Final Draft Report
Child-Focused Public Expenditure Review
UNICEF Country Office, Skopje
February 2009
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This Child-Focused Public Expenditure Review has been prepared by Ms. Paola Perez Nieto and Mr. Vanco Uzunov. The views expressed are those of the author and do not necessarily reflect the policies or views of UNICEF.
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<tr>
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<th>Full Form</th>
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<tbody>
<tr>
<td>BED</td>
<td>Bureau of Education Development</td>
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<td>CEC</td>
<td>Commission of the European Communities</td>
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<td>CSW</td>
<td>Centres for social work</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ECD</td>
<td>Early Childhood Development</td>
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<td>EMP</td>
<td>Education Modernisation Project</td>
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<td>EU</td>
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<td>GDP</td>
<td>Gross Domestic Products</td>
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<td>HIF</td>
<td>Health Insurance Fund</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPA</td>
<td>Instrument for Pre-Accession Assistance</td>
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<td>ISA</td>
<td>Institute for Social Activities</td>
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<td>IT</td>
<td>Information technology</td>
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<td>JIM</td>
<td>Joint Inclusion Memorandum</td>
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<td>LCP</td>
<td>Law on child protection</td>
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<td>LFLSG</td>
<td>Law on financing local self-governments</td>
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<td>LLSG</td>
<td>Law on local self-government</td>
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<td>LSG</td>
<td>Local self-government</td>
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<td>LSP</td>
<td>Law on social protection</td>
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<td>MICS</td>
<td>Multiple Indicator Cluster Survey</td>
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<td>MLSP</td>
<td>Ministry of Labour and Social Protection</td>
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<td>MoH</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>NGO</td>
<td>Non governmental organisation</td>
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<td>NPAA</td>
<td>National programme for adoption of the <em>aquis</em></td>
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<td>NSDE</td>
<td>National Strategy for the Development of Education</td>
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<td>NSDSC</td>
<td>National Strategy for Deinstitutionalisation of Social Care Services</td>
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<td>OMC</td>
<td>Open Method of Cooperation</td>
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<td>PIRLS</td>
<td>Progress in International Reading Literacy Study</td>
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<td>PER</td>
<td>Public expenditure review</td>
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<td>PFM</td>
<td>Public financial management</td>
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<td>SAA</td>
<td>Stabilisation and Association Agreement</td>
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<td>Stabilisation and Association Process</td>
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<td>SEI</td>
<td>State Education Inspectorate</td>
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<td>TIMSS</td>
<td>Third International Mathematics and Science Study</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNCR</td>
<td>United Nations Convention on the Rights of the Child</td>
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<td>United Nations Children’s Fund</td>
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Executive Summary

The aim of this Child-Focused Public Expenditure Review is to undertake a detailed analysis of the national budget process and resulting expenditure decisions with respect to the achievement of children’s rights and child wellbeing. It is intended as ‘a first step’ in a sequenced engagement in broader child-focused public financial management review activities with the long-term goal of contributing to strengthen policy development and governance systems for investment in children within the context of fiscal discipline; efficiency in the planning and implementation of public resources; and ensuring budget allocations are in line with established policy priorities (allocative efficiency). By identifying gaps as well as positive links, the review aims to contribute to providing useful information to feed into strategic planning processes in child-focused areas of the three social sectors with more impact on children: education, health and social protection, recognising existing fiscal and capacity constraints.

In particular, this study underscores the relevance of raising the visibility of the poorest and most vulnerable groups of children in public expenditure, and includes specific observations related to how public expenditure is addressing (or not) the needs of these children in the analysis for each sector (education, health and social protection). While the overall analysis is on child-focused spending in general, particular attention will be given to progress in increasing the equity of this spending.

In the past two to three years, the legislative and policy context in the country has been very dynamic with some clear efforts to develop new strategies aimed at addressing human development gaps faced by the country. Thus, this study focuses on policy and legislative frameworks developed from 2006 onwards, with a corresponding in depth budget and expenditure data analysis is assessed from 2005 to 2008.

The theoretical framework for this study was underpinned by the realisation that investing in children through more adequate and effective public expenditure is good public policy making ‘political, social and economic sense’:

It makes political sense: Child-focused public expenditure as a fulfilment of child rights: Article 4 of the UN Convention on the Rights of the Child asserts that “States Parties have the obligation of undertaking measures to the maximum extent of their available resources and, where needed, within the framework of international cooperation” to ensure the fulfilment of children’s rights. An analysis of a country’s budget and monitoring its public expenditure performance can help ensure that the government’s financing goals are consistent with declared policy objectives and that the financial resources allocated to priority areas are spent appropriately.

It makes social sense: Child-focused public expenditure as mechanism to reduce child poverty and social exclusion: The exclusion of children and young people from early childhood development (ECD) programmes, education, social protection, access to health or training denies them the opportunity for positive development. Given that the country seeks to move forward in the EU accession process, this PER can be a useful tool to inform the government’s National Strategy for Social Inclusion, which is an important element of the accession process. In fact, the EU has highlighted the fulfilment of Children’s rights, the reduction of child poverty and children’s social inclusion as necessary elements in the EU accession process: “Tackling child poverty and breaking the transmission of poverty and exclusion from one generation to the next features high on the European Union’s political agenda… Addressing child poverty is crucial to the achievement of greater social cohesion and sustainable social and economic development in Europe”.

5
It makes economic sense: Investment in children’s human capital can help promote growth and economic development: Investment in human capital implies spending on quality ECD, education, health and improved wellbeing with the aim of increasing individuals’ productive capacities and therefore their potential income by broadening the spectrum of opportunities available to them, ultimately improving their well being. These increased levels of human capital can in turn lead to productivity gains and to a country’s economic growth.

By reflecting on the visibility of children in the budget and making links with some areas where child outcomes indicators are faring well or need improvement, the aim of the review is to contribute to strengthening the effectiveness of public expenditure on children.

Key findings and recommendations
The analysis indicated some positive trends in budget and expenditure in the three sectors under analysis: overall resources in the education sector reached 5.6 percent of GDP in 2008, which is higher than the 5.4 percent GDP average for the OECD. Resources to preventive health increased almost four-fold (from 5.77 million Euro to 29.45 Euro) from 2003 to 2008. In the case of social protection, although overall allocations to the sector are decreasing as a share of GDP and total expenditure, most of the reductions are a result of streamlining allowances and payments of social funds (through better targeting and better management of resources as part of the ongoing reform in the sector), which has actually increased the share of resources allocated to social protection programmes.

Given that many of the positive changes in budget and expenditure are recent, it is necessary to continue engaging child-focused budget monitoring in the medium term to ensure child-focused spending remains a priority and to understand the impact these improvements are having on equity outcomes.

However, there analysis also indicated specific areas with insufficient budget attention or with specific problems related to public financial management constraints that would need to be improved to ensure the most effective and efficient use of resources with impact on children’s wellbeing. This executive summary provides only some of the main findings and corresponding policy recommendations identified in the report, which contains more in depth and detailed analysis:

Adequacy, equity and quality in child-focused public expenditure

Education
- A significant share of the increase in resources to the education sector has been channelled to two government flagship programmes: compulsory secondary education and the One Computer to Every Student. In the case of the later, for example, the budget allocated to capital expenditure (primarily IT equipment) for primary and secondary education as a share of total budget allocations to the Ministry of Education and Science (MES) going from 0.9 percent in 2006 to 6.9 percent in 2008. Investments in other dimensions of quality of education have increased, but not at the same rate. Although the budget classification does not enable an analysis of resources financing teacher training, it is possible to look at two other dimensions of quality; firstly the budget for the Bureau of Development Education (BED) in charge of curriculum development, teacher training and others is only 2.4 percent of the total budget to education (1.5 percent in 2007); and secondly, evidence has pointed to the need to reinvest in school infrastructure to minimise the use of schools for second and third shifts, which impacts negatively on educational performance. The 2008 budget for construction and reconstruction in the sector was 4.3 percent of the MES’s budget, up from 1.6 percent in 2007. Given the poor
educational performance of students, particularly in basic numeracy and literacy skills, it seems important to invest significantly in basic components of educational quality.

- ECD (through financing of preschool and childcare centres) has not been adequately financed, particularly given evidence of the high returns to investment in ECD and its relevance to child development. Despite overall allocations to education (5.6 percent of GDP in 2008) being above the OECD average of approximately 5.4 percent, resources going to ECD which averaged 0.33 percent of GDP over the period 2005-2008, are significantly below the OECD average of 0.7 percent of GDP.

- For the first time, there are earmarked resources for Roma education in the MES’s budget, which is a positive first step, however resources allocated for this purpose are minimal (100,000 Euro) and the plans for the use of resources was not yet clear. For this papers, it is recommended that existing models implemented by NGOs and international partners are considered as models for possible scaling up of the actions.

- There is no specific budget attention given to education of disabled children. Budget classification could improve as to enable the identification of resources going to this area, whether through special schools financed at the national level, or through the investment by LSG units and local schools on the different components that contribute to the provision of inclusive education at the local level.

**Health**

- Although investment in preventive health and vertical programmes has been generally positive, there are still problems in financial management that need to be resolved to ensure of better use of resources (as detailed below).

- Inequalities in health outcomes in terms of location, wealth status and ethnicity highlight that despite overall positive performance of the health system, it is failing to reach specific population groups. Resources need to be invested in identifying how to best reach those populations and then deploying resources to address the problem to ensure full and equitable health care coverage.

**Social Protection**

- Resources going to centres of social work (CSW) are very low, representing in 2008 only 4.3 percent of total budget for social protection programmes. Current budget allocations have been identified as insufficient adequately operate the centres, particularly given the multiple responsibilities under their charge. The 2008 budget to CSW was 24 percent higher than expenditure on CSW in 2007 which is positive, with most resources going to cover staff related costs (which seems positive in light of significant understaffing of the centres). Efficiency gains in the MLSP through the social protection sector reform could be seen as an opportunity to provide additional funds to these centres.

- Child and social protection allowances (excluding social funds) have been kept at a relatively constant level, on the average 1 percent of GDP over the past three years, which is an average performance with respect to OECD countries, with countries such as Denmark, Sweden, Austria and Belgium spending more than 1.5 percent of GDP, while other countries such as Spain, Mexico, and the Netherlands spending less than 0.5 percent of GDP on cash family benefits. It is important to highlight that evidence in EU countries suggests that those with the lowest child poverty rates are those who spend most on social benefits (excluding pensions). Thus, given that child poverty in the country remains an important problem, for example, in 2007, the greatest share of poor households, 58.9 percent, were households with children. In this sense, it is important to ensure that the level of child benefits remains high or increases to the extent that there is fiscal space for it. However, in the case of the introduction of new programmes such as the conditional cash transfer or the ‘third child policy’, these must build on existing benefits rather than serve as a way to reduce them, particularly as to avoid the risk of excluded children in poorer or marginalized households.
6.2.2 Public financial management (PFM)

Results-oriented budget planning

- In the education and social protection sectors, the analysis indicated weak linkages between policy, planning and expenditure, resulting in some policy commitments not resulting in programmatic actions. For example, the multiple responsibilities that are increasingly given to the CSW have not been accompanied by a strategic plan that attaches costs to activities and develops a results-oriented budget. Thus, to improve these linkages and move towards results-oriented budget planning it would be useful for the different sectors to develop concrete indicators for the achievement of objectives, linked to activities and costs, which should then feed into budget planning processes from the bottom up. Having clear budget indicators will enable better budget performance monitoring. Amongst the sectors analysed, such detailed planning is done only in the case of vertical health programmes.

Decentralisation

- Although the focus of the analysis was not decentralisation, an initial assessment of decentralisation of child-focused services, particularly in the case of education and social protection, indicated that there might be problems in the roll out given insufficient planning capacity in some municipalities. This is particularly the case of resources to address the specific needs of vulnerable populations and the promotion of social inclusion. This observation was confirmed by the most recent EU progress report.
- Thus, in the context of decentralisation, it is important to continue supporting the capacity development of local governments planners and policy makers, particularly those in charge of newly devolved areas within education, social protection and health. This capacity building should include general dimensions of strategic planning and results-oriented budgeting but also a specific dimension of child-friendly planning to encourage more child-responsive budgeting at the local level, that addresses local needs as well as responding to specific issues of quality and equitable access to services.
- As decentralisation progresses, accountability mechanisms at the local level need to be strengthened. In the case of local governments, this includes the publication of the use of devolved funds (both earmarked and block transfers) as well as the use of local revenues, which currently does no happen and does not enable the monitoring of the use of resources at the local level. This is of particular importance in terms of child focused spending, as an increasing share of resources and responsibilities for the provision of child-focused services are devolved.

Health

- The increase in budget allocations to the health sector is an important progress in ensuring more and better preventive health actions, particularly those reaching vulnerable populations. However, this increase in resources should be accompanied by the development of capacity to plan for and monitor the use of those resources, which does not currently happen. The result is that there is insufficient control over the use of resources at the local level and planning is not need based. In order to improve the capacity to absorb larger budget allocations to preventive health and vertical health programmes, a planning, monitoring and evaluation unit should be developed in the Ministry of Health to enable the development of effective strategies for the use of resources as well as to monitor the use of these resources. Effective planning in the sector requires capacity building within the Ministry and also with those involved in health planning at the local level, including with NGOs which have started to work alongside public health service providers to improve the provision and management of preventive health services.
**Social Protection**

- In the case of functions to be devolved in the area of social protection (namely daycare centres for orphaned and disabled children, and the de-institutionalization of services), it is necessary to develop a clear and coherent decentralisation strategy that defines roles, functions and funding responsibilities, particularly with regards to priority programmes for vulnerable groups and those that require inter municipal cooperation. This does not exist at the moment and has caused delays in the devolution of funds and functions related to social protection for children to LSG units.

**Participation of civil society**

- Promoting the engagement and active participation of civil society in monitoring the use of budgets and the quality of service delivery can be a very effective way to promote accountability at the national and local levels, and over time lead to more effective provision of services and more adequate use of resources.
1. Introduction

In the past two to three years, the legislative and policy context in the country has been very dynamic with some clear efforts to develop new strategies to address some of the identified gaps in human development faced by the country and to tackle the incidence of poverty, which according to recent data by the State Statistical Office was 29.4 percent in 2007. This data also indicates that children are more than proportionally affected by poverty, with the largest incidence of poverty, 58.9 percent, observed in households with children (10.4 percent in the case of couples with children, and 48.5 percent in the case of other households with children). Further, although significant progress has been made in increasing the access to basic social services, particularly those that most impact on children’s wellbeing, there are still differences in access to services according to households’ wealth status and ethnicity, as well as some significant problems related to the quality of such services.

