Agency for Reconstruction – has been supporting both the Ministry of Education, Science and Technology and the Ministry of Labour and Social Welfare in modernising Kosovo's VET system since 2002 (€5 million). The third phase (€2 million) started at the beginning of September 2006 and the fourth phase is already out for tender.

The ETF has actively supported initiatives to embed the EU Copenhagen Process within national systems, through work on qualifications, quality assurance and career guidance, and by supporting the implementation of human resource development initiatives arising from the European Charter for Small Enterprises. Previous ETF initiatives have included a vocational guidance survey in Kosovo for the ETF and the OECD, a peer group report on employability in Kosovo, support for the preparation of an adult training strategy, a skills audit of selected socially owned enterprises, a local economic and employment partnership project in Kamenica, support to the development of proposals for VET system certification (including plans for a network of vocational standards committees), and a Balkan regional qualifications network.

Besides the EU, the two main donors supporting VET are the German and Swiss governments, through programmes implemented by GTZ and Swiss Contact. Both work mainly with the Ministry of Education, Science and Technology, and GTZ has been the leading agency supporting the development of vocational curricula for this ministry.

Kultur Kontakt of Austria is also cooperating with the same ministry to support school participation in an international business simulation network. The International Labour Organisation has been providing support to VET in the form of targeted assistance to the VET department and training centres of the Ministry of Labour and Social Welfare. The Danish bilateral development organisation, DANIDA, also provided support to this ministry until the end of 2002.

It should be noted that several other international agencies are, or have been, actively supporting entrepreneurship training in Kosovo. Among these is the United States Agency for International Development (USAID), particularly the Kosovo Cluster and Business Support (KCBS) network which is providing assistance to small- and medium-sized enterprises and running the Ministry of Trade and Industry voucher counselling and training scheme for entrepreneurs within its clusters.

Montenegro

In the last few years many different donor organisations have been investing funds to improve the initial VET system in Montenegro. The most significant support was provided by the European Agency for Reconstruction (a total of €3,255,722.5 for the period 2002-05) for the development of occupational standards, new curricula, teacher training, adult education, and the provision of equipment for practical teaching.

Significant support was also provided by Kultur Kontakt of Austria (a total of €400,000 for the period 2004-05) for the provision of equipment and the establishment of simulation enterprises and teacher training.

For the period 2004-07, the Chamber of Crafts of Koblenz invested in the provision of equipment for VET schools in Montenegro (€250,000) and in technical assistance (approximately €80,000); it also provided €170,000 for seminars, training, materials, study visits and media campaigns.

USAID – through IRD (International Relief and Development) and CHF (Cooperative Housing Foundation) programmes – and Caritas Luxembourg have delivered projects mainly directed at the improvement of school infrastructures in municipalities (mostly located in Northern Montenegro), but more precise data for VET schools are difficult to obtain from the existing government database, particularly as certain buildings are used both as gymnasia and vocational schools.

Continuing VT has not so far been the focus of donor support, apart from support provided as follows: (1) European Agency for Reconstruction technical assistance projects (training programmes, training of trainers, and devising a strategy for the development of training centres); (2) Grone-Schule Lübeck (training of 20 waiters and desk officers organised in Germany, training of 15 trainers in Germany and Montenegro, donation of 20 computers for training the unemployed); and (3) GTZ training of staff working in small private hotels.

It is not possible to make estimates as to what extent these interventions added to the national budget, since they were aimed at the provision of consultant expertise and the delivery of training paid for from the budget of donor organisations (in crude terms, technical assistance is, in fact, money paid to EU member state experts).

ANNEX 5: LEGISLATION

Albania

According to the Albanian law on pre-university education system (No 7952, 21 June 1995), public education is financed by the state budget and by other sources permitted by law. Additionally, the law on VET (No 8872, 29 March 2002) states that public VET is supported financially by the state budget, local government budget, VET national and international programmes, contributions of employer and employee associations, donor contributions, sponsoring and other sources permitted by law.

In relation to the self-financing of public VET institutions (providers), the VET legislation describes in detail what providers are allowed to do in order to increase income: specifically, VET public institutions may perform economic activities in fields that are connected to the implementation of their teaching programmes (in accordance with the law). VET institutions can act – with their practical workshops – as economic entities for the purposes of product and service (including vocational training) provision and may contract physical and legal persons.

Other legislative documents address the financing of public VET providers. A Ministry of Education and Science instruction (No 13, 16 October 1995) on the organisation, administration and financing of practical workshops in vocational schools states that practical workshops generate income by selling products and services (including training courses) in the open market.

According to the statute of public vocational training institutions (2003), continuing VET institutions may guarantee financial equilibrium by means of state budget funds, income generated by selling services and products, donations and other contributions. This document states also that the state contribution to continuing VT institutions is calculated considering the training capacity of each institution (based on the full cost of each trainee).

Two council of minister decisions (Nos 73 and 74, 11 February 1999) create the legal basis for promoting employment through institutional and on-the-job training. However, there is no data that shows that larger companies provide regular training for their employees.

An important part of the budget of the public vocational training centres comes from the fees paid by trainees. A Ministry of Labour, Social Affairs and Equal Opportunities order (No 394, 23 February 2004) defines the fees for unemployed and employed trainees in public continuing VT centres, according to different vocational qualifications. For certain unemployed and marginalised groups, no fees are charged.

Kosovo

An important aspect of the post-conflict period was the transfer of authority from the United Nations Mission in Kosovo (UNMIK) to the provisional institutions of the government of Kosovo. Most powers in the field of education – with the exception of those referring to minority communities – were transferred to the Ministry of Education, Science and Technology when it was established in 2002.

Initial VET education in Kosovo is mainly financed by public funds from the Kosovo consolidated budget. As stated in Article 30 of the VET legislation, programmes delivered by formal VET institutions are financed from the funds of the Kosovo consolidated budget and other sources. To date there is no evidence of developing any financing mechanism for VET in the form of a combination of private and public funding, partnerships, etc.

A Ministry of Education, Science and Technology administrative instruction (No 3/2004, including annexes) regulates the organisation of non-formal education and a decision (No 26/02-1) regulates the fees to be paid by students.