In this context, this child-focused public expenditure review aims to provide baseline data and analysis to assess how budgets are allocated and spent on social services for children and their families, with particular attention to resources addressing the needs of the most disadvantaged groups, as identified by UNICEF’s Child Poverty Study (2007). This paper thus builds on findings from the child poverty study which raises important issues related to children's poverty status and perception of poverty, inequality and social exclusion. The poverty study also presents an overview of the State's budget allocations in the three main child-focused sectors: education, health and social protection analysing trends in budgetary allocations to these sectors from 2001 to 2007, with specific observations with respect to child-focused budgetary allocations. Additionally, it builds on findings from the World Bank’s Public Expenditure Review published in early 2008, which also looks at relevant dimensions of education, health and social protection spending.

This study will focus on the same three sectors looking in more depth at the country’s planning, budget allocation and execution process, including resulting expenditure decisions with respect to the achievement of children’s rights, wellbeing and reduction of inequality. It is intended as ‘a first step’ in a sequenced engagement in broader child-focused public financial management review activities with the long-term goal of contributing to strengthen policy development and governance systems for investment in children within the context of fiscal discipline; efficiency in the planning and implementation of public resources; and ensuring budget allocations are in line with established policy priorities (allocative efficiency).

Other dimensions of this study include the analysis of the links between budget commitments at the start of the fiscal year and actual expenditures as a relative measure of expenditure efficiency, which might help point out areas that need operational strengthening. Additionally, the review aims to identify whether budget allocations to education, health and social protection (including child protection) correspond to government’s legal and policy commitments as expressed in relevant laws, key national planning documents and sectoral plans, as well as to needs identified for better investment within these sectors, for example on quality and equity. Although sectoral analysis of public expenditure is mostly related to the ‘supply-side’ of service provision, the study will also look at existing and potential investment to enhance the demand for social services, particularly of poor and vulnerable groups which are those mainly excluded, through effectively targeted spending on social protection.

This study underscores the relevance of raising the visibility of the poorest and most vulnerable groups of children in public expenditure, and includes specific observations related to how public expenditure is addressing (or not) the needs of these children in the
analysis for each sector. By making clear linkages between areas in which child outcome indicators are faring well or need improvement, it is hoped that this review will contribute to strengthening the effectiveness of public expenditure on children. Legislation and policy issues addressed in the study centre on policy strategies and frameworks developed from 2006 onwards acknowledging that strategic documents developed previously might have changed, been revised or lost relevance in relation to policy design and programme implementation. The National Programme for the Work of the Government in 2006 and 2008, as well as annual plans in the relevant sectors will be the main points of reference, while some linkages are made to key objectives and goals set out in sectoral strategies, some of which were developed prior to 2006. With respect to budget and expenditure data analysis, the review looks at national level sectoral trends in expenditure from 2003 to 2007 (including budget allocations in 2008) while focusing the in depth analysis of intra-sectoral allocations and efficacy in spending from 2005 to 2008. Given that there is yet no integrated budget data with the size of the transfers to each municipality to finance their devolved education and social protection responsibilities, this study is unable to draw links between local level expenditure and child wellbeing, although it will provide some reflections on the possible implications decentralisation on child-focused service provision. An important dimension will also be the progress that has been made on investing on social inclusion for the purpose of meeting EU integration criteria during this period.

Findings stemming from this review will provide evidence to support key policy stakeholders’ efforts to strengthen the existing systems for the provision of child-focused services to inform better strategic planning and promoting greater sustainability, efficacy and equity in spending to address growing concerns about poverty, inequality and social exclusion of children and vulnerable families in the country.

The study is structured as follows: section two provides a theoretical framework and rationale for the analysis which underscores the social, political and economic importance of investing in children. Section three provides an overview of the budgetary process and of the current public financial management (PFM) context, emphasising dimensions that are relevant to the improvement of child-focused expenditure. The budget and expenditure analysis for each sector at the national level is the subject of section five, including some specific reflections on the impact of decentralised services for children in those sectors. The conclusions and some concrete policy recommendations for stakeholders, as well as on lines for future work to continue developing the child-focused PFM agenda are presented in section six. Lastly, appendix one contains the report’s methodological note, which includes an explanation of the study’s main limitations, and appendix two provides an analysis of relevant legislation which serves as the legal framework of the report.
2. Theoretical Framework: Why investment in children is good public policy

In light of the country’s commitment to foster growth, development and social inclusion in the country, to grapple with some of these challenges it is important to highlight the need to address the constraints faced by vulnerable groups – particularly children, and amongst them, those living in poverty and marginalisation – to ensure that they become an active part of and benefit from development. Thus, the analysis in this study aims to look at how investing in children through more adequate and effective public expenditure is good public policy making ‘political, social and economic sense’. The theoretical framework for this child-focused PER is underpinned by three dimensions:

1) It makes political sense: Child-focused public expenditure as a fulfilment of child rights

The United Nations Convention on the Rights of the Child (UNCRC) originated from the recognition of children as right holders and duty bearers, as a specific population group in need having specific guarantees for their dignity and individuality, which would reduce their vulnerability. The Convention was approved by the UN in 1989 and ratified by the country in 1992. In particular Article 4 of the Convention asserts that “States Parties have the obligation of undertaking measures to the maximum extent of their available resources and, where needed, within the framework of international cooperation” to ensure the fulfilment of children’s rights (UN, 1989). This statement confirms that the ratification of the UNCRC binds signatory countries to allocate sufficient resources to meet children’s rights. However, it is clear that for this and other articles of the convention to be operationalised, their provisions need to be incorporated into national legal frameworks, and just as importantly, into policy and expenditure plans.

An analysis of a country’s budget – from formulation to execution - and monitoring its public expenditure performance can help ensure that the government’s financing goals are consistent with declared policy objectives and that the financial resources allocated to priority areas are spent appropriately (Robinson, 2006). Such analysis can also reveal where public expenditure addresses the needs or is failing to reach certain social groups. For example, people-centred budget initiatives which include pro-poor budgeting, gender-sensitive budgeting and child-focused budget analysis have emerged as mechanisms to hold governments to account in relation to how they use resources to advance the realisation of human rights - and specifically women’s and children’s rights (Çagatay, et al., 2000). Accordingly, for the purpose of this study we analyse child focused public expenditure as a means to pursue the achievement of children’s rights through effective policy delivery.

The Government has shown its commitment to pursuing the fulfilment of children’s rights through, among other efforts, the establishment of the National Commission for Child Rights, which aims to promote inter-sectoral coordination to promote children’s rights. This Child-Focused Expenditure Review can be an instrument to help ensure this goal is achieved.

2) It makes social sense: Child-focused public expenditure as mechanism to reduce child poverty and social exclusion

The exclusion of children and young people from education, employment or training denies them the opportunity for positive development. This can in turn lead to marginalisation and some forms of self-destructive lifestyles. Children are considered as excluded relative to other children if they are unable to access the essential services and goods which allow them to participate fully in society. Evidence from UNICEF’s Child Poverty Study shows that certain groups of children and young people are still not able to access basic social services
such as education and health, limiting their later access to social and economic opportunities, which perpetuates their social exclusion status.

Given this situation and the fact that one of the country’s goals is to move forward in the EU accession process, this PER can be a useful tool to inform the country’s National Strategy for Social Inclusion, which the government plans to develop in 2009. In addition to being an essential document to guide national policy implementation to ensure the needs of vulnerable groups are addressed, this strategy is a necessary input in the preparation of the EU’s Joint Inclusion Memorandum (JIM). As part of the process of preparing their membership of the Union, candidate countries have been invited to draft, in co-operation with the European Commission, a JIM, which identifies and outlines the principal challenges faced by the country in tackling poverty and social exclusion. It aims to assess the strengths and weaknesses of existing policies and identifies future challenges and policy priorities. In this way, it is a major step in the light of the agreement to start translating the EU’s common objectives on social inclusion and social protection into national policies, as well as identifying key policy issues for monitoring and review (Joshua, 2007).

More specifically, the EU has highlighted the fulfilment of Children’s rights, the reduction of child poverty and children’s social inclusion as necessary elements in the EU accession process:

“Tackling child poverty and breaking the transmission of poverty and exclusion from one generation to the next features high on the European Union’s political agenda. Child poverty is recognised as a multi-dimensional problem which requires urgent integrated actions across a wide range of social, economic and cultural policies... Addressing child poverty is crucial to the achievement of greater social cohesion and sustainable social and economic development in Europe. To this end, the European Union continues its efforts on mainstreaming child poverty in national and European Union policy making, strengthening the indicators for measuring and evaluating the progress, taking into account the voices of the affected children, and raising public awareness on the issue”.

In the March 2006 Presidency conclusions, the European Council asked the Member States “to take necessary measures to rapidly and significantly reduce child poverty, giving all children equal opportunities, regardless of their social background”. In their 2006-2008 National Reports on Strategies for Social Protection and Social Inclusion (NRSSPSIs), the vast majority of Member States prioritised the need to develop a strategic, integrated and long term approach to preventing and alleviating poverty and social exclusion among children. The Commission and the Member States chose tackling poverty and social exclusion of children as a key focus theme for the year 2007 in the context of the Open Method of Coordination (OMC) on social protection and social inclusion (EC, 2008).

Further, in 2007, agreement was reached on the need to develop indicators on child wellbeing and poverty in the context of a streamlined Open Method of Coordination (OMC) on social inclusion. This work has been taken forward and during 2008, resulted in the production a comprehensive study, ‘Child Poverty and Well-Being in the EU Current status and way forward’ (EC, 2008) which uses these commonly agreed indicators to report on the factors affecting child poverty in each country and make recommendations on how to better assess and monitor child poverty and the multiple dimensions of child-well being across the EU.

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1 EC’ website for Social Cohesion and Social Inclusion
Thus, addressing child poverty reduction is recognised as a crucial element in achieving greater social cohesion and sustainable social and economic development in Europe. These elements underscore the need to have effective child-focused policies in place to help articulate children’s rights and needs, particularly in the pursuit of equity, equal opportunities and inclusion, which will be instrumental as the country develops its Social Inclusion Strategy. The operationalisation of these policies is linked to the effective mobilisation of resources, so this child-focused PER can be used to show the government’s progress in mainstreaming children into policy as well as identifying where additional financing efforts need to be put in place to guarantee equitable access to quality services and to improve the wellbeing of vulnerable children and their households.

3) **It makes economic sense:** **Investment in children’s human capital can help promote growth and economic development**

Investment in human capital implies spending on quality education and health services as well as other dimensions of welfare with the aim of increasing individuals’ productive capacities and therefore their potential income by broadening the spectrum of opportunities available to them, ultimately improving their well being (Becker, 1993). These increased levels of human capital can in turn lead to productivity gains and to a country’s economic growth. For example, Sen (1999) argues that the capabilities that adults enjoy are deeply conditional on their experiences as children: firstly, it can directly make adult lives richer and less problematic since a securely preparatory childhood can augment skill in living a good life. Secondly, childhood preparations and confidence also contribute to the ability of adult human beings to earn a living and to be economically productive.

In particular, in the case of early childhood development, UNICEF\(^2\) has explained that a wide body of research in the fields of anthropology, developmental psychology, medicine, sociology, and education points to the critical impact of development in the early years of childhood in the formation of intelligence, personality, and social behaviour. The effects of neglect in these formative years can be cumulative and lasting. Similarly, UNESCO (2007) argues that, from a developmental perspective, participation in early childhood programmes is beneficial because it leads to improved outcomes, including better nutrition, health and education in both the short and the long run, by for example, increasing the likelihood that children will complete the school cycle and perform well in it. Thus, early childhood programmes not only benefit children and families, they reduce social inequality, and benefit communities and societies at large. For this reason, from an economic point of view, investment in early childhood programmes offers a high pay-off in human capital and there is a strong case for public intervention. On the same vein, the 2006 World Development Report, (World Bank, 2005a) also highlights the high returns to investment in early childhood development: it argues that disadvantages in opportunity transform into reduced access for children to the goods and services required for their progress, thereby impacting on their future productivity and country’s development, while children’s unrealised potential translates into a country’s lower economic growth. However, we will see in the analysis presented in this report that the current Macedonian system of early childhood care and development still fails to reach the majority of children and remains under funded, hindering its impact.

There is also evidence that higher rates of school enrolment raise growth (for example, Mankiw, et al, 1992 cited in Anderson and Hague, 2007); evidence of the links between investing in education and the resulting long-term effects on economic growth through such factors as higher wage rates (Murrugar, 1998; Schultz, 2003); as well as some evidence that improvements in child outcomes can reduce inequality (Li et al., 1998). In line with this, the Program of the Government (2008-2010), states that two of its strategic priorities are:

• Increasing economic growth and competitiveness, higher rate of employment, and improving living standards and quality of life; and

• Investing on education as the safest way to create strong individuals and a strong State.

From the above, it can be said that amongst the determinants of human capital, education is viewed as the main vehicle for the transmission of poverty across generations (Castañeda, and Aldaz-Carroll, 1999; Harper, et al., 2003) given that increased levels of educational attainment tend to lead to higher future earnings and standard of living, when there are opportunities for income-earning available. However, it is important to point out that educational attainment does not necessarily correspond with years of schooling due to lags in educational quality (Psacharopoulos, and Nguyen, 1997). Poor quality of education – which has been identified as a problem in the country in international education performance assessments such as PIRLS and TIMSS3 – is also a major barrier in human capital formation and thus needs to be addressed through corresponding investment in ‘quality’ dimensions of education, including the improvement of teacher capacities, better school facilities, more modern curricula and the incorporation of IT learning. There is evidence that many children, especially in the developing world, are unable to develop appropriate life skills through formal education, either because of inadequate curricula or due to poor quality education, which motivates them to drop out of school and thus remain trapped in the poverty cycle (e.g. UNICEF, 2004). This is of particular relevance in this country as there are important drop-out rates, particularly amongst the poorest quintiles of the population (UNICEF, 2007a). Health status is also a crucial determinant of human capital with research findings showing that poor health poses significant costs to individuals and to overall productivity (Grossman, 2000).

It is important to point out that in order for ‘human capital ‘to translate into real income earning possibilities, individuals need job opportunities (Szekely, 2001). Even when human capital accumulation on its own is desirable as a form of human development, it has limited impact on wellbeing if it does not enable income-earning opportunities and access to better living conditions. This underlines the importance for developing countries to achieve sustained economic growth which is linked to employment generation (Moran and Aldaz-Carroll, 2003) not only as a measure of increased private incomes, but also to generate resources that social policies can draw on to promote well-being amongst the poor (Sen, 1999a); Thus, the Government’s emphasis on employment generation as part of its growth strategy is very relevant as it has the potential of impacting significantly on households poverty reduction and thus on child wellbeing, so long as there are effective mechanisms to ensure growth is pro-poor and that the benefits of growth be distributed across the population.

The analysis of child-focused social expenditure in health, education and social protection presented below is based on the principles of political, social and economic rationality developed in this framework, providing strength to the call for improving financing to programmatic areas that are relevant to the improvement of children’s wellbeing, particularly for the poorest, most vulnerable and socially excluded children.

3 See 2006 PIRLS and 2003 TIMSS country assessments at http://www.iea.nl/
3. Economic and Political Context

The overview of economic context is provided with the objective of setting the scene for the analysis of child-focused expenditure in the social sectors. A government’s budget decisions are not made out of context but rather taking into account projections of the macro economic situation, availability of fiscal resources, fiscal and financial constraint, economic risks, opportunities and policy priorities. Budget decisions also reflect an allocation of resources to the different levels of government according to the stage of devolution of responsibilities.

One of the main premises to consider, however, is that poverty is still a relevant problem, with 29.4 percent of the population living in poverty in 2007, according to recent official estimates. The problem is particularly bad for children, with 58.9 percent of households in poverty having children (State Statistics Office, 2008). Thus, this contextual analysis should provide some insights as to the government’s current and potential fiscal space, defined as the ‘room in a government’s budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy’ (Heller, 2005), to take effective policy and programmatic measure to counter poverty and social exclusion, particularly of children who are more than proportionally affected by this and can face the consequences in terms of poor living conditions and limited access to basic social services.

3.1. Economic Context

The main goal of the fiscal policy pursued by the Government at the end of 2007 and in the first half of 2008 was creation of higher economic growth potential, through stimulating both aggregate supply and demand. On the supply side, reforms in the tax system were finalised at the beginning of 2008, and have contributed to the creation of a simpler, more efficient, and transparent tax system resulting in a significant increase in fiscal revenue while reducing fiscal pressures on the private sector, in order to promote investments. On the demand side, government policy focused on increasing public sector wages as well as current expenditure and investment.

Higher collection of fiscal revenues resulting from the reforms significantly exceeding initial projected levels, allowed for greater public spending without impacting the overall fiscal balance. In fact, two supplementary budgets in 2007 and one in late July 2008 were enacted by Parliament. The projected 2008 total budget (original plus supplementary) envisages a growth of 28 percent compared to budget expenditure in 2007, which means a significant increase in fiscal space. However, the IMF has ‘warned’ against the excessive relaxation of fiscal policy in the context of the growing inflation and current account deficit. A recent IMF mission to the country suggested that public investment are well-planned and subject to cost-benefit analysis; in this sense, given current macroeconomic conditions and the time it takes to select the best projects, investment is best financed by slowing the recent growth in public consumption (IMF, 2008)

In the second half of 2007 and first half of 2008 external factors had an overall negative effect on the economy, led by the rise in oil prices. The small foreign demand for national products has been exceeded by the significant increase in imports, placing the trade deficit at a historical level of over 20 percent of GDP, which has potentially negative effects on economic growth. Further, increased prices of food and energy caused strong inflationary pressures in the economy in the last quarter of 2007 and in the first half of 2008, further affecting the economy’s external position.
3.1.1. Economic Growth

The country has shown positive economic growth rates, averaging 3.5 percent a year during 2003-2006 (IMF 2008), growing to 5.1 percent in 2007 and showing a positive performance in the first half of 2008, with GDP increasing by 5.2 percent\(^4\), which is in line with expectations. Thus, from a growth perspective, this period has been positive as it has increased employment opportunities, although unemployment remains an important challenge.

The increased GDP growth has been accompanied with important gains in fiscal revenue, contributing to the generation of fiscal space. This has been achieved through strengthened economic activity (real GDP growth) accompanied by increases in tax revenue as a proportion of GDP. Nevertheless, this real rate of GDP growth is still lower than the average for Western Balkan countries, which is estimated at 6.5 percent (Joshua, 2008).

The increase in employment opportunities and greater fiscal space are potentially important for children’s wellbeing and poverty reduction as an increasing number of households have the possibility of accessing job opportunities to reduce the level of income poverty (bearing in mind that adults in 45.9 percent of households under the poverty line were unemployed in 2007,\(^5\) and many of those households have children) and because the government is better able to invest in children, within a responsible overall spending envelope that enables sustainable spending on key priorities.

Nevertheless, the higher labour supply has not yet met demand, so unemployment has remained one of the country’s biggest problems, impacting on the level of poverty. Along with unemployment, there have been increases in the level of inequality, with the Gini Coefficient (measured on scale from 0 to 1) increasing from a level of below 0.3 in 1994 to 0.4 in 2006 (UNICEF, 2007a).

An important mid-term challenge for the country is the reallocation of investments to sectors with productive potential, which can help provide the small open economy with higher competitiveness, lower trade deficit and lower external sector sensitivity (World Bank, 2007 and 2008). The greater contribution of investments to economic growth is positive and in the longer run can lead to increasing the economy’s growth potential.

Potential risks to the economy that require attention include the rapid widening of the current account deficit both in terms of keeping sufficient international reserves, and in maintaining external debt sustainability. This is particularly problematic in the wake of the international financial crisis to the extent that capital inflows are likely to weaken, or that slower world growth reduces exports or remittances. Therefore, the possibility that the wider current account deficit will eventually force significant monetary and fiscal tightening is the main risk to continued strong economic growth (IMF 2008).

3.1.2. Inflation

Since the beginning of 2008 year-to-date inflation has been growing steadily, reaching 10.2 percent in March, fluctuating throughout the period to reach 8.6 percent in August. The largest contribution to inflation is the result of higher prices of food products. In fact, over 86 percent of inflation is the result of the increase in food and energy prices in the domestic market, resulting from a combined influence of higher import prices and decreased domestic supply of foodstuffs – which had to be compensated by a rise in imports of food at higher international market prices.


Additional inflationary pressures in 2008 have come from increased domestic demand. The upward trend in personal consumption corresponded to the nominal growth of salaries in both the public and private sectors. As a result available, nominally higher, household income increased consumer optimism and stimulated the growth of credit.

In this context, it is important to note the influence of the 2008 inflation on citizens’ standard of living. Although nominal salaries have increased for some sectors of the formal population, real salaries have not kept up with inflation, so higher inflation can actually erode real household disposable income, causing deterioration in the average living standard of citizens and potentially pushing some families, including those with children, into poverty. Under these circumstances, the issue of affordability of basic services, particularly for poor families with children, is of concern.

3.1.3. Labour market and wages
Looking at the situation of employment is crucial given the high correlation between unemployment and household poverty. Although improved public spending on social services is one of the ways in which the government can help reduce some of the manifestations of poverty, active policies toward employment generation are also crucial, as they have a role to play in increasing household wellbeing.

The intensified economic growth at the end of 2007 and in the first half of 2008 led to an improvement of the labour market. Demand for labour grew fastest in the agricultural sector as a result of the government’s favourable agricultural policy, including the provision that only registered agricultural producers are eligible to receive subsidies, which has caused very significant increase in the number of “new” employees in the agricultural sector. Other sectors in which employment has increased significantly include mining and tourism.

There was also an increase in average net salaries in the first half of 2008. But the 10.5 percent growth of the average net wage per employee has been offset by high inflation and thus the real impact on citizens’ welfare of the policies implemented during 2007 and in the first half of 2008 has been smaller than expected.

3.2. Political Context

3.2.1. EU Accession
EU integration seems to be a goal shared by all political parties, and in fact articulated as one of the strategic priorities for the new government. The process provides incentives for further economic reforms, improved public financial management (PFM) and for strengthening social inclusion. For example, it can access IPA (Instrument for Pre-Accession) Assistance, which is organised in five components: transition assistance and institution building; cross-border cooperation; regional development; human resources development; and rural development. Funds for institution building and human development in particular can contribute to improving PFM with a potentially positive impact on improved social sector spending.

In particular, the progress toward social inclusion and fulfilment of children’s rights are amongst the EU’s preconditions for accession. As part of the accession preparation process, the country must develop a social inclusion strategy which will feed into its JIM, which should outline the principal challenges facing a country in terms of poverty and social exclusion, presenting the major policy measures taken by each States to start translating the EU’s common objectives on poverty and social exclusion into national policies while identifying the key policy issues for future monitoring and policy review (CEC, 2004). As developed in the

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theoretical framework, as part of the JIM process, the Commission for the European Communities (CEC) has highlighted that the structural nature of poverty and exclusion implies a need for continuity, with child poverty and active inclusion emerging as key priorities in the National Action Plans for Inclusion developed by new member states during their accession process (Ibid). This underlines the relevance of improving child focused policies to promote social inclusion and reduce child poverty, with the roll out of these policies linked to the commitment of public resources for their delivery.

In relation to the country’s progress in the accession process, the European Council granted it ‘candidate status’ in 2005 and it is now participating in the Stabilisation and Association Process (SAP). It has made progress in the implementation of the Stabilisation and Association Agreement (SAA) and the CEC has expressed that it has been with most of its obligations (CEC, 2007). The county adopted the National Programme for Adoption of the Acquis Communautaire in April 2007, with a focus on economic growth, the reduction of unemployment and on improving living standards (Joshua 2008). The revised NPAA 2008 was approved by the Government in March 2008. The programme also provides the basis for preparing components of the EU IPA.

3.2.2 Decentralisation
UNICEF’s Child Poverty Study (2007) points to disparities in access in relation to location, particularly in the case of secondary education and ECD. For example, in urban areas 71 percent of children attend secondary education against 56 percent in rural areas, while 18.5 percent of children between 36 and 59 months participate in ECD in urban areas against only 1.5 percent in rural areas.

The decentralisation process is playing and will continue to play a critical role in the financing and provision of basic services for children, particularly since functions in the three social sectors with more direct impact on children (education, health and social protection) are being decentralised, and it can contribute to improving inequities which reflect historic allocation of resources rather than the realities of the population, particularly of children.

In 2002, the country adopted the new Law on Local Self-Government (LSG); the reform significantly enhanced local competences, especially in education, social and health protection, amongst a few other areas. The 2004 Law on Financing units for LSG provides details regarding fiscal decentralisation and the financing of devolved responsibilities, recognising that new competences require staff, budget, and responsibility at the municipal level. Devolution of these functions is shaping municipal development given the need for the gradual compliance with certain performance criteria to classify for the second phase of decentralisation. According to the law on LSG finance, municipal sources of revenue are: own revenue, transfers from the central budget and funds, and loans. Fiscal decentralisation is moving in phases, so it will take several years until a complete handover can take place (Karajkov, 2006).

Currently, the decentralisation process is implemented according to the Programme for Decentralisation and the Action Plan for Implementation of the Programme for Decentralisation 2008-2010. The Programme and the Action Plan are focused on the improvement of the conditions for realisation of already transferred responsibilities, as well as the transfer of the remaining ones. Their objective is the continuation of fiscal decentralisation, building municipal capacities, preparation of the municipalities for EU accession and enhancing the conditions for inter-municipal cooperation. Assistance to the municipalities that have not qualified for the second phase of the fiscal decentralisation is among the priorities of the Programme for Decentralisation. An important aspect of the Programme is to introduce minimum service standards, which should be determined by the
responsible ministries in the sectors to be decentralised and to adjust the sufficient resources for their delivery to the citizens, analysing the fiscal capacity of each of the municipalities on short-term (Martinez-Vazquez, et al 2007).

There has been a positive trend towards decentralisation, although the process has been slower than originally anticipated. Out of the total of 84 municipalities and the City of Skopje, 59 have met the criteria to start the second phase. This means that municipalities in the second phase start receiving block grants rather than earmarked grants. Earmarked grants are intended for financing a concrete activity, while block grants are aimed at financing the competencies in certain area determined by law, including recurrent costs such as wages. Therefore, block grants will cover the wages and salaries of employees in these sectors in addition to the maintenance cost currently covered by earmarked grants. The transfer of block grants was effective as of January 2008.

Both block and earmarked grants are distributed according to a formula defined by the competent line ministry, approved by the Ministry of Finance (MoF) and adopted through a legislative disposition by the government (Martinez-Vazquez, et al, 2007). Currently, the criteria for the distribution of the earmarked grants should be established annually by the respective line ministries through an ordinance adopted by the Government two months prior the start of the application of the budget circular. However, the actual application of these criteria is not clear because the adopted decrees do not specify the calculation procedures for weights applied to different criteria and sources of data. Improving process to determine and communicate the criteria for the formulas would contribute to the transparency of the decentralisation process.

According to recent analysis by UNDP (Martinez-Vazquez, et al 2007) the criteria in the formula for the distribution of the earmarked grants to primary schools take into account the number of pupils in primary education adjusted for population density, while the earmarked grant for transport takes into account the number of students and the routes’ length. The earmarked grants for secondary schools are distributed on the basis of the number of students in secondary education adjusted for density and the share of student attending gymnasiuems. The Ministry of Labour and Social Policy has set up two earmarked grants for the maintenance of preschools/child care centers and elderly homes respectively located in the municipalities. However, according to a 2005 survey municipalities perceived that the earmarked grant covered costs in the range of 21-40 percent of day care centers expenditures. Thus, on average, the general budgets of the municipalities covered only ten percent of the actual expenses with the rest made up by user fees (60 percent) and earmarked grants (30 to 35 percent). The allocation formula of the earmarked grants for preschools/child day care centers takes into account the number of children in each institution, the expenses per child, the heating period, and the useful space per child in the institution. Block grants have initially been based on calculations for allocations for earmarked grants, with additional resources to pay salaries.