According to primary and secondary education legislation, standard students are exempt from any kind of payment, while students of upper non-formal secondary education pay specific amounts (Decision No 26/02-1). Students from specific social categories in upper secondary education are exempted. The fees to be paid by non-formal students are €150 for school year registration, €30 for attending practical training, €30 for the final examination and €50 for the *matura* examination. Sources of income, administration and the disposal of funds are regulated by an administrative instruction (No 71/2004, Articles 4-6). Public VET providers are obliged to comply with the requirements of the law on public financial management and accountability (No 2003/17).

The Ministry of Education, Science and Technology – in cooperation with other ministries and social partners and in accordance with Article 13 of the VET law – is required to establish a VET council. This is in the process of establishment and a draft concept paper and log frame have already been prepared. This ministry, in cooperation with the VET council, is to investigate alternative routes for financing formal VET programmes.

The private VET schools licensed by the Ministry of Education, Science and Technology are financed by private sources, mainly fees paid by the students. The contribution of companies is very small and there are no incentive measures foreseen to encourage them to support initial VET education.

The Ministry of Education, Science and Technology has undertaken a number of initiatives to create a legal infrastructure in support of education system reforms in general (and the specific transformation of the VET system), in terms of developing, reviewing and harmonising legislation in accordance with relevant EU documents. Another aspect of this legislation is actual implementation in the face of the financial handicaps represented by existing budget restrictions. Several strategies – developed in close cooperation with relevant stakeholders – have been developed. An important development has been the preparation of a general economic development plan for Kosovo 2007-13, which describes education as a main priority of the Kosovo government.

Montenegro

Chapter VII (Articles 135-145) of the general law on education (Official Gazette of the RMN, No 64/02) sets out the provisions with respect to financing all levels of education excluding university education.

As per the provisions of Article 135, education can be financed from the following sources:

- public revenues (state and/or municipal budgets);
- founder’s funds;
- tuition fees for private institutions;
- fees paid by parents;
- revenues from property (rents);
- profits from the sale of goods and services;
- donations, sponsorships and legacies;
- other sources.

The education sector was the first in Montenegro to propose changes, including the involvement of the municipalities in education financing. These could not be approved, however, due to the fact that reforms at the municipal level (including new legislation and proposals related to financial issues) were not themselves prepared in time. Ministry of Education and Science proposals were thus not accepted by the legislation secretariat, while municipalities subsequently prepared legislation that did not consider financial contributions for education or payment exemptions for schools in their respective territories (related to accompanying taxes and other revenue collection).

It is interesting to note the poor alignment between different reform processes in Montenegro. Reforms in different areas are not keeping the same pace nor occurring at the same level.

Proposals for amendments to the current legislation, prepared by the Ministry of Education and Science, were to be sent for comment to all relevant parties (in the first instance, municipalities) by the end of September 2006. It is not expected that municipalities will take over these responsibilities; although they claim that they are willing to do so, they have no financial possibility for fulfilling the obligations.

As stipulated by the provisions of Articles 98 and 99 of the law on vocational education (Official Gazette of the RMN No 64/02), schools can found pupil cooperatives and sell the products resulting from this work and from the pupils’ practical work. The manner of organising student cooperatives needs to be closely regulated by school statutes.

Even though the legislation specifies that only elementary education is compulsory and that this has to be free-of-charge for all the children up to a certain age, apart from two private institutions, education is free for all standard pupils up to university level (pupils/their parents do not pay tuition fees, therefore, unless to private institutions).

More specifically Article 137 of the general law on education (Official Gazette of the RMN No 62/02) specifies that institutions that are financed wholly from public revenues may not require students or apprentices to contribute to educational costs.

Continuing VT

The labour law (Official Gazette of the RMN No 43/03) specifies that employers may send employees for certain types of professional or specialist training, according to the demands and needs of the post, and particularly when a company introduces new organisation methods and work technologies.

The law on employment (Official Gazette of the RMN No 05/02) specifies that co-financing of education and training is one of the measures for an active employment policy that ensures competitiveness in the open labour market.

When it comes to the provision of training by different institutions, as supported by the stipulations of the above-mentioned legislation, Montenegro does not have reliable data on institutions and enterprises and on informal/in house training provided in these institutions.

ANNEX 6: THE LOCATION OF DECISION-MAKING – WHO DECIDES WHAT, WHERE AND HOW?

Albania

In 2006, new planning procedures based on negotiations between the Ministry of Education and Science and the Ministry of Finance were introduced. Discussions on the mid-term budget proposal (2006-09) commenced in the Ministry of Education and Science at the beginning of 2006. Based on overall education and sector strategies (including initial VET and considering the current legislation on financial issues), a draft budget for 2007 was presented to the Ministry of Finance in October 2006. Negotiations will continue within the government for the final budget to be approved by parliament (state budget law). The planning template contains chapters on aims, objectives, activities, costs and assumptions.

The budgeting process is based on a yearly cycle. There are four levels of financing/ distributing resources in education (including continuing VT):

- the Ministry of Education and Science,
- prefectures (13),
- regions (37),
- municipalities (65) and communes (309).

The budget of the Ministry of Education and Science covers salaries, investments and other contributions for education overall. It transfers the funds for salaries to the municipalities/communes that are responsible for distributing salaries to the school staff in their regions. According to the law on the organisation and functioning of local government, education is a common responsibility of central and local government. The Ministry of Finance transfers a block grant to the municipalities/communes, to be used for maintenance, water, electricity, telecommunications and other expenditure on public services (education, health, administration, etc.). The amount of the block grant is calculated on the basis of indicators (population, size of the region, level of urbanisation, etc.). It is up to the local government to decide on the percentage of the grant to be spent on education. Local government can generate its own income through local taxes and other public services, but generally this income is limited.

The present decentralisation policy and plans for education are based on a common document of the Ministry of Education and Science and the Ministry of Local Government and Decentralisation (Decentralisation Policies in the Pre-University Education Sector, 31 May 2004). One of the main objectives of the decentralisation process in pre-university education is reorganisation of the financing scheme through gradual decentralisation. The distribution of responsibilities, according to this document, is to be followed up by the corresponding financial scheme.