Currently, one of the constraints of the allocation formula for sectoral grants is that generally only takes into consideration the existence of a physical facility and other physical features such as useful space, which gives the formula and anti-rural bias, given that it is in these municipalities where there are less facilities. According to analysis by Martinez-Vazquez (et al, 2007), the assignment of expenditure responsibilities at the central and local levels remains unclear and the system lacks an objective transparent method for arriving to the expenditure needs associated with the assigned competencies. The transfer system does not sufficiently equalize and a formula-driven equalization grant still need to be developed,

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7 2005 is the latest report of such a survey, information from Martinez-Vazquez, et al 2007.
which is problematic because it seems to send the message to local authorities that what counts is the existence of a facility rather than the needs of their constituency. The formula for the distribution of the sectoral grants should be based on potential number of clients and differences in the costs of provision of standardised services and not on physical capacity criteria or outdated historical costs. Thus, in practice this means that municipalities that already have a school or functional preschool/day care centre will continue to receive resources to run them. However, those localities that did not have such facilities, will not receive resources to development, so it will take these municipalities longer to mobilise resources to develop much needed facilities for local children.

The table below illustrates the competencies that are planned to be transferred in the areas of education, social and child protection and health, and the status of these transfers by the end of 2007.

### Table 1. Overview of status and content of transferred competencies in three sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Contents of the transfer</th>
<th>Status of the transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education (dormitories for pupils; primary and secondary schools; transport for secondary school; area units of the Ministry of Education and Science)</td>
<td>Decision-making authority, founding rights of the public institutions; title of immovable goods; employees; working means and documentation.</td>
<td>339 primary schools with around 18,505 employees, 81 secondary schools with 6,655 employees and 25 dormitories have been transferred to the municipalities and the City of Skopje. This includes the title of immovable goods, equipment, inventory, archive, teaching equipment, documentation and other means. The transfer of the movable assets and real estate property of the regional units of the Ministry of Education and Science is ongoing.</td>
</tr>
<tr>
<td>Social protection (elderly homes) and child protection (childcare facilities or preschools),</td>
<td>Decision-making authority, founding rights of the public institutions; founding rights of the public institutions and title of immovable goods; employees; working means and documentation.</td>
<td>Founding rights, 51 childcare facilities with 3236 employees transferred. Title of immovable goods of 33 child day care centres yet to be transferred due to fully or due to partially disputed ownership titles. Founding rights, 3 out of 4 elderly homes as well as the ownership title of movable assets and employees have been transferred.</td>
</tr>
<tr>
<td>Health care (Board of Directors, health prevention and vaccination)</td>
<td>Decision-making authority</td>
<td>Decision-making authority</td>
</tr>
</tbody>
</table>


In addition to block and earmarked grants, according to the Law on Financing of the Units of Local Self-Government (Art 11) capital grants from the competent line ministries are to be used to finance municipal investments (capital spending). Some line ministries (for example, the Ministry of Education through its Department of Investments) disburse capital grants for financing municipal investment programmes. The investments are provided on the basis of programmes identified by the competent line ministry, reflected in its budget and determined annually for selected municipalities.

As municipalities enter the second phase of decentralisation, undertaking local level budget and expenditure analyses will be crucial to understanding what is happening to child-focused...
social services that have been transferred to LSG units. At the moment, however, there is no data across municipalities that would enable such analysis.

Lastly, with the onset of the second phase of devolution, strengthening the capacity for local governments to engage in effective planning and implementation of social sector programmes in paramount. Part of this capacity building should include the sensitisation of the need for child-focused planning and what this means in practice. Some organisations such as UNICEF have already started fostering such work in the context of the child-friendly municipality project, but there is a need to roll out such initiatives more widely to ensure that local governments develop the interest and capacity to prioritise children in their budget planning process, not just in terms of block grants for education and social protection, but so that a part of local revenues are also used to finance or complement fundamental services for children, which can facilitate the fulfilment of their rights.
4. Analysis of the budget process and public financial management

This section will provide an overview of the budget cycle in the country, with timelines and the stakeholders involved at the different stages of the process with the aim of pointing out the different moments in which influencing the budgetary process can have the most impact. It reflects on the opportunities presented by the country’s multi-year fiscal strategy to achieve more strategic objectives as well as some of the constraints in its roll out to annual budget plans.

This section will also include a brief look at the efforts toward PFM reform that have been undertaken in the country with a particular focus on chid-related sectors, starting with an analysis of how the budget process in the three key sectors is currently elaborated (is it needs based or does it correspond to a historic allocation of funds to the sector?), how this process takes into consideration policy commitments, sector strategies and annual plans and some of the constraints – such as poor capacity and insufficient human resources - that have been identified in order for the budget process to address the child-related development objectives of those sectors. In the context of reform, three projects are currently being undertaken, with the support of donors (mainly the World Bank) to improve the performance in education, health and social protection, improving the efficiency of the systems and the effectiveness of expenditure.

4.1 The budget process
The budget process or budget cycle is made up of four main stages:
• Budget formulation
• Budget enactment
• Budget execution
• Budget auditing assessment

Stage 1: Budget formulation
The budget plan is put together by the executive branch of government.

Stage 2: Budget enactment
The budget plan may be debated, modified, and approved by the legislative branch of government.

Stage 3: Budget execution
The policies of the budget are carried out by the government.

Stage 4: Budget auditing assessment
The actual expenditures of the budget are accounted for and assessed for

Budget formulation
The preparation of the central government’s budget (the budget) is performed based on: (i) a general macroeconomic framework; (ii) projections of macroeconomic aggregates for the year for which the budgets are prepared that identify, amongst other, the budget ceiling; and (iii) the three year Fiscal Strategy prepared by the Ministry of Finance. The responsibility for the preparation of the budget proposal and for its submission to the government belongs to the Minister of Finance.
The budget cycle starts with a proposal, prepared by the MoF, of the directives and objectives of fiscal policy for that fiscal year, as well as of the main categories of the estimated revenues and expenditures for the following budget year. These are submitted to the government in April. Based on the agreement of general government positions, the Minister of Finance prepares a budget circular that includes the main directives for preparation of the budget, and which is submitted to the budget users\(^8\), the units of local government and the Funds. The circular includes a timeline with all the activities and tasks to be carried out during the fiscal year; the basic economic assumptions and guidelines for preparation of proposal of central budget, the government priorities in the period for which the budget is prepared, the methodology for preparation of the users’ budgets (key parameters, procedure and time period for preparation of the budgets), as well as indicative total expenditures for each user (or budget ceiling), which include the proposal for budget estimate for the categories of expenditures.

According to the budget circular the budget users prepare a proposal for the budget calculation, which must be submitted to the MoF by June 15\(^{th}\) each year and, which consists of: (i) review of the activities and tasks to be carried out during the fiscal year (program activities); (ii) estimate of the expenditures for the fiscal year, according to expenditure items and sub-items; (iii) estimate of the expenditures for the following two fiscal years, according to expenditure categories, sub-categories and items; (iv) review of required expenditures for necessary labour force for execution of the users’ functions; (v) proposals containing future liabilities or expenditures for several years, including investment projects, presented separately; and (vi) estimate of expenditures paid out of the revenues generated through self-financing activities (such as the collection of user fees) by expenditure items and sub-items. In addition to the budget calculation the budget users submit an explanation, which consists of: (i) presentation of the objectives, strategy and the programs for separate areas for budget users; (ii) legal and other fundamentals for the presumed strategies and programs; (iii) explanation for the presumed expenditures by positions; and (iv) report on the achieved objectives and the results from the strategies and the programmess for the first half of the current year.

The procedure continues with a valuation by the MoF of the budget users’ proposals in terms of efficiency, priority and rationality, which can make adjustments in terms of the funds needed for their implementation. Based on the adjustments made to the users’ budget proposals, the MoF prepares a Proposal of the State budget together with an explanation, which also includes: (i) the macroeconomic parameters for the following fiscal year; (ii) the limits of estimated revenues and expenditures for the following fiscal year; (iii) the data on the requests submitted by the users; (iv) the different stands in the negotiations; and (v) the general data on the planned revenues and expenditures created through self-financing activities. The MoF submits the State Budget Proposal to the Government at the beginning of October.

The Government discusses this budget proposal and can make some final adjustments before submitting it to Parliament for adoption no later than the middle of November.

The Budget Proposal consists of: (i) balance of the budget revenues and expenditures (with revenue items and expenditure items; (ii) functional classification of the expenditures; (iii) expenditures presented by organisational code; (iv) separate part for each budget by users (including their expenditures generated in the previous fiscal year, approved and audited expenditures for the current fiscal year, estimate of the following fiscal year presented by the economic and programme classification and estimate of liabilities for the following two years presented at the level of subcategories); (v) estimate of the maximum amount in which

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\(^8\) Budget users are defined by law as the users of funds from the State Budget, including legislative, executive and judicial authorities.
borrowing is allowed and guarantees issued during the current fiscal year; (vi) borrowing limits for the local government units in the current fiscal year; and (vii) proposals on the possible ways to cover the budget deficit of the State Budget.

There is some scope at this stage for budget users to make observations on their proposed budget and for some intra-governmental negotiations to take place, although decision over the final budget proposal to be sent to Parliament is made by the MoF and the Prime Minister.

**Budget enactment**
It is during this process that there is greater scope to influence the budget proposal, as the parliamentary commissions corresponding to the different sectors must analyse and discuss the budget proposal and can propose amendment which must be negotiated with the government before being voted. Through work with Parliament and key budget stakeholders in the period between mid November and mid December, civil society, budget users and other relevant players can suggest the reassessment of certain budget categories. The potential to influence this process can be strengthened by using robust evidence that provides a rationale for the need for budget revisions. This PER, for example, intends to provide such evidence.

After discussions and negotiations within Parliament and with the government, a final budget proposal is agreed upon and voted by Parliament.

**Budget execution**
The approved budget is then executed during the following fiscal year by the different budget users: executive (at the central and local levels), legislative and judiciary.

**Budget auditing assessment**
A very important part of the budget process that takes place during the fiscal year after budget execution is the budget audit, which is undertaken by the State auditing body and sanctioned by the Parliament, to verify the adequacy of use of public funds.

Expenditure ceilings determined within the annual budget document are considered maximum, and no further liability may be taken above them. Additionally expenditures in the budget have to be accompanied by measures that will increase the proposed revenues or decrease other expenditures by the proportional amount. Budget users are obliged to keep records and submit data for the status of the arrears on a regular basis. All budget users and spending units are obliged to report the commitments in order of their recording in the single commitments database at the Treasury. For covering of unexpected requests for expenditures which may arise during the budget year up to 3% of the total current and capital expenditures is allocated as budget reserves.

During some fiscal years in which macroeconomic and fiscal conditions are different from those projected, including higher or lower than expected level of economic growth, higher or lower levels of fiscal revenues and/or the need for contingent expenditure, a revised budget can be developed by the MoF, usually half way into the fiscal year. The process is similar, whereby proposals by the MoF must be presented to the Government for agreement and then to Parliament for approval and adoption. In 2008, for example, positive growth and larger than projected fiscal revenues resulted in the development of a supplementary budget. These additional resources were given to several priorities, some of them relevant to the development of children, for example to strengthen the system for compulsory secondary school; the full implementation of the ‘one computer per student’ project, and a supplementary allocation of 100 million denars to provide free textbooks to vulnerable children. However, resources were also reallocated away from other areas of relevance to children, for example, funding for 20 day care centres for children with disabilities and some
of the funding that had originally been allocated to promote the inclusion of Roma children in pre-school education (Authors interviews, July, 2008) two issues which feature importantly in the law for child protection.

This suggests that advocacy efforts to influence the budgetary process in favour of children need to take place at different stages of the budget process, from ensuring children’s policy is mainstreamed into budget preparation, then engaging in advocacy during the period of enactment of the original budget between November and December of every year, and also it is important to look at the plans for revised budgets, if they are likely to take place, midway through the year.

4.2 Overview of PFM

Reviewing the public financial management (PFM) situation is important in light of the interest to ensure that the country is harnessing all available resources towards realising children’s rights. In this sense, the realisation of the government’s work programme and the National Programme for Adopting the Acquis Communautaire provide entry points for policy dialogue on a PFM review aimed at improving and strengthening policy development, public financial management and governance systems for investing in children that accords with maintaining aggregate fiscal discipline\(^9\), and improving allocative\(^{10}\) and operational efficiency\(^{11}\) (Joshua, 2008).

In 2003, the Government introduced a fiscal adjustment programme. The public expenditure to GDP ratio declined in each year, and fell from 44 per cent of GDP in 2001 to 34 per cent in 2006. Over the same period, the sustainability of public debt improved with a fall from 49 per cent of GDP in 2001 to 34 per cent at the end of 2006. However, the fiscal adjustment was accomplished through expenditure cuts rather than through increases in revenues (IMF, 2007), although recent reform to the tax system has generated higher than expected fiscal revenues in the past year as a result of higher tax efficiency.

Demobilisation of army and police reservists and declining purchases of military equipment generated large savings in 2002 and 2003 (World Bank, 2008). Thereafter, expenditure cuts were more broadly spread. The decline in public consumption between 2003 and 2006 reflected reductions both of the wage bill and outlays on goods and non-labour services. Capital expenditure, already modest by regional standards at about 4 percent of GDP, was cut to about 3 percent of GDP by 2006 (ibid).

According to the World Bank’s (2008) recently published public expenditure review, while the level of fiscal deficit and public expenditures favourably positions fiscal policy to support growth, a deeper look at the outcomes of public spending in key sectors indicates that reform needs to continue in order to better support economic growth and EU accession. The composition of expenditure has not been as supportive of growth as in other countries in the region. While total spending in percent of GDP is around 90 percent of the average of other countries in South East Europe, spending on capital expenditures and maintenance is among the lowest in the region; outlays on wages on the other hand are somewhat higher than regional comparators.

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\(^9\) Agile aggregate fiscal discipline is concerned with the overall management of total spending and total income – which requires effective macro-economic forecasting and revenue administrative functions. In practice, sectoral policy issues have limited impact at this level.

\(^{10}\) Allocative efficiency is concerned with broad allocations of resources between sectors and ministries – thus greater resources for child-relevant policies require action at the overall allocation level and on spending plans within ministries.

\(^{11}\) Operational Efficiency - is concerned with supporting the right combination of people, process, and technology to enhance the productivity and value of public policy measures, while driving down the cost of routine operations to a desired level. The end result is that resources previously needed to manage operational tasks can be redirected to new, high value initiatives that bring additional capabilities.
Further, this World Bank analysis (2008) indicates that over the last few years, expenditures on goods and non-labour services have been lower compared to most countries in the region, which has led to a deteriorating quality of public assets such as roads, schools, and hospitals, as well as a deteriorating quality of public services provision. The Public Investment Program has lacked proper prioritisation of projects, monitoring is weak and linkages among sector strategies are almost non-existent. As a result, execution of projects has been frequently delayed with completion ranging from 70-80 percent of the budgeted amounts. A functional review of Government expenditures carried out in the context of the World Bank’s PER also revealed concerns about the country’s expenditure pattern. The country has the highest security-related expenditures as a share of GDP in the region, therefore peace could provide the opportunity to reallocate public resources to more productive areas (World Bank, 2008).

According to the World Bank’s comparative analysis, at approximately 8.7 percent of GDP\textsuperscript{12}, the country’s spending on health is higher than most countries in the region, for example, Croatia spends under approximately 7.5 percent of GDP on health, and much higher than the average for lower middle-income countries and/or countries with the same level of income per capita, for example Peru, which spends 4.4 percent on GDP on health.\textsuperscript{13} However, general dissatisfaction with the health system has been high and health outcomes lag most EU countries. Public spending on education as a share of GDP is also higher than most countries in the region, however despite this level of spending, student achievement is poorer, hindering prospects for productivity. With outlays on social security and welfare amounting to about 11.4 percent of GDP, the country ranks in the lower part of the distribution among the countries of the region. Pensions dominate this category, accounting for 8.8 percent of GDP, broadly in line with similar countries in the region; progress has been made on pension reform (World Bank, 2008).

According to the Program of the Government 2006-2010, one of the aims is to reduce public expenditure share in GDP by 2 percentage points, while tackling fiscal pressures, which would in principle require a combination of cuts in some categories of existing spending and spending restraint in others. However, strong GDP growth combined with positive revenue performance since 2007 has relieved some spending pressures, actually resulting in a significant increase in government spending (which is not regarded by observers, including donors, as the best approach in a context of vulnerability to external financial risk)\textsuperscript{14}.

In this context, the implications for child-focused spending in the sectors under focus (education, health and social protection) are related to the need to maximise efficiency outcomes within existing sectoral spending envelopes by looking at ways in which spending can be made more child-focused and more effective, and more clearly aimed at promoting higher quality and more equitable spending in the sectors.

Current situation
The series of interviews with stakeholders in the different sectors for the purpose of this research revealed that until this year, programme and budget planning processes across the different sectors had been weak. To reinforce this observation, the CEC’s latest progress report states that “the quality of public finances continues to be hampered by weaknesses in medium-term budgetary planning and priority setting, leading to a high proportion of discretionary and short-term spending decisions” (CEC, 2008). No real strategic planning

\textsuperscript{12} Data includes the estimates of public expenditure (government budget and Health Insurance Fund) and private expenditures.

\textsuperscript{13} Figures from World Development indicators 2002-2004, as cited in World Bank (2008)

\textsuperscript{14} For example, see Statement by the IMF Mission to FYR Macedonia, September 22, 2008 http://www.imf.org/external/np/sec/pr/2008/pr08214.htm
had really been undertaken until the 2009 budget process, in which some dimensions of results-oriented planning have begun to be reformed. Budget allocations were typically based on historic allocations to the sub-sectors without a real reflection on need, efficiency or how to achieve outcomes through better spending. In the context of decentralisation, a clearer definition of roles and responsibilities, the development of new planning mechanisms and building skills and capacity of national and local decision-makers and implementers, are increasingly necessary.

The implementation of modernisation and reform programmes in each of the sectors under analysis: health (Health Sector Management Project), education (Education Modernization Project) and social protection (Social Protection Implementation Loan or SPIL) – all of them donor funded - has had at least one component focusing on improving management, planning efficiency, implementation capacity, monitoring and evaluation and to promote greater effectiveness in the use of resources in the sector. This aims to maximise the potential for local institutions and their functionaries to achieve goals and objectives in each sector without putting additional pressures on public funds. While this investment in better management systems and capacity building are very positive, it is important for planning to include provisions for continued nationally funded investment in maintaining these systems in the future, beyond the scope of these donor projects.

In light of this ongoing reform process, it is a good to moment to analyse child-focused expenditure in these sectors, focusing primarily on dimensions of quality of services and equity in access, that can ensure that children’s rights are progressively realised through adequate and effective investment by the State.
5. Sector analysis

This section provides an analysis of budget allocation and budget expenditure data for the social three sectors with greatest impact on children: education, health and social Protection. The following are common elements of the analysis in each of the sectors:

i) A look at trends in expenditure over the last five years in each of the three sectors, with a particular focus on areas that have an impact on children.

ii) Inter-sectoral composition of spending that will enable an analysis of investments in quality, in equity and in achieving strategic sectoral objectives in relation to children.

iii) When relevant, looking more deeply at the divergence between budget allocations and expenditure as a proxy of expenditure efficiency to identify potential bottlenecks in particular areas which might suggest problems in expenditure efficacy.

In addition to these general elements which are analysed in all three subsections, there are some sector-specific issues that require additional examination. This means that the three sections are not all approached in the same way, as the analysis aims to shed light on specific areas of interest in each of the sectors. Additionally, not all issues identified will be analysed in depth within the scope of this study, but the level of analysis and sources of information will be clearly indicated to allow for follow up research.

5.1 Education

The Government has recognised education as one of the “basic impetus for economic development”\(^\text{15}\) and as such has committed to increasing investment in the modernisation of education. In fact, in its new programme for 2008-2012, investment in education has been recognised as a strategic priority to create “strong individuals and strong state”. The government also acknowledges problems in learning achievement, for example, its 2007-2009 National Development Plan explains that courses and curricula at all levels of schooling are “obsolete”, and only recently being modernised. As detailed in the theoretical framework, fostering equitable access and increasing quality of education contribute positively to the development of the country’s human capital. However, despite government efforts to increase financing to the education sector, many of the policy measures and programme interventions that the government has proposed to deal with poor educational outcomes are not in line with international standard practices of quality improvement and/or not address the root causes of low quality learning, which raises questions about the cost-effectiveness of current investment of public funds in such schemes. This will be explored in more detail below.

The first part of the analysis in this sub-section focuses on the trends in expenditure on education over the period 2003 to 2008, while the second part provides an analysis of spending within the sector looking specifically at issues of quality, equity and investment in early childhood education.

In line with its pledge to increase total expenditure to 5 percent of GDP, as of 2008, total budget allocations to the sector are 5.6 percent of GDP. This figure is higher than the average public expenditure on education by OECD, which is 5.4 percent of GDP\(^\text{16}\) countries and shows an improvement with respect to previous years:

\(^{15}\) Programme of the Government of the Republic of Macedonia, 2006-2010

Table 2 illustrates the trends in expenditure on education in nominal terms (millions of Euro), as a share of the total government’s budget and as a share of GDP in the period 2003 to 2008. It is worth noting that:

- Nominal expenditure on education has been growing significantly since 2006. However, although the share of education in the total budget has also been increasing since 2005, it has done so at a slightly lower rate, partly as a result of the government’s total budget envelope growing at a more rapid pace.

- It is estimated that in 2008 education expenditure will be close to 15 percent of total expenditure. These figures are above those of more developed countries, with OECD average expenditure on education at approximately 13.5\(^\text{17}\) percent of total expenditure. This is an improvement with respect to pre-2006 levels of education expenditure.

- Although current growth perspectives are favourable for the country, partly as a result of the government programme’s focus on growth promotion, it is crucial to ensure that levels of spending on education are not affected if the rate of economic growth declines, which is a risk in the context of the negative economic international outlook.

- Out of total spending on primary and secondary education, which together make the largest share of expenditure in the sector (approximately 62 percent), most funds go to payment of salaries, allowances and contributions (including contributions to the pension and health insurance fund, amongst others), essentially for teachers. In 2005, 85 percent of total primary and secondary expenditure went to salaries, and in 2006 it was close to 95 percent. According to expenditure data, in 2007 83.5 percent of resources for primary

\(^{17}\) OECD Education at a glance statistics, 2007. Average is for 2004
and secondary education went to salaries and contributions, although a few municipalities had moved into the second phase of decentralisation so corresponding wages had been transferred, suggesting that the figure in 2007 was above 83.5 percent. In 2008, with the significant devolution of funds, it is difficult to determine the share of resources going to salaries given that data on transfers to LSG Units does not have this desegregation, but the figure could have increased given that, according to recent data, the number of teachers for primary and secondary schools has been increased by 1.5% and 2.5% respectively in 2008 (CEC, 2008). The World Bank’s PER (2008) showed that the wage bill for education is larger as a proportion of spending than other countries in the region, which is problematic given that the number of students in schools is actually going down and that there are multiple competing demands in education, mainly those related to investment in quality of education.

Recent findings on education expenditure effectiveness

In the public expenditure review published by the World Bank at the beginning of 2008 (World Bank, 2008), education was featured as one of the areas for in-depth analysis. It identified some very significant findings with regards to expenditure effectiveness, recognising that although resources for education are in line with other similar countries in the region, outcomes are particularly bad. In fact, the study suggests that poor learning outcomes are one of the factors that have contributed to sluggish economic growth and high unemployment, which is evidence to support the thrust to improve investment on quality of education by identifying some of the causes of poor educational results. These are some of the review’s most salient findings, which generally focus on rationalization of services and cost-effectiveness:

- The education sector has an adequate overall level of resources, but they are used unproductively, resulting in poor learning outcomes.
- Some of the causes suggested for poor educational outcomes are the insufficient instructional time, low level of spending on key quality inputs, and the 'tracking' system under which students at the end of primary education need to decide whether to attend general or vocational secondary schools.
- Students at the primary level receive fewer compulsory instructional hours per year than the average student in the EU. The low instructional time is the result of a combination of double-shift schools, mandated few classes and short length of lessons.
- While primary enrolment is in line with levels in the EU, secondary enrolment is well below EU averages.
- The wage bill in the sector is higher as a proportion of spending than in other countries. Further, increases in the share of the wage bill at the primary level at a time when student numbers are decreasing is seen as problematic.
- After wages, the largest share of outlays is dedicated to utilities, transport and contractual services rather than on inputs to improve the quality of education such as books and teaching and learning materials.
- Disparities in spending across municipalities are a result of budgetary allocations that have not kept pace with local student population dynamics. Additional important contributing factors include an inequitable distribution across ethnic groups and social status.

In line with its findings, some of the proposed recommendations by the Bank’s PER related to improved investment in primary and secondary education are:

- Declining school-age cohorts over the next decades present an important opportunity to reallocate expenditures to more efficient uses while raising enrolment rates.
• Increasing hours of instruction for primary students (grade 1-4). A first positive step already taken was changing the lesson duration back to 45 minutes. A challenge to increasing instructional time is making the changes to the number of hours per day full-time teachers spend teaching without increasing the wage bill.

• Ensure that reforms already in progress, including decentralisation and changes in the way schools are financed help move toward a more equitable distribution of resources and create stronger incentives to improve the efficiency and outcomes of spending.

• Allocations must be based on a formula linked primarily to the number of students in each municipality, though it would be possible (and expected) to include some modifications to reflect the higher cost of education in rural jurisdictions, helping address a key inequity in the current system. The actual formula is mainly based on the number of students per school, and is problematic as only considers existing school facilities rather than needs for additional school infrastructure.

• It is paramount to increase access to learning materials and improve teacher training. Increase the use of information technology in the learning process, is also relevant and can ensure that the purchase and use of computers is seen as a part of the fundamental reform of teaching.

• Public resources should be used to increase poorer households’ demand for education by reducing the cost burden of education.

The analysis of child-focused expenditure in education presented below builds on the findings above, looking in more depth at dimensions of education quality and equity that are being addressed or could be more adequately addressed through improved expenditure in order to ensure better educational outcomes for all children and youth, including the most vulnerable. The analysis is based on policy priorities in the country’s education sector, some existing constraints to achieving them and some alternatives based on good practice models.

Child-focused education priorities in key policy documents
In order to see to what extent current composition of child-focused expenditure on education corresponds to identified policy measures, we briefly look at what these policies are:

Programme of Government, 2006-2010
The Programme of the Government 2006-2010 included the following child-focused education policies and reform measures:

• Increase of the budgetary funds for education to 5 per cent of GDP, following the EU and OECD average.

• Free-of-charge primary school textbooks for families who cannot afford purchasing new ones.

• “Every child goes to school” Program. Mandatory primary and secondary education with serious penalties for parents whose children do not go to school.

• Introduction of IT as a mandatory school subject in primary schools and full computerisation of schools, which is illustrative of the current conceptualisation of ‘quality’ in education.

Other education policies included in the programme are related to tertiary, technical or higher education, with a clear focus of targeting educational development to labour demand. It is worth noting that amongst the child-focused education priorities, there is no emphasis on improving quality (other that through IT).

Although the National Strategy for the Development of Education (NSDE) was made to guide the long-term vision of educational development, since it was developed by the previous administration, it is not fully ‘owned’ by the government and thus does not guide all education
policy decisions. However, no new education policy has been developed to substitute it and it includes important principles related to education quality and equity, some of which have been followed. The NSDE sets out the framework for decentralisation of primary and secondary education, outlining what areas will benefit from being devolved and which should remain under central control. Decentralisation of education is seen as being potentially beneficial for educational outcomes as long as adequate quality control mechanisms are in place at the national and local levels to guarantee quality, as well as ensuring that decentralisation brings about more equity in the distribution of education resources. It identifies the following priorities:

**Quality and Equity**

- Raising the education level of all young people and adults by increasing the effectiveness and quality of the educational institutions and building mechanisms for detection of children who are not included in the educational processes, and their inclusion or re-mobilisation.
- Building effective schools by increasing school quality, with indicators including better school infrastructure, quality of teaching, qualifications of the teaching staff, management and cooperation with the local community.
- The Ministry of Education and Science (MES) will take measures to control and guarantee the quality of the education system. For this purpose, the National Education Inspectorate (NET), the Pedagogical Institute (PI) (currently the Bureau of Educational Development) and the National Examinations Centre (NEC) will play the key roles in this process.
- Introducing new information technology in the education system in order to provide computer literacy of the young for a community saturated with new information technology.