Currently, municipalities and communes are responsible for:

- maintenance and small repairs in vocational school buildings;
- funding of school administration.

The Ministry of Education and Science transfers funds for the following items to the prefectures:

- regional education directorates (salaries/social contributions, operation/maintenance);
- school documentation;
- teaching materials;
- transportation of teachers/students;
- capital investment.

Municipalities and communes receive the following funds from the Ministry of Education and Science budget:

- salaries for all pre-university education levels/sectors, in the form of a conditional grant (not to be used for other purposes);
- scholarships for secondary schools (mainly vocational schools) in the form of a conditional grant.

Municipalities and communes must cover expenditure on operation, maintenance and small repairs in schools within the non-conditional block grant.

The Ministry of Education and Science can directly allocate funds to education institutions (including vocational schools) for specific reasons, such as construction investments or the purchase of workshop machinery.

In terms of decentralisation in education, there is no separate regional level. The political map of Albania is divided into 12 prefectures and 37 districts (each prefecture contains two or more districts). There are 13 regional education directorates (12 prefectures and the city of Tirana) and 24 education offices, but these do not represent a regional level as such. These bodies are the representatives of central government in the prefectures and districts (deconcentration), and play a key role in inspections, staff appointments, training, school quality, analysing teaching staff number requirements, payrolls, assessing the need for new schools and establishing classroom numbers, planning of education developments in the region, etc. In terms of financing, their role is limited to negotiations with the local government to define investments in education.

In the regions, there is a budget branch that allocates grants and a treasury office (attached to the Ministry of Finance) that supervises expenditure. Only the treasury office has evidence of what is spent by local government on education.

Vocational schools have very limited (or no) financial autonomy. Only national schools have an account number with the treasury office that can be used for deploying the income generated through selling products and services (a precondition for the schools to be able to perform income-generation activities). Other financial operations (salaries, operational/material expenses, maintenance and capital investments) are performed by central government (for national vocational schools) or local government entities. Procurement procedures for investment are managed by local government (municipalities or communes) or by the Ministry of Education and Science. National vocational schools are allowed to tender for investments when valued at less than LEK 10 million; otherwise, the Ministry of Education and Science tenders on their behalf.

According to the regulations, the income generated by the economic activities of national vocational schools (using their own public funds and resources) is transferred to the state budget and a maximum of two monthly salaries (in one year) can be used to pay for overtime by internal staff involved in economic activities. If the activities are performed with additional costs not covered by the public budget, 10% of the income is transferred to the state budget and the rest is used for fees and to cover material expenses. A recent decision of the council of ministers (No 432, 28 June 2006) states that the income generated by public institutions during their main activity or in offering services to third parties will be considered as public income and will be transferred to the state budget. When a service is performed without relying on public resources, 10% of the income goes to the state budget and 90% remains with the public institute to cover the extra expenses for this service. The modalities for distribution of this income are not (as yet) further elaborated for the case of vocational schools.

This is the theory, but in practice, national schools have difficulties in formally executing this function. The main reason is that, according to the fiscal rules, every entity must be registered with a mercantile registry (and so obtain a tax identification number) – which is not possible for a public school. Just as an example, the Hotel School in Tirana can sell the products and services produced by its students (wine, bread, catering services, etc.); with the income they can pay for materials and instructors, but they cannot keep the data in a fiscal register.

Currently, for national vocational schools, the school principal has to prepare a budget proposal (according to a specific template) for the finance department of the Ministry of Education and Science. This budget proposal contains only the budget lines related to operational costs and capital investments (and not staff expenses). If approved, the money will be disbursed to the account number of the school. Transfers may only be made via the state treasury. The school director has the right to change the approved quotas for the budget sub-items, but not the total nor the capital investments. According to the regulations, each budget decision by the director must be approved by the school board, but in practice, it seems that this does not happen. The principal also has the right to decide on extra payments (from the two salaries) for staff involved in economic activities of the school.

The income generated by schools is not subject to any taxation (including VAT).

There is a lack of coordination in this area, resulting in low effectiveness and reduced autonomy. In some cases, bylaws and other normative regulations are not implemented, and in other cases, they are contradictory. For example, in the normative package for schools it is stated that school boards administer the school income (economic activities, sales and services, sponsorships, etc.), but other regulations state that all the income goes to the state budget.

The same structure for the budgeting process is used with all ministries, and so negotiation with the Ministry of Finance for the budget of the Ministry of Labour, Social Affairs and Equal Opportunities is very similar to that with the Ministry of Education and Science. This process follows on from preliminary internal ministry negotiation to prepare the budget proposal (the budget for continuing VT is negotiated in the employment policies department). After final approval of the yearly budget (the state budget law), the fund for continuing VT is distributed (through the national employment service) to each of the public training centres (nine in total). The budget for each centre includes staff expenses, operational/material expenses and capital investments. Each money transfer is conducted through the state treasury.

Local government has no competences in the area of continuing VT.

According to the current legal structure, the education sector (including initial VET schools) is allowed to offer vocational training courses (in most cases authorised by the Ministry of Education and Science). Such activities are simply considered as economic activities that generate income for the school (services for third parties). According to the specific regulation for this purpose, the Ministry of Labour, Social Affairs and Equal Opportunities (through the national employment service) and the employment offices cover training fees for unemployed persons only if they are enrolled in public training centres attached to this ministry or if trained in-company (on the job).

Although there is a training market in Albania, the structure in which it operates is not very transparent.

School autonomy (aspirations)

An appropriate legal framework has to be defined to allow the development of school autonomy. This legal framework should include a clear definition of the authority and responsibilities of the principal and school board, regulations and formulae for budget allocations, regulations on financial management, and accountability and reporting schemes.

Encouraging policies towards private education institutions are to be further considered and developed, through a set of mechanisms such as easing fiscal policies, possibly combined with a commitment from the government to cover most of the recurrent operational expenditures. These mechanisms are to be closely monitored, especially in vocational and post-secondary education, to ensure that they match labour market needs.