**Early Childhood Development (ECD)**

- Enlarging the intake of children at pre-school age was articulated as one of the NSDE’s priorities, particularly for children from minority ethnic groups, who are least included in the different pre-school forms of education.
- MES shall take steps to include pre-school education in its sector, as it currently is under the responsibility of the Ministry of Labour and Social Policy (MLSP).
- In collaboration with the MLSP, activities for improving the quality of pre-school institutions and their attractiveness will be undertaken.
- Lengthen the duration of compulsory education to nine years, through the inclusion of one pre-school year.

**New Primary and Secondary Education Laws**

The main characteristics of the new primary and secondary education laws, which have been recognised by authorities in the education sector as the basis for the education strategy in the following years (authors’ interviews, July, 2008), include:

- Compulsory primary education in duration of nine years for all children from 6 to 15 years of age.
- Non-discrimination on the basis of sex, the colour of the skin, nationality, social, political, and religious status in primary education.
- Care for pupils with special education needs.
- The introduction of compulsory secondary education for all children
- Promote higher standards of achievement and improved quality of learning and teaching for children and young people who express more knowledge and capacities.

There are some similarities in the policy measures identified by the different strategic documents, with the NSDE being more specific with regards to the need to improve quality and mechanisms to achieve it, including more investment in preschool. This was echoed in the Primary Education Law through the introduction of an additional year of preschool. The
The government has recently approved the proposal to make secondary education compulsory. The main thrust of the government’s 2006-2010 programme was the introduction of IT technology in schools, with less emphasis placed on other dimensions of quality development.

The analysis below aims to identify linkages between the policy actions identified above and education expenditure. However, only in the case of the laws of primary and secondary education (approved after the budget was enacted) is there a link between aims and costs as a result of the recently introduced obligation for all laws presented to parliament to have fiscal justifications.

The lack of outcome-based budgeting in education – at the national and local level - poses a significant problem with respect to strategic planning, hindering the potential for budget resources to adequately fund identified priorities. In fact, the 2008 EU progress report (CEC, 2008) highlights that the efficiency of public spending on education and the quality of education still leaves room for improvement. The analysis of expenditure presented below looks at general patterns of spending rather than budgeted amounts to specific activities given that there are no benchmarks in policy documents for expenditure targeted to specific objectives nor does MES produce annual operational plans systematically to verify what the adequate level of allocations should be in the sector according to priorities. As decentralisation moves forward, results oriented budgeting by local governments would be a way to increase the effectiveness in the use of block grants to education.

**Intra sectoral expenditure composition**

Having looked at the overall trends in education expenditure, figure 2 below shows the changes in the composition of education expenditure from 2005 to 2008. Primary education expenditure showed a relatively constant level of expenditure from 2005 to 2007, the reduction in allocation to primary education in 2008 is the result of the majority of municipalities having moved to the second phase of the decentralisation, which entails the transfer of wages and salaries as part of the block grant. This is clear in the significant increase in the budget allocated to the ‘transfer of competencies to the units of local self-government’, which as of 2008 are responsible for primary and secondary education in 59 out of the 84 municipalities in the country.

**Figure 2: Composition of spending within the education sector**

![Figure 2: Composition of spending within the education sector](image-url)

Figures for 2005-2007 are for expenditure (budget execution). Figure for 2008* is budget allocation.

**In 2008, the budget allocated for secondary education (added in the July revised budget) includes resources for implementing compulsory secondary education.**
The nominal amount of resources going to higher education and science increased in 2008, as seen by the rise in ‘others’ in figure 2, but given the overall increase in resources to MES, as indicated in table 3 below budget allocations to those components actually decreased as a share of budget allocations to MES, from 33.1 percent in 2007 to 32.02 percent.

Table 3 presents data on budget allocations according a classification of ‘child-focused’ and ‘others’ educational expenditure, with items considered ‘child-focused’ as those most directly impacting on the education of children 5 to 18, attending primary and secondary school with data for the MES only (does not include the Bureau of Education Development, which is not part of MES’s budget). Table 3 includes ‘administration’ given that these are resources used for all the different sub-sectors and resources transferred to LSG units since they are now responsible for primary and secondary education.

Total budget for education has almost doubled in nominal terms between 2003 (220.9 million Euros) and 2008 (347.5 million Euros). The data presented in table 3 shows that the bulk of resources in the sector (approximately 68 percent in 2008) are allocated to ‘child-focused’ programmes, with primary education receiving the most resources (33.76 percent prior to devolution of resources for payment of teachers salaries to LSG units in 2008). As explained for figure 2, the transition of a large part of municipalities into phase two of decentralisation is illustrated by the significant decrease in the budgets of primary and secondary education and the corresponding increase in the budget for ‘transfer of competences to LSG units’. This trend will continue in 2009 when most local governments move to phase two. The total budget allocated for construction and reconstruction activities in 2008 increased with respect to expenditure in 2007, from 1.65 to 4.31 percent of MES’s budget.

Table 3: Child-focused Budget Allocations within the Ministry of Education and Science (share of total MES budget allocations)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>1.33</td>
<td>1.15</td>
<td>1.00</td>
<td>1.25</td>
</tr>
<tr>
<td>Primary education</td>
<td>38.54</td>
<td>37.58</td>
<td>33.76</td>
<td>14.51</td>
</tr>
<tr>
<td>Construction of primary schools</td>
<td>0.74</td>
<td>0.56</td>
<td>0.73</td>
<td>0.47</td>
</tr>
<tr>
<td>Reconstruction of elementary schools</td>
<td>0.52</td>
<td>0.51</td>
<td>0.34</td>
<td>2.17</td>
</tr>
<tr>
<td>Finalization and reconstruction of “Skender Beg” elementary school</td>
<td>0.00</td>
<td>0.00</td>
<td>0.02</td>
<td>0.65</td>
</tr>
<tr>
<td>Secondary education</td>
<td>19.50</td>
<td>16.24</td>
<td>12.84</td>
<td>4.57</td>
</tr>
<tr>
<td>Finalization of construction of the “Zef Ljush Marku” school</td>
<td>0.41</td>
<td>0.23</td>
<td>0.02</td>
<td>0.40</td>
</tr>
<tr>
<td>Construction and reconstruction of secondary schools</td>
<td>0.69</td>
<td>0.70</td>
<td>0.49</td>
<td>0.61</td>
</tr>
<tr>
<td>Pupils standard</td>
<td>2.50</td>
<td>2.07</td>
<td>2.25</td>
<td>1.46</td>
</tr>
<tr>
<td>Reconstruction of the pupil dormitories</td>
<td>0.06</td>
<td>0.02</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Construction of school sports facilities</td>
<td>0.01</td>
<td>0.00</td>
<td>0.03</td>
<td>0.00</td>
</tr>
<tr>
<td>Transfer of competences to LSG units</td>
<td>2.43</td>
<td>6.05</td>
<td>13.66</td>
<td>38.00</td>
</tr>
<tr>
<td>Education modernization program for the elementary education</td>
<td>0.00</td>
<td>0.81</td>
<td>1.08</td>
<td>1.12</td>
</tr>
<tr>
<td>Education modernization program for the secondary education</td>
<td>1.58</td>
<td>0.28</td>
<td>0.54</td>
<td>0.65</td>
</tr>
<tr>
<td>Decade of Roma</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.03</td>
</tr>
<tr>
<td>Compulsory secondary education</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>1.11</td>
</tr>
<tr>
<td>Construction of sport facilities in secondary schools</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>
Although resources for primary and secondary education will be entirely devolved, the central MES will continue to undertake functions such as defining education policy, curriculum development, inspection and evaluation of quality of education, support for specialised schools for disabled children and the roll out of flagship projects until they are fully integrated into the education financing structure at the local level. This is the case of ‘one computer for every child’, which is currently funded by the State but eventually its maintenance cost will need to be covered by LSG units resources. This raises a potential concern given that LSG units already have limited funds to carry out their devolved functions (Martinez-Vazquez, et al, 2007), with low levels of fiscal revenue to complement transfers from the centre, so the sustainability of the programme would depend on the continued availability of support from the central government, at least in the short and medium term.

### Spending on identified policy measures

Increased expenditure on education has been distributed differently across sub-sectors, with significant attention to the government’s flagship programme *One Computer for Every Student*, aimed at increasing computer literacy for students in primary and secondary school. Other new focus areas that have absorbed a significant share of resources, including the introduction of compulsory secondary education and the nine-year compulsory primary cycle, which has incorporated one year of pre-school. Although these are good initiatives in themselves, it is important to analyse them in a context of poor performance of educational outcomes over the past few years, as shown, for example by international standard evaluations on literacy and numeracy skills (PIRLS and TIMSS), in which students have fared poorly. In this sense, addressing some of the identified causes of inadequate educational performance can be a more cost-effective way to invest additional resources on education in order to ensure an impact on the educational level children and youth, and therefore on their capacity to progress in schooling, secure a job or on their future productivity. This is explored in more detail below.

#### One computer to every student

One of the government’s objectives with respect to investing in education in the past 2 years has been to increase the relevance of the curriculum by introducing the programme ‘One computer to every student’ which provides computers to primary and secondary schools, with an initial thrust covering two thirds of total needs for computers in schools, and which, according to the 2008-2012 government programme, is to achieve full coverage in 2008. The aim of this programme is to use computers as tools in the teaching process and is to be supported through teacher training and curriculum development to make this new knowledge amenable to students – this is currently being undertaken by the Bureau of Education Development, which as seen in the analysis below, is receiving more resources this year than in the past. Although this project has received partial financing from donor funds, a significant share of the MES’s budget has been allocated to finance it. The evolution of budget allocations to capital expenditure in the primary and secondary education budgets provide a sense of the prioritisation of investment in this programme given the increasing amount going to the purchase of IT equipment. Total budget allocation to capital expenditure for primary and secondary education went from approximately 1.937 million Euro in 2006 to 14.366 million Euro in 2007 and to 24.073 million Euro in 2008. This means that the share of the budget allocated to capital expenditure for primary and secondary education as a share of total budget allocations to the MES went from 0.9 percent in 2006 to 6.9 percent in 2008. While this illustrates the government’s drive to achieve its flagship plan for computer literacy, it is important to examine this in light of progress in investment in other key areas of quality of education, which have not received similar priority.
Compulsory education
The policy proposal to extend compulsory education to nine years by including one year of preschool expressed in the Primary Education Law is being implemented by the government from the beginning of the 2008 school year and has resulted in the allocation of additional resources to primary education, as identified in the Law of Primary Education’s fiscal plan. These additional resources are supposed to include funds for additional teachers’ salaries, teacher training on early childhood development, as well as the running costs for the additional school year, although given that data for primary education expenditure is not presented according to sub-programmes and that the decision over the use of block grants for education is made according to LSG units’ criteria, it is not possible at this stage to identify what proportion of resources will be granted to preschool spending. It would be useful for LGU to record and publish this information.

Compulsory secondary education was introduced in the government’s 2006-2010 programme. While its objective is to increase the transition rate between primary and secondary education, as well as raising the education level of students to better prepare them for the labour market, it requires significant investment in different areas: (i) in infrastructure to guarantee access for all while ensuring the length of school lessons provides quality learning, which might require additional infrastructure to avoid double and triple shifts in school; (ii) in teacher training; (iii) curriculum development; and (iv) teachers’ salaries. These additional resources should be reflected both in the MES’s budget as well as in the bodies responsible for supervising quality. The 2008 budget includes specific provisions of 3.9 million Euro for promoting compulsory education and 3.5 million Euro to develop sport facilities in secondary schools; together this is equivalent to 2.1 percent of the total MES’s budget, which are in addition to resources already going to finance secondary education, most of which have been transferred to LSG Units. Since this policy measure has been introduced as of the 2008-2009 school year its effectiveness to increase enrolment in secondary education needs to be examined over time, and the budget allocation (by both national and local governments) over the next years must be commensurate to needs. The quality of educational outcomes at this level must also be carefully studied to assess if and how additional resources need to be invested to ensure that expansion in secondary education is not at a cost of poor outcomes. It is likely that the central government will support the introduction of compulsory secondary schools with central government resources, given that the measure is being introduced gradually (only the first year of secondary school is compulsory for those students who started secondary education this year, while next school year, two years of secondary education will be compulsory, and so on). However, over time it would be expected that transfers to LSG for secondary education would increase reflecting the need for them to finance secondary schooling for a greater number of students, since it is unlikely that this is a measure that could be covered with LSG Unit’s own resources.

Quality of education
According to international studies measuring learning achievements - such as the Progress in International Reading Literacy Study (PIRLS) concerned primarily with literacy rates and the Third International Mathematics and Science Study (TIMSS) – performance for students in the country is significantly below international benchmarks. Some of the possible reasons for this weak performance include outdated curricula, lack of standards to monitor learning achievements, insufficient systematic investment in teacher training, weak teacher incentives, insufficient teaching and learning materials, and inadequate learning environments, both in terms of infrastructure (with schools being used in two or three shifts, limiting the duration of the school day with a corresponding impact on quality of learning) and outdated teaching methods (EC, 2007; OSCE, 2007). Some of these problems are related to insufficient funding.
Expenditure data suggests that the supply of teaching and learning materials is under-funded. Although there is not information on education policy documents or plans on standards for minimum requirements for teaching and learning materials to make a comparison, in 2006 expenditure on ‘small inventory, tools and other material’ (the budget classification that includes teaching and learning material) accounted for only 0.13 percent of the primary education budget, increasing to only 0.14 percent in 2007. In contrast, the purchase of IT equipment was equivalent to 13 percent of the primary education budget that same year. With the onset of phase two of decentralisation LSG are responsible for purchasing teaching and learning materials so the national level figure for 2008 is not significant. These figures point to the significance of LSG units planning for more adequate financing for material to enhance teaching and learning processes.

The use of computers for teaching and learning opens an opportunity to modernise school curricula and to retrain teachers in the use of computers as teaching tools. However, the full benefit of computers is likely to happen in the medium term, given that development of curricula, software and textbooks and teacher preparation are only under way. These are all elements that require significant investment over the next couple of years, while these new systems are fully operational and functioning in all schools. However, it is still necessary to continue focusing attention on non computer based teaching methods and learning processes. While computers might be useful tools, basic literacy and numeracy skills are still the basis for effective learning. Students’ poor performance in these areas can pose significant obstacles for continuation in the school system (such as transition to secondary education, which is one of the existing problems), for accessing professional education and for obtaining qualified jobs. These basic areas of learning can be developed using more modern teaching methods, developing new and more appropriate learning material, and through more teaching time. All of these elements can be implemented as long as there are public funds available to finance them.