A school grants programme should be introduced as a tool for school improvement. This programme would cover the development of school management teams, training in the skills necessary to perform school self-evaluation, the preparation of a school development plan, and the ability to articulate a school improvement proposal for which a grant would be awarded, and a monitoring and evaluation process on implementation.

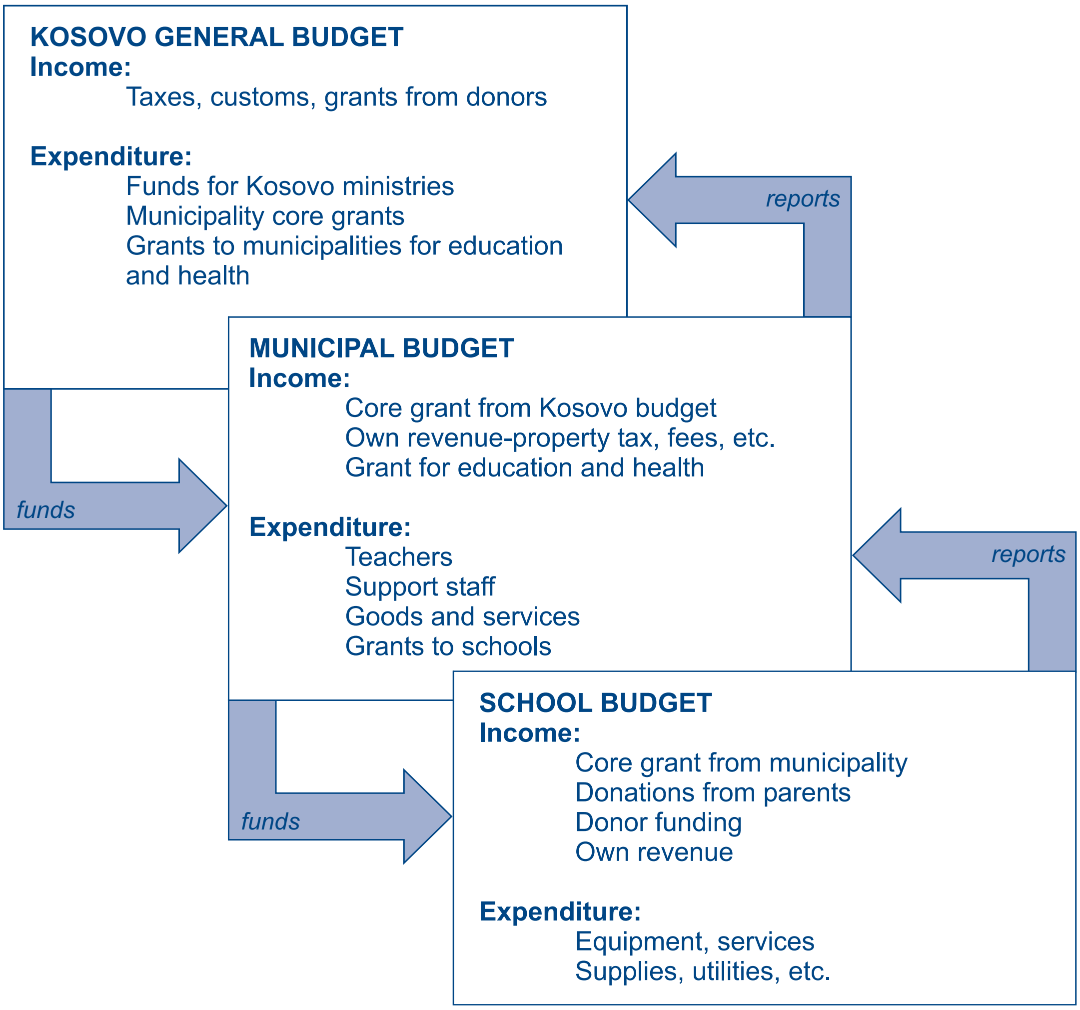
School improvement grants would develop a capacity for school-based management – emphasising school self-evaluation, planning for development and project implementation for school improvement. It would also develop teaching and learning conditions by improving school management, and develop a capacity for decentralising the education system in Albania.

Kosovo

A law on primary and secondary education promulgated the decentralisation process from 1 January 2003, but many responsibilities still remain with the Ministry of Education, Science and Technology. The deconcentrated central administration (consisting of around 200 staff) will be closed down after decentralisation. There are at least 150 employees in the municipal education directorates.

Municipalities are responsible for overall management of the municipal education budget, buildings, maintenance and repair, equipment, transport, employment of administrative and support staff, administrative and technical training needs, health, and school security and safety. The municipal education directorates are responsible for allocating funds to educational institutions in the municipality. The municipalities have little to do with curricula and teaching. General funding, planning, coordination, content, inspection and control are the responsibility of the Ministry of Education, Science and Technology. According to the law on public financial management and accountability for the administration of Kosovo, the national budget is the responsibility of the Treasury, which is attached to the Ministry of Economy and Finance. The Treasury monitors the spending of all public entities in Kosovo, and a monitoring process ensures that spending is consistent with planned cash flows.

Each school is allocated budget resources and the school director is authorised to manage the school budget, which must be approved in advance by the president of the teaching council or school board. Income generation by a VET school is possible, but the accumulated incomes can be used only for investment in goods and services and for capital expenditure.



The projects of an education institution which have financial implications need to meet with the prior approval of the teaching council or school board. All payments over €100 must be paid by direct transfer to a bank account. Projects worth over €10,000 require municipal education directorate as well as teaching council or school board approval, while projects worth over €25,000 must be approved by the Ministry of Education, Science and Technology.

In addition the Ministry of Labour and Social Welfare offers training courses, based on short modular job-related programmes, in eight vocational training centres. This training is offered to unemployed people and job seekers referred by local employment offices.

There is also an emerging private sector in VET, and a small number of new vocational schools have been set up with sponsorship from foreign NGOs.

A draft law intended to regulate private education and training providers is currently being discussed. Both the Ministry of Education, Science and Technology and the Ministry of Labour and Social Welfare regard such institutions as potential providers of outsourced public VET provision, although there is still no effective system for licensing and monitoring such providers.

The adult education and training law obliges the Ministry of Education, Science and Technology and other ministries to allocate a special budget line to finance the annual programme for adult education. The legislation for the new budget also sets out the sources, ways and conditions for raising funds in order to implement an annual adult education and training programme. This means that the legal framework to support VET activities is almost in place.

School autonomy

Schools must have boards, established in accordance with the law. These have the right to receive and review regular reports on school management and to express views and stances on any matter related to the school in terms of the municipality or Kosovo as a whole. It must respect the right of the director and other teaching staff to autonomy in performing their tasks.

By law, the Ministry of Education, Science and Technology allocates a budget to the municipalities, and the municipal authorities, in turn, plan and administer the funds in a cost-effective way and allocate funds to the schools. The preparation of a draft school budget is the responsibility of the school director in compliance with the headings prescribed by the Ministry of Economy and Finance and the Ministry of Education, Science and Technology. The draft budget needs to be presented to the school board for feedback from members before submission to the municipal education directorate. The director must submit regular financial reports during the year, to both the school board and the municipal education directorate, and it is his/her duty to keep proper records of both public and private funds.

From observation and direct interviews with school directors, it seems that school directors are often only informed of the amount of budget which is allocated to his/her school. Because of the rather unusual municipality procurement procedures for purchasing goods and services, schools very often do not receive the amount required for operation.

Montenegro

Currently the only reliable and legally defined source for the financing of the VET system is the government of Montenegro. In line with the reform of the overall education system, it is planned that some financial responsibility for education will be delegated to the level of the municipalities in which schools are located.

With support from the consultancy company DAI Europe (working with a World Bank loan in support of the education system in Montenegro) the Ministry of Education and Science (together with representatives from the Ministry of Finance and the municipalities) is considering the best mechanisms for the collection and disbursement of funds, while attempting to combine these mechanisms with the introduction of per capita funding for elementary and secondary education institutions.

As a first step, the Ministry of Education and Science has already prepared a proposal (in the general law on education) for initial changes with respect to financing, in an effort to make savings, through a municipal exemption from taxes, until stable and reliable sources of income are developed that enable them to take over responsibility for education financing.

In view of the negative experience of the 1980s – when decentralisation of education financing resulted in big salary differences for staff working in the three regions of Montenegro – the Ministry of Education and Science is not considering the possibility of delegating financial responsibilities for the payment of salaries to teaching staff working in the schools.

There is a Ministry of Education and Science project application that collates all data with respect to the education system. This will eventually include a section on individual school accounting (with a function for tracking the ways in which funds are used) and it is planned to develop another module to link municipalities and schools in calculating municipal contributions on a per capita basis.

School autonomy

The need for greater autonomy for schools has been recognised as a reform priority from the outset. In preparing proposals presenting a long-term vision of how the education system should be configured, expert working groups considered the delegation of responsibilities to the school level – starting with the school curriculum and the quality of education and teaching provided in the schools (implemented through self-evaluation) – and delegation of the decision-making process to involve representatives of the municipality, parents and pupils (secondary schools only).

ANNEX 7: EFFICIENCY MEASURES

Albania

The Albanian National Strategy for Employment and Vocational Training (2003) indicates that the main direction for reforming VET financing mechanisms will be as follows:

- increasing VET centre autonomy through decentralisation of competences and responsibilities;
- motivating instructors through financial means and continuous training;
- improving financing procedures for vocational training centres through: (i) the development of the existing legal framework that regulates financing and self-financing procedures; (ii) the establishment of advisory boards attached to the centres in order to assist with revenue management; and (iii) an increase in the quantity and quality of services through contracts with third parties;
- improving the tariff system by: (i) further developing the present tariff system and making it fulfil market demands and conditions; and (ii) following differentiated tariff policies for different categories of vocational training students;
- promoting cooperation between vocational and technical schools and the public training centres so as to ensure a more efficient use of resources.

The relatively high number of small vocational schools and training centres is another issue that directly affects the effectiveness and efficiency of the VET system in Albania. In the last 15 years, the number of schools has been reduced dramatically (because of massive closures during the transition of the early 1990s); the number of students has also fallen (from 75% of secondary student numbers to just 17%). The average number of students in vocational schools is currently about 400, and is even lower in training centres. This size is inadequate to allow VET schools/centres to develop an image, increase flexibility and serve broad categories in the regional communities. One solution is rationalisation of the school network, by merging public VET providing institutions (reducing and enlarging schools/centres so that average size reaches the 800-1,000 student mark) and locating them closer to the training markets.

Ways to do this could include:

- merging two or more smaller schools/centres;
- enlarging smaller schools/centres through restructuring;
- establishing new larger VET schools/centres;
- integration of long-term and short-term courses at VET providing institutions.

A government review and adaptation of the National Education Strategy for the period 2004-15 resulted in the following statements touching on important aspects of financing in this public sector (including initial VET).

- An alternative to predetermined amounts could be per capita funding linked directly to schools. This model, which is based on actual student numbers, can act as an indicator of school size, school facilities, and the number of teacher and support staff needed.
- In the light of the potential cost benefits of economies of scale, maintaining some services at the central level has advantages, although certain activities – such as transport and scholarships – should be under the control of local authorities and communes. Some of this realignment – aimed at increasing efficiency and implementing cost savings – could take place via a decentralisation process. Irrespective of the division of responsibility, detailed budget planning is necessary to increase accountability, and it should be possible to disaggregate the costs for individual variables if necessary.
- The current supply model for education services is reflected in the financing system. One of the key reform assumptions is to shift to a demand- and performance-based model for managing and financing the sector. For this to happen, there is a need to develop capacities at the various levels of the financial system so as to ensure engagement, not only in developing detailed budget plans, but also in implementing and managing plans.
- Local government contributions to the education sector should be shared with the Ministry of Education and Science to assist with the planning of its budget. Such financial information sharing is significantly lacking among the ministries, local governments, communes and schools.
- Accountability for all funds transferred from the Ministry of Education and Science to local governments and for funds contributed by local governments should be made more transparent.
- The current practice of pooling all monies raised by schools in a single account and imposing a tax on funds raised should be thoroughly overhauled, as well as the decision processes of municipalities and communes in regard to these funds. Schools and communities should be allowed to retain full control over pooled incomes in order to foster community ownership of school development.