As explained above, an important dimension of quality in education, as shown for example, by World Bank analysis (2008) is the length of instructional time. Evidence suggests that double and some times triple shifts in school (both in primary and secondary education) result in less classes and shorter lessons which impacts negatively on educational attainment. Despite this evidence, the share of MES allocated to construction and reconstruction for primary and secondary education had been relatively low over the past few years, although it has increased significantly in the budget for 2008:

<table>
<thead>
<tr>
<th>Share of MES budget allocated to construction and reconstruction of school facilities</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.36</td>
<td>2.0</td>
<td>1.6</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Given the larger allocations to the education sector and that there are clearly identified causes of poor education performance, it would be useful to allocate a larger share of the budget to construction, reconstruction and equipping schools to ensure students get enough instructional time. If this is not addressed, the problem risks getting worse with the onset of an additional compulsory year of primary and secondary education, which will increase the demand for educational services.

Another determinant of quality is the adequacy of the curriculum and effectiveness of teacher training. Although there is no budgetary line at the national or local level that corresponds directly to teacher training, there is some information in the budget that relates to this. In service-teacher training, particularly at the local level, has been supported by the Education Modernization Project (EMP), funded primarily by the World Bank and the Dutch Government. Project evaluations have shown significant achievements in terms of local level in-service training and development of school management capacities, amongst others,
which are increasingly important in the context of education decentralisation. However, because the project is coming to an end in 2009 and teacher training should be a continuous effort, latest progress reports indicated the importance of the Bureau of Education Development (BED) taking over some of the key actions with regards to training and providing support to schools to ensure sustainability. However, as the analysis below indicates, resources to BED are relatively limited given its important role in a range of activities related to increasing the quality of education. As primary and education school have been devolved, the promotion of in service-training is also seen as one of the responsibilities of LSG units and schools themselves. The EMP has sought to find alternative financing mechanisms for teacher training at the local level, including through the private sector, but the state and local governments should continue to support this process, particularly in the interest of contributing to human capital development and given the significant amount of resources being channelled to the education sector as a whole. Further, given that the formula to determine block grants does not yet contain an equalization mechanism, the risk is that without financial support from the state, poorer municipalities will be less able to invest in teacher training and other dimensions of quality of education, further limiting their capacity to achieve greater local development.

With regards to the EMP, an issue that merits further analysis is the fact that there have been significant shortfalls between budget allocations and expenditure in the education modernisation project both at secondary and primary levels. In the case of the EMP for secondary, in 2007 46 percent less resources were spent than budgeted for. The corresponding figure for EMP for primary education was 13 percent. In 2006 the shortfall was larger, with an under-execution of close to 200 percent in EMP primary and 125 percent in EMP secondary. Given that the project is primarily donor funded, the reasons for this poor absorption of resources are likely being examined, but they indicate poor absorption capacity at the local level and slow project implementation. Once the causes for this are known, it will be important to address the constraints to efficient execution in order to make sure that there is enough capacity and institutional development that enables an adequate utilisation of public funds, particularly with regards to improving quality of education.

Referring back to the importance of modernization of curricula and teacher training to improve quality of education, one of the key actors is the BED. It is comprised of the following: sector for logistics, sector for examination, sector for development of the educational system and development of standards, curriculum development and professional support to the teachers, sector for research, sector for publishing and professional development of education and advisory sector. In addition to the tasks carried out for the MES, the BED carries out studies research on pre-school, primary and secondary education, develops curricula, education standards, normative and other programme documents, provides professional supervision, instructions and carries out monitoring, provides professional training of the associates and management, assess pupils’ achievement, and provides information, keeps record and statistics and publishes educational material (OSCE, 2007) Thus, although its potential to contribute to education development is great, the budget allocations it receives do not seem to be commensurate with its functions:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Education and science</td>
<td>199.3</td>
<td>206.7</td>
<td>251.8</td>
<td>347.5</td>
</tr>
<tr>
<td>Education Bureau</td>
<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Total Expenditure on Education</td>
<td>200.6</td>
<td>208.1</td>
<td>253.3</td>
<td>350.0</td>
</tr>
<tr>
<td>Expenditure in the BED as % of Expenditure on Education</td>
<td>0.0108</td>
<td>0.0109</td>
<td>0.0097</td>
<td>0.0113</td>
</tr>
</tbody>
</table>
Table 5: Composition of expenditure, Bureau of Education Development (mill. of Euro)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>1.29</td>
<td>1.24</td>
<td>1.16</td>
<td>1.64</td>
</tr>
<tr>
<td>Preparation and development of teaching programmes</td>
<td>0.04</td>
<td>0.02</td>
<td>0.07</td>
<td>0.13</td>
</tr>
<tr>
<td>Preparation and development of teaching programs for gymnasium education and education of students with special needs</td>
<td>0.13</td>
<td>0.01</td>
<td>0.02</td>
<td></td>
</tr>
<tr>
<td>Research and development of education</td>
<td>0.12</td>
<td>0.02</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparation and realization of the state matura</td>
<td>0.02</td>
<td></td>
<td></td>
<td>0.27</td>
</tr>
<tr>
<td>Preparation and development of teaching programs for secondary vocational education and post-secondary education</td>
<td>0.12</td>
<td></td>
<td></td>
<td>0.36</td>
</tr>
<tr>
<td><strong>Total Education Development Budget</strong></td>
<td><strong>1.33</strong></td>
<td><strong>1.39</strong></td>
<td><strong>1.51</strong></td>
<td><strong>2.43</strong></td>
</tr>
</tbody>
</table>

*Figures in 2008 are for revised budget allocations, not for expenditure

Figures converted from Denars, at the rate published by the National Bank, 61.4 Denar/Euro

Source: Ministry of Finance data, authors’ calculations

A more robust assessment of the sufficiency of funds going to the BED would require data relating its indicators of achievement to their projected costs, but as a result of weak planning processes, this information is unavailable. Still, given the range of functions that BED is mandated to perform and the significant needs for curriculum modernisation and development, as well as for teachers’ capacities and the number of teachers at primary and secondary level, it would seem that BED receives a very small share of total resources for the sector (approximately 0.011 percent). Resources to the bureau have increased in 2008, in part because it is contributing to developing curricula and teacher training in the context of the One Computer to Every Student Programme. There are also indications that the bureau has been very active during 2007 and 2008 developing more modern curricula and teaching methods, however training should follow to ensure implementation. However, available data would suggest that these resources are not sufficient to meet the important demand for modern school curricula and improved teaching methods, among others. Perhaps better synergies between the BED and local governments in need of strengthening teaching capacities can result in a more effective use of scarce funds.

An additional area that has been highlighted as needing further investment to improve education standards is assessments at primary and secondary level. The government has proposed a system whereby teachers can receive incentives or disincentives according to their students’ outcomes on a national level education assessment for each school year. Although this has the potential to highlight which teachers need capacity development, it would ideally be accompanied by opportunities for capacity building so teachers can re-train and improve their teaching. However, the level of detail of information in the budget is not sufficient to identify the amount of resources going to set up this incentive mechanism nor whether there are budgeted resources to improve assessment standards.

In order to foster quality education throughout the country, particularly as the school system becomes decentralised giving way to different methods of school management, monitoring and controlling quality of education seems key. Quality control in education is seen to be responsibility of both the national and local levels, however the at the central level, the State Education Inspectorate (SEI) and the National Examinations Centre (NEC), which are part of MES’s structure, have the potential to play important roles. But in this case again, the current format of budget data does not present information in a format that would facilitate the identification of the flow of resources to these bodies. It would thus be useful to have information about the level and composition of resources allocated to SEI and NEC to be able to monitor public investment on education ‘quality’.
With respect to access to learning materials, it is important to note that in an effort to make textbooks more accessible to poor children unable to afford them, in 2008 the supplementary budget presented in July 2008 included a specific allocation to distribute free textbooks for poor children.

**ECD**

As explained in the theoretical framework, there is ample international evidence to show the importance of early childhood development and education on children’s wellbeing and future opportunities. According to a recent UNESCO report (UNESCO, 2007) from a developmental perspective, participation in early childhood programmes is beneficial because it leads to improved outcomes, including better nutrition, health and education, in both the short and the long run. Moreover, from an economic point of view, investment in early childhood programmes offers a high pay-off in human capital and there is a strong case for public intervention. Early childhood programmes not only benefit children and families, they reduce social inequality, and benefit communities and societies at large. A concrete example of the impact of pre-school education is cited in the PIRLS 2006 report: on average, international results showed a positive relationship between fourth-grade students’ reading achievement and the amount of time spent in preprimary education (Mullis, et al, 2007).

Until before the start of the 2008-2009 school year, no form of ECD was compulsory in the country. As of this year however, an additional year of ‘pre-school’ was included to the 8 years of compulsory primary education, now making it a 9-year cycle under the mandate of the MES and corresponding institutions in LSG Units. In addition to that year of preschool, the only form of ECD available is as part of the childcare programme under the Ministry of Health and Social Development’s mandate, which has been largely devolved. There are no kindergarten/pre-school activities outside of childcare facilities.

According to MICS 2005 data, only 10.7 percent of children aged between 36 and 59 months are attending some form of organised early childhood education programme, which is very low. Amongst those attending, there are significant disparities in all categories of analysis: in terms of gender (15.1 percent of boys attend against 5.8 percent of girls) location (18.5 percent of attendance in urban areas against only 1.5 percent in rural areas); level of poverty (only 1.4 percent of children in poorest households attend versus 24.7 percent in households in the richest quintile) and in relation to ethnicity (16.9 percent of children attending are ethnic Macedonian compared to only 3.5 percent of Roma children).

These meagre indicators suggest the need to significantly increase policy measures to improve uptake of ECD services. The measure to add one year of preschool to the compulsory primary education cycle is generally positive, however its operationalisation has important implications. As analysed above, in terms of financing this was achieved by absorbing more resources for ECD in the primary education budget, allocated away from the ‘child protection budget’ in the MLSP. Although the measure is supposed to include retraining for teachers in new methodologies for younger children, acquisition of didactic material, amongst others (authors’ interviews, 2008) allocation to spending on such items is not visible in the budget, so a more in depth study would be required to understand the composition of spending in ECD as the new measure is rolled out and devolved to LSG Units.

**Table 6: Expenditure on childcare facilities**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Childcare facilities (millions of Euros)</td>
<td>16.3</td>
<td>10.5</td>
<td>9.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Transfers for childcare facilities to LSG units (millions of Euros)</td>
<td>1.1</td>
<td>2.0</td>
<td>4.7</td>
<td>14.1</td>
</tr>
<tr>
<td>Total childcare (millions of Euros)</td>
<td>17.4</td>
<td>12.5</td>
<td>13.7</td>
<td>15.6</td>
</tr>
<tr>
<td>Childcare as a share of education budget (%)</td>
<td>8.7</td>
<td>6.0</td>
<td>5.4</td>
<td>4.4</td>
</tr>
</tbody>
</table>
All resources for ECD prior to 2008 are classified under ‘social child care or child protection’ and are under the mandate of the MLSP in the government’s structure; from 2008 part of these resources will be included as part of MES’ primary education budget and transfers to LSG Units. However, for the purpose of this analysis and given its relevance to improve educational outcomes, ECD is classified under education.

As with primary and secondary education, resources have been largely devolved, so that resources that remain under the Ministry’s competence in 2008 are greatly reduced. However, considering total resources for preschool, including those that have been devolved, we can note three things:

1) Expenditure on ECD, as measured by expenditure on childcare averaged only 0.33 percent of GDP over the period 2005-2008. Although the country’s total expenditure on education (5.6 percent of GDP) has now exceeded the OECD average (5.4 percent of GDP), expenditure on ECD is significantly below OECD ECD expenditure, which averages 0.7 percent of GDP18. Given the proven importance of ECD for achieving better educational performance and attainment, this seems low.

2) Since 2006, close to 90 percent of the budget under the classification of ‘social childcare’ goes to financing ECD. It has been increasing at a slow rate, close to 10 percent annually, but given the increase in the total education budget, the share of resources going to ECD has actually decreased slightly as a share of total education expenditure (from 5.4 to 4.4 percent). This reduction can be partly attributed to the transfer of one year of preschool education to primary education. The comparison with the education budget has been done to enable a comparative analysis of the weight of the different education levels, although ECD is not in the MES’s budget.

3) Close to 90 percent of resources for preschool education are now decentralised. This increases the responsibilities of local governments on developing ECD, but also raises the risk, at least in initial phases of decentralisation, that lack of capacity and effective planning can result in suboptimal investment in the sub-sector, particularly as it is not seen as a priority, and that there is little knowledge about good practices in ECD. In fact, the recent EU Progress report has noted that municipalities which have entered the second phase of decentralisation have insufficient capacity to take on the social policy responsibilities transferred to them (CEC, 2008). Further, devolution of resources for ECD has been undertaken according to the existing number of ECD centres in the different localities, given its prior programming. This undermines an equity principle since many municipalities in need of childcare centre will not have received a block transfer from the central government to construct, equip and run new centres. This is particularly likely to happen in poorer and rural municipalities, where data already indicates very limited access. This needs to be addressed by refining the guidelines for transferring block grants for child protection, with a clear view of fostering equitable access to ECD.

Equity
UNICEF’s Child Poverty Study highlighted that there are still inequalities in access to education at primary and secondary levels. Some of the causes for this unequal access are ‘demand driven’, that is, they are more a result of household decisions than of supply of

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18 OECD Family Database [www.oecd.org/els/social/family/database](http://www.oecd.org/els/social/family/database); OECD - Social Policy Division; Public spending on childcare and early education, figures from 2003
educational services. This will be briefly explored at the end of this section. However, some other causes can be linked to the supply of educational services. These should be given particular attention as they are a cause for social exclusion and failure to guarantee universal access to education.

**Increasing Roma children’s access to education**

UNICEF’s child poverty study highlighted the poor performance of Roma children in almost all measures of education attainment; for example, only 63 percent of Roma children are attending the first year of primary school compared to a national average of 95.2 percent. While the national completion rate is 82.6 percent, only 44.6 percent of Roma children complete primary school. Although there are different causes for this poor performance, there are some measures that can be taken to ensure Roma children are included in the education system.