Kosovo

Changes in existing formulae, financial mechanisms and governance of the education system should be considered for the next few years, bearing in mind, in particular, the specifics of VET education, running costs, and the modernisation of labs, equipment, consumables, etc. The fact that there is a single budget line for secondary education and VET means there is a failure to differentiate between general and VET secondary education.

Despite considerable support in the form of donor and ministry resources, as a result of decades of under-investment there is a serious lack of resources and infrastructure – evident in overcrowded buildings, the almost universal need for shift systems in schools, the poor quality of buildings, and a lack of essential furniture and equipment, especially in vocational schools.

There is an urgent need for the government to plan not only a step-by-step increase in the school budget, but also an effective and more flexible school budget system to meet the varying demands on all types of public education provision. This also means introducing a separate budget line for VET. Developments should be in harmony, not only with an employment-led approach to VET system development, but also with the National Economic Development Strategy currently being prepared.

Proposals are currently being drawn up to make further draft strategy changes in existing formulae – e.g. a separate budget line for VET, differing expenditures on different VET profiles, school locations (urban, rural), minorities, etc.

Montenegro

Introduction of per capita funding

The development of a pilot system of per capita funding for VET schools took place within the VET-2 project financed by the European Agency for Reconstruction. Along with the development of basic issues, accompanying criteria were developed; the model is to be piloted from the next fiscal year in the Secondary School of Medicine and the Secondary School of Mechanics (both located in Podgorica), so as to fine-tune the model for subsequent extension to other schools.

Decentralisation of key areas of funding to regional and local authorities

While preparing draft legislation adopted in 2002, the Ministry of Education and Science proposed that some financial responsibilities be delegated to the local municipality level. In order to facilitate application, the ministry has prepared a new proposal which includes exemption from the taxes that municipalities collect from the schools in their respective territories.

Part of the World Bank loan for education is dedicated to technical assistance for education finance decentralisation. The DAI Europe technical assistance team is preparing proposals for decentralisation and per capita funding in the area of general education (VET is covered by the European Agency for Reconstruction). Activities are planned to be finalised by February 2007.

Rationalisation of the school network

The Ministry of Education and Science started to review possibilities for school network rationalisation in 2003. As a result of this process, seven elementary schools in Montenegro have changed their status from main schools to satellite units attached to bigger main schools in the same area. The idea behind this initial change resulted from the fact that lower grades – in which teaching is delivered by a single teacher (grades 1-4) – are not as costly as the higher grades. Therefore, these schools continue to deliver teaching for lower grades, while transportation is provided for higher grade students to another school.

Greater school autonomy

The need for greater autonomy for schools has been recognised as a reform priority from the outset of education reform. While preparing proposals presenting a long-term vision of how the education system should be configured, expert working groups considered the delegation of responsibilities to the school level – starting with the school curriculum and the quality of education and teaching provided in the schools (implemented through self-evaluation) – and the delegation of the decision-making process to involve representatives of the municipality, parents, and pupils (secondary schools only).

ANNEX 8: KEY ISSUES FOR THE FUTURE

Albania

The World Bank remains the main actor in analysing educational financing issues and recommending strategies and actions for reform. Regardless of the fact that its analyses and recommendations are addressed to education in general, it is evident that problems across the board are very similar. Reproduced below is a summary of the conclusions of a World Bank report on Education finance in Albania (Maglen, 2002).

- The sector balance within education, that is, the priorities to be given to the development of each of the sectors – pre-school education, basic education, general secondary education, vocational education and training, higher education. Not all of these issues are exclusively those for the Ministry of Education and Science to resolve, but all of them should have a strong ministry input. All of them have profound budgetary implications.
- The district and regional balance of education development, including the balance between urban and rural areas. Many of the same issues as the ones just described are applicable in resolving these, and should have just as profound an impact in shaping Ministry of Education and Science budgets.
- The balance between capital and recurrent expenditures, that is, how the competing claims on the budget – that come from the need to build up the quality of the education infrastructure but at the same time provide an ongoing quality education service – are resolved.
- The balance between the wages bill and operations and maintenance expenditures in framing the recurrent education budget. Crucial to this balance is not only maintaining the quality of the education infrastructure, but also the need to provide sufficiently attractive remuneration packages to recruit and retain good quality teachers and other staff.
- The balance between central government responsibilities and local government responsibilities in education and the development of effective regionalism in education.
- Provision. There appears to be a small window of opportunity for the relationship between the Ministry of Education and Science and the communes and municipalities to review the existing division of responsibilities and to come up with a more rational, longer-term solution. In the process, there is also the opportunity to develop a budgetary relationship between the Ministry of Education and Science, the communes and municipalities to support education services being provided at the regional level through a cooperative exercise between the regional councils and the prefectures.
- The balance between resources channelled into the teaching institutions and those retained for administrative purposes in the Ministry of Education and Science and in the education directorates.
- The balance between core educational activities and those that are more peripheral, and which should, perhaps, be either offloaded or outsourced by the Ministry of Education and Science. Textbook subsidies and teacher transport are two examples.

The following key issues, accompanied by the respective recommendations, were raised by a team of experts in the report *Peer Review: The state of implementation of VET reforms in Albania* (ETF, 2003b).

- *Problem:* The Albanian government has set itself some challenging perspectives in VET and it is unlikely that it will be able to finance its plans solely from its own budget and international donor contributions.
- *Proposal*: Further development of the private VET sector. However, incentives will need to be available if the private sector is to impact the VET sector more substantially than at present.

- *Problem:* The VET sector is underfinanced.
- *Proposals:*
  - review of the state budget and allocation of more resources to VET reform;
  - creation of a national VET fund;
  - increased financial autonomy for VET schools and centres;
  - coordination of international donor contributions;
  - application of demand-based criteria to the allocation of resources;
  - awarding of high priority to using financial resources more efficiently and effectively.