Successful models of inclusion have been strongly promoted and funded by donors, including UNICEF, Foundation Open Society Institute’s (FOSIM) through a USAID grant and the World Bank through certain components of the EMP. These models involve working both at the school and in the community, in this case frequently through the development of Roma education centres to promote extra school support; they provide mentoring and tutoring to pre-school children to prepare them for primary schools, improving Macedonian language skills; the provision of specialised teacher training; the provision of scholarships to Roma students at higher levels of education and work with parent groups in participating schools so that they become more involved and support their children’s attendance and achievement (FOSIM, 2008). However, given their link to donor funds, they are time-bound and reach a limited number of children. State support for programmes that benefit Roma population through specific resources allocated to this area is needed to take effective and widespread measures to improve the education situation of Roma children and contribute effectively to their inclusion.

A positive measure in the 2008 budget is that, in the context of the Decade for Roma Inclusion, for the first time, a special budget allocation was earmarked to support Roma education. However, the sum of this allocation is largely symbolic - less than 100,000 Euro (6 million denars), and at the time of this research (half-way through the year), plans to use these funds were still under development. The figure is very small given that, according to the figures showing the state of Roma education in the country, the needs are great. The EU 2008 progress report (CEC, 2008) underlines that although there was a small rise in the number of Roma children attending school in 2007, they still have the lowest levels of participation in primary school, and while the steps taken to tackle the high drop-out rates from the education system are inadequate. This is indicative of the need for a much stronger commitment from the government, reflected in a larger allocation of resources to tackle the education barriers faced by Roma children.

It will be important to monitor the adequacy and effectiveness of plans for the use of such resources in 2008 and look at their continuity and scaling up in 2009. Given that costs for successful interventions have been identified by implementing partners (donors), the 2009 budget for Roma education within MES could be used to scale up such models.

**Inclusive education for children with disabilities**

The United Nations Standard Rules on the Equalization of Opportunities for Persons with Disabilities and the United Nations Convention on the Rights of the Child state that every child has the right to an education, and the right should be guaranteed on the basis of “equal opportunity” (Richler, 2005). In this sense, Education policy should be able to create equitable provision of education services for diverse student populations. At the centre of this challenge lies the goal of inclusion, leading ultimately to improved social cohesion. Education systems should play their part in these social aspirations (OECD, 2003)
However, in the country, achieving inclusive education has not been prioritised, despite being necessary to guaranteeing education for all children.

According to Richer’s (2005) analysis, some of the elements that need to be financed to foster inclusive education are:

- Providing sufficient funding to schools for quality basic education;
- Paying teachers enough to demand one full day of professional work, including time for planning, meetings and personal improvement;
- Recognising the additional cost of providing for a diverse group of students in regular classes and in regular schools and provide funding to meet this need through:
  - Salaries for professional support teachers;
  - Funds for assistants to the teachers;
  - Funds for modifications to facilities, as required;
  - Funds for individual supports that may be required by specific students; and
- Provide funding for staff training and public education.

However, despite the existence of concrete financial requirements to guarantee inclusive access to education, particularly for disabled children, there are no specific budgetary provisions, such as those listed above, to support schools or teachers to implement measures to promote inclusiveness. Further, integrating children with disabilities is not a priority that is echoed in any of the government’s policy documents. As a consequence of this invisibility of children and adults with disabilities in policy, the latest EU progress report (CEC, 2008) indicates that persons with disabilities face a number of obstacles which prevent their participation in society, such as lack of access to education, employment and public services.

In particular, the report explains that the situation of vulnerable groups has been aggravated by the problems linked to the decentralisation of competences to the municipal level. In the case of education, this problem is related to the fact that with decentralisation, the onus is placed on local governments to develop and finance models of inclusive education within the scope of their block grants or through their local resources, without necessarily having sufficiency of funds or expertise on how to develop better models of inclusive education. However, without programmatic budget reporting by local governments it will be difficult to assess to what extent LSG Units and local schools are investing resources in school and teacher development in a way that promotes inclusiveness.

Despite decentralisation of primary and secondary schools, however, financing of special schools for children with disabilities has been kept as a responsibility of the central government, through MES, although the budget allocations for these schools are not visible in the current budget classification.

**Financing of demand side interventions**

Though significant efforts have been made to improve the access to primary and secondary education through the provision of education services, there are some groups of the population that remain marginalised. We have looked at possible ways to increase financing to foster more equitable access, but some of the causes for low uptake can be related to demand side factors, which have been identified in the literature as: high opportunity costs to children going to school (particularly in the poorest households where children might contribute to generating income); high costs of transport, school supplies, uniforms; cultural barriers that make children feel inadequate in school; in households with less educated parents who tend to value education less (e.g. Legovini and Regalia 2001; Moran et al 2003).
In fact, the Child Poverty Study shows that the lowest proportion of children attending primary school can be observed in the poorest wealth quintile: the proportion of children attending primary school varies from 86 per cent in the poorest wealth quintile to 100 per cent in the richest. Further, the lowest percentage of children attending the last grade of primary education is observed for the poorest wealth quintile, and it is also low among children whose mothers have no education.

Therefore, targeted expenditure to programmes that promote demand for education, such as scholarships for poor children, subsidised transport costs, free textbooks, social work with communities and families and cash transfer programmes which might be conditioned to school attendance, already shown to have positive impacts on demand for education in different country contexts (Barrientos et al 2004), might be effective ways to spend public funds to ensure all children are guaranteed their right to education. In fact, some of these measures are already being undertaken or in the process of being developed, like in the case of free transport costs which is included in the Primary and Secondary Laws and the provision of free textbooks, which could be more systematised. The development of a Conditional Cash Transfer Programme to enhance educational attainment is proposed in the government’s 2008-20012 plan, so expenditure on this initiative might be included in the budget for 2009.

Summary of recommendations for Education

Below is a summary of some of the main recommendations from the analysis of the education sector:

- Increasing financing to quality related education components (such as teacher training or building new schools in regions where currently there are double and triple shifts) by reallocating resources from programmes that are less cost-effective in promoting children’s educational and human capital development.
- Defining the role and resources potentially available to BED for it to take over some of the functions left by EMP when in finalised in 2009, primarily ensuring support to in-service teacher training and curriculum development at the local level.
- Establishing a mechanism for budget and expenditure reporting by local government units to render their education accounts more transparent and to allow for monitoring of how they are spending their education block grants in line with key education policy objectives.
- Promoting results oriented budgeting by local governments as decentralisation moves forward, as a way to increase the effectiveness in the use of block grants to education.
- Analysing the possible causes for low execution rates in some areas, particularly in the Education Modernization Project. If these are the result of poor absorption capacity, efforts must be taken to address its causes, which could be related to poor administrative capacity, weak planning systems, delays in administrative processes, amongst others.
- Revising programme budgeting classification at the central level as to allow the identification of resources going to specific areas, such as SEI and NEC, as well as schools for children with special needs, to be able to estimate and track public investment on education ‘quality’ and ‘equity’.
- Increasing the amount of resources allocated to Roma education and toward fostering inclusive education in schools, following good practice models.

5.2 Health

The health system in the country is health insurance based and it seeks to provide universal coverage and a comprehensive health care package for the population. The greatest part of
funding for public health care is provided by the compulsory health insurance, through the Health Insurance Fund (HIF), whose main source of financing are contributions from the payroll of those employed in the formal sector (including social transfers for the unemployed and beneficiaries of social welfare). In addition to the HIF, the central state budget also provides financing for the national population-based public health or ‘preventive’ programmes which are adopted by the Government each year. Funding for public health institutions is provided by the HIF through a defined annual limited budget with decision of the HIF Management Board (Bacanovic et al, 2006).

Estimations suggest that approximately 5 percent of GDP is allocated to healthcare, including resources paid by the HIF, the State Budget and out of pocket expenditure. Out of this total, only 1.4% is from the State Budget (South-eastern Europe Health Network, 2007). The average expenditure in the WHO European Region was 6.5 percent of the GDP and 6.4 percent of the GDP for the ten new EU Member-Countries in 200219. In fact, according to the National Health Strategy (2006-2015), 95 percent of public expenditures in health are made through the HIF.

For the purpose of the analysis in this section, we focus only on resources coming from the government budget and channelled to the Ministry of Health (MoH) to finance ‘preventive health’, which has a strong impact on health services delivered to children, through some of its vertical programmes. Preventive health vertical programmes are provided free of charge to all individuals, although they require a co-payment of 20 percent of the service cost. In the case of individuals who are insured through the HIF, the MoH covers the co-payment and so they are exempt. Individuals who are not insured through the HIF need to make the 20 percent co-payment. In addition, there is a specific vertical programme that aims to provide both preventive and curative services – the full basic benefit package – to the poor and/or marginalized who, according to assessments, would not be able to get into the HIF (approximately 5 percent of the population). Benefiting from this vertical programme requires undergoing a verification process aimed at minimising the probability of including those who have the capacity to pay but for some reason are not contributing to the HIF (for example, those working in the informal sector).

The costs of providing preventive health programmes is born jointly by the HIF and the government, with the HIF covering salaries of health staff who deliver the services as well as running costs of health facilities where services are provided (including electricity, heating, and other utilities), while the cost for the implementation of activities related to the vertical programmes, such as staff training, campaigns, procurement of vaccines and drugs, is financed by the government’s budget allocations to vertical programmes. Budget projections suggest that the HIF’s financial viability could be greatly enhanced if 10 percent of its general operational budget was covered through state budget support. However, until 2006 less than 0.5 percent of the HIF’s general budget was covered by the State budget, which is a small proportion given the cost born by the HIF in the provision of the preventive programmes, which is problematic in terms of long time sustainability in the provision of services and their quality (Gjorgjiev, et al, 2006).

**Preventive health**

With respect to the preventive health programmes, the National Health Strategy 2020 mentions the following as child-focused health priorities

- Improving the health status of the population, with special attention to vulnerable groups, and with emphasis on health promotion

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19 See www.who.int/hfadb
• Better health for newborn babies, infants and pre-school children will be achieved by way of strengthening the primary health care.

• Specific attention will be paid to reducing the high infant and children under five mortality rate and to the health education for school children, which will contribute to better health for young people (target 4).

Budgetary resources allocated to the MoH are mostly used for the delivery of preventive health programmes. The table and Figure below show the trends in expenditure for the MoH from 2003 to 2008:

**Figure 3: Trends in Ministry of Health expenditure, 2003-2008**

As illustrated in Figure 3, expenditure trends for the health sector are quite positive, particularly as of 2006. Table 7 shows the budget figures for the MoH. Nominal expenditure by the MoH has gone from 5.77 million Euro in 2003 to 29.45 million Euro in the budget for 2008, an increase of almost four times. Resources for the MoH have also grown as a share of the total government budget, going from 0.42 percent to 1.20 percent. Significant increases in resources to the MoH, particularly since 2006, indicate that the government is supportive of the health sector, and particularly of the preventive health system.

<table>
<thead>
<tr>
<th>Table 7: Expenditure by the Ministry of Health, 2003 - 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure Ministry of Health (in millions of Euro)</td>
</tr>
<tr>
<td>2003</td>
</tr>
<tr>
<td>5.77</td>
</tr>
<tr>
<td>as share of total budget</td>
</tr>
<tr>
<td>as share of GDP</td>
</tr>
</tbody>
</table>

*Figures for 2003-2007 are for budget expenditure. Figures in 2008 are for revised budget allocations. Source: Ministry of Finance data, authors’ calculations.*
In terms of intra-sectoral expenditure, Figure 4 below shows how resources have been allocated to the vertical programmes within the Ministry of Health's annual budget. The classification presents those programmes that have a more direct impact on children, for example, immunization or pre and postnatal health, and ‘other’ programmes which might have a more marginal, indirect impact on children (these have all been aggregated for simplicity). It must be pointed out, however, that this is only an approximation as in the case of health this desegregation is not precise as children can require a range of interventions provided by the ‘other’ vertical programmes or through curative (rather than preventive) care, financially supported through the HIF, however, the focus is on vertical programmes given that they are likely to impact more concretely on the health of children.

Figure 4: Annual budget allocations to the MoH, including vertical programmes with direct impact on children

Figure 4 illustrates the percentage share of each of the programmes in the total Ministry’s budget allocations. In addition to the budget allocated to vertical programmes, figure 4 includes budget allocations for MoH’s administrative costs and on the ongoing reform programme.

Table 8 below shows the evolution in budget allocations to preventive health programmes, which although has shown an overall positive trend, specific budget allocations for some vertical programmes decreased in 2008. Looking at the intra-sectoral composition of these allocations provides some idea about the prioritisation of the different components. One of the first elements that stands out is that resources going the MoH’s administration have been increasing over time, with a particularly big jump from 2007 to 2008 where its share of MoH’s budget went from 17.6 percent to 43.3 percent in 2008. Looking at the composition of budget, allocations to the ‘administration’ component of the MoH’s 2008, the biggest increase has been to ‘capital expenditures’. However, under the current health financing system, it is the HIF pays for capital investments in the sector (in addition to the government’s direct
investments). The MoH’s annual operational plan provides an indication of the plans for these capital investments, however, it will be important to monitor how these resources were spent after the end of the fiscal year. According to interviews at the MoH, during 2008 the resources for ‘health promotion’ for different vertical programmes were going to be merged to finance a larger scale, more comprehensive health promotion strategy, which would be linked to the integration of all vertical programmes into a comprehensive national public health programme. This increase in budget allocations to ‘administration’ might be the result of such strategy, although it is not certain. If it were the case, it would help explain why, although the overall budget envelope to the MoH in 2008 increased, the greater share of resources absorbed by administrative costs meant that budget allocations to some vertical programmes, for example preventive health, prevention of tuberculosis, protection from HIV/Aids, health protection for mothers and children and treatment for the uninsured decreased in 2008 with respect to 2007. Another possible explanation for this reduction in budget allocations to these vertical health programmes is that from year to year, some activities are merged or taken under the responsibility of other programmes.

According to table 8 below from 2007 to 2006 there was an increase in resources going to all programmes except protection from HIV/Aids20, which declined by 19 percent and compulsory immunizations, which declined by 3 percent