Another VET reform issue to be considered for future financing is the restructuring of initial VET. Obligatory education is to be extended from eight to nine years, starting from the school year 2009/10, and this will affect the structure of secondary education, including initial VET (see Annex 1). In general terms, the National Strategy for Education (2004-15) considers the financial issues of this restructuring, but there is no detailed analysis of the financial implications, including for initial VET.

Kosovo

The government should seriously consider committing itself to a modest but consistent annual increase in the education and training share of the national budget. With an increased budget the government would be able to implement at least some of the reforms and ensure that it can finance future increases in the operational costs of education and training. Additional financing can also be collected from special grants, municipality revenues, donor funds, school revenues, and parental contributions.

There is an urgent need to plan not only a step-by-step increase in school budgets but also to develop an effective and more flexible school budget system that meets the varying needs of all types of public education provision; this also implies introducing a separate budget line for VET. This approach would be in harmony not only with an employment-led approach to VET system development, but also with the Kosovo National Economic Development Strategy, currently in preparation.

The Kosovo wish list includes: management capacity, quality assurance and quality control mechanisms, teacher development, adult learning provision, participation rates, school infrastructures, EU integration, and, above all, a higher percentage of GDP going to education. However, funding mechanisms for the education system in Kosovo have been demonstrated to be rather inefficient in coping with these issues – this is, it would appear, a general public impression. Although the administration and financial governance of primary and secondary education has been decentralised to municipalities, decision-making in education and training is still heavily centralised and ineffective. There is still a high level of centralisation in the structure and financial management of the Ministry of Education, Science and Technology. Further decentralisation to municipalities could strengthen the responsibility and commitment of municipalities, communities and parents towards the schools. At the same time, delegation of further financial and pedagogic powers and responsibilities requires increased capacity for financial management in municipal education directorates, as well as increased accountability and transparency in schools and the further delegation of responsibilities to schools.

Montenegro

At the beginning of July 2006 the World Bank presented the government of Montenegro with its draft document on Public Expenditure and Institutional Review. Since the document is still under discussion and classified as confidential there are no data available on the opinions expressed in the document. But some questions to be raised are as follows.

- Do municipalities have enough staff to be delegated to deal exclusively with education finance decentralisation?
- What are the possible steps to be undertaken in the event that the new proposals for tax exemption for schools are not accepted?
- Is there a social programme under development in relation to a second stage of school network rationalisation in which non-teaching staff will probably be reduced?
- Will the Ministry of Education and Science be able to provide transport for higher grade students in the event of the closure of schools and are there calculations as to how much this would cost?

- Will piloting of new funding mechanisms start in two selected schools during this semester and how will the Ministry of Education and Science monitor the process?

Within the overall process of education reform in Montenegro, key partners and local and international experts clearly recognise the importance of changes in education system financing as practised at present.

While key institutions at the central level understand the issue and are trying to find the most effective proposal for improvement, it seems that in the years to come a change in attitude will need to be the focus for all the parties involved – starting with finance officers in key institutions, staff working in municipalities, and school management and staff.

Proposals which are already developed or are under development will need to find a solid base for their implementation – meaning that in the coming years the majority of activities will need to be directed toward sharing information and accepting change, but maybe even more toward capacity development for the various parties involved in the implementation of a new, more flexible and more cost-efficient system for financing the entire education system, including VET.

ANNEX 9: THE QUESTION FRAMEWORK

A common questioning approach – Assumptions

- The three country visits would have a common background in terms of issues to be considered by the peers.
- Consistent with this background, each visit would have a set of specific issues/questions determined by the host peers/country – decentralisation for Albania, efficiency for Montenegro, and donor added value for Kosovo (concerns which have been integrated in the text).
- Both background and specifics would need to be related to a common reporting cross-country review format.
- The basic format and content for the final peer report would be provided by a framework of questions (see below).
- The final report would cover (most of) the questions outlined below but each country visit would have its own specific focus and agenda as indicated above.
- It would be the responsibility of the EU consultant (in consultation with the ETF) to produce a synthesised report from an amalgamation of guidance by peers, responses from the ground and background documentation.
- Although questions and discussions may be informal and flexible, the entire terrain (as outlined below) would need to be covered.
- In practical terms most interviews would have few formal questions, as information often arises spontaneously. The matrix of questions acts as a sieve that retains key information.

The interviewing pattern for 2006 was organised on the basis of a mix of large and small groups (two or three interviewers) with no more than four or five interviewing sessions per day, each carefully orchestrated in terms of the questions to be covered. Each day was followed by a wrap-up meeting for an exchange of findings among the peers.

The question framework is presented below under two headings: priorities and mechanisms. A simpler version provided the framework for a self-study document produced for each country. In writing the report these headings have been largely (but not wholly) preserved, as outcomes have been fine-tuned.

Priorities

General policy and strategy questions

Q.1 The overall political will for investment in education.

Q.2 The parity of esteem for VET against competing investment in general education and higher education.

Q.3 Specific relations between the ministry of education (line ministry) and the ministry of finance (allocating ministry) as well as with the ministry of labour.

Q.4 The existence of an overall VET reform strategy endorsed by government and associated with priorities, time-scale and costing.

Investment and efficiency in arriving at a balanced budget

Before implementing recommendations on VET content and structure at systemic levels, it is necessary to ensure that sources of income balance with expenditure i.e. that there is a balanced budget. To do this it will be necessary both to rationalise VET provision to decrease costs and to develop new financial sources.

Q.5 What measures are in hand to achieve these two aims?

Q.6 Are costs to be shifted from the public to the private sector? For example by:
- creating a legislative and financial framework to encourage employer involvement in apprenticeship and job experience programmes;
- providing tax break incentives for employers committed to continuing VT training;
- providing a specific and local precept for VET from a payroll levy.

Q.7 Is the (to be reformed) system by which the budget is allocated taking into account the real expenses per student against the availability of public resources (and the commercial and other income generated by the schools/colleges) as well as possible donor contributions?

Q.8 How are donor contributions integrated into national priorities for VET (with timelines and cost estimates)?

Q.9 Overall, is there:
- an analysis of the expenses to be paid from private resources?
- a revised estimate of public funds for VET as a percentage of GDP?
- a realistic estimate of resources allocated by the corresponding public authority?
- an analysis of the measures to bridge the gap between real costs and the monies actually allocated by the public authorities?
- a reliance on donor funding for early initiatives?

Major trends in European countries

Within VET reform and its financing, six major trends manifest themselves:

- the introduction of per capita funding;
- decentralisation of key areas of funding to regional and local authorities;
- rationalisation of the school network;
- greater autonomy for schools;
- how equity is interpreted and implemented;
- increased emphasis on private/enterprise funding.

Q.10 How far are these categories conceptualised/operational in the host countries? In particular, what legislative steps and administrative measures are in hand to support the funding implications?

School level

Q.11 How will the real expenses per student be divided? For example, among:
- teacher costs,
- materials,
- maintenance,
- energy,
- other costs.

Q.12 Do/will the governing boards of the school have decision-making powers in regard to:
- business policy?
- investment?
- personnel policy?
- student fees?

Mechanisms

Q.13 How far can the organisation of technical funding processes be said to reflect the political priorities of the day?

Q.14 How far are mechanisms designed to facilitate the steering capacity of the ministry of education/government?

Q.15 Has a public administration review been planned or taken place to include education?

Q.16 Have output-based financing and co-financing been considered?

Q.17 What problems confront the implementation of efficiency measures? For example:
- school network/school amalgamations;
- organisation of the curriculum;
- staff/student ratios;
- space utilisation;
- material and equipment rationalisation;
- teacher salaries;
- other.

Q.18 Are performance indicators defined? Where are they deployed? Do they have both incentives and penalties?

Q.19 Who defines targets? Where are they deployed? Do they have both incentives and penalties?

Q.20 How is the budgetary cycle defined? Do rolling budgets exist?

Q.21 How are unit (or per capita) costs defined and deployed?

ANNEX 10: COMPARISON BETWEEN THE EXISTING FINANCING MODEL AND THE DYNAMIC FUNDING MODEL (PEER, 2004)

	Existing financing model	Dynamic funding model
Budget item	**Input-based budget**	**Input-based budget**
Public budget	About 80% of total public budget	No changes
Description	Complex system of calculation rules	No changes
Used for	Salaries	No changes
Allocated by	Ministry of education	No changes
Budget item	**Budget allocated by municipalities**	**Output-based budget**
Public budget	About 20% of total public budget	Depending on number and quality of issued diplomas (demanded by the regional labour market)
Description	Budget estimation by the VET school	(1) Based on number of issued diplomas (2) Fixed 'standard prize' per diploma (3) Demand-driven diplomas will have a higher 'standard prize' (4) Outmoded diplomas will have a low 'standard prize'
Used for	Financing of running costs	No changes
Allocated by	Municipality	No changes
Budget item	**Additional activities**	**Additional activities**
Private budget	Differs from school to school	No changes
Description	Income generated by private activities of the VET school	Schools are motivated to increase income-generating private activities
Used for	Responsibility of the school	No changes
Budget item	**Training services**	**Training services**
Private budget	Differs from school to school	No changes
Description	Training of adults	Schools are motivated to increase the number of adult retraining courses
Used for	(1) Financing of training costs (2) Responsibility of the school	No changes
Comments		Changes in legislation: (1) income from commercial activities are part of the school budget and is used by the school (2) VET schools may establish a bank account at a local bank
Budget item		**Efficiency gains**
Description		(1) Savings on the input based budget (2) Savings are created by rationalisation of internal organisation or by cooperation between VET schools
Used for		Responsibility of the VET school
Comments		Change in legislation: efficiency gains are savings to be used again at the school level

	Existing financing model	Dynamic funding model
Budget item		**Co-financing scheme**
Description		(1) Co-financing is based on self-developed school income-generating activities (2) Self-developed income generating activities are: ● additional activities ● training services ● efficiency gains ● projects between school and companies (3) The total budget for income-generating activities will be multiplied (doubled) by the co-financing scheme
Used for		Co-financing must be (only) used for investments in equipment and refurbishment of the school building
Comments		Output-based budgeting in combination with a co-financing scheme is a strong tool for: (1) fast implementation of occupational profiles demanded by the regional labour market (2) pushing VET schools to the regional market (reward: participation in the co-financing scheme) (3) rationalisation of school organisation (reward: participation in the co-financing scheme) (4) new and upgraded equipment (5) extra budget for financing the running costs (output-based budget)
Item		**Co-fund**
Description		A national fund managed by a tripartite board (ministry of education, ministry of finance, employers/trade unions)
Used for		Modernisation of the VET system
Contributors		(1) Donors (2) A specific ministry (agriculture, industry, etc.) willing to support specific economic activities by trained workers (3) Ministry of education (4) Others
Comments		A co-fund is a strong tool for the government to: (1) stimulate specific economic activities (2) attract private money into the VET system (funding will be a mix of public and private funds) (3) rationalise the school system (voluntary) (4) enhance the responsibility of schools for self-initiatives to modernise

ACRONYMS

CARDS	Community Assistance for Reconstruction, Development and Stabilisation
ETF	European Training Foundation
EU	European Union
GDP	Gross domestic product
GNI	Gross national income
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Association for Technical Cooperation)
LEK	Albanian currency
NAVET	National Agency for Vocational Education and Training
NGO	Non-governmental organisation
OECD	Organisation for Economic Cooperation and Development
Phare	Community aid programme for central and east European countries
UK	United Kingdom
UNMIK	United Nations Mission in Kosovo
USA	United States of America
USAID	United States Agency for International Development
VAT	Value added tax
VET	Vocational education and training
VT	Vocational training

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FINANCING VOCATIONAL EDUCATION AND TRAINING: PRIORITIES AND MECHANISMS IN SOUTH EASTERN EUROPE

Luxembourg: Office for Official Publications of the European Communities

2007 – 72 pp. – 21.0 x 29.7 cm

ISBN: 978-92-9157-540-4

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TA-78-07-309-EN-C

Photo cover: Cedefop

ISBN 978-92-9157-540-4

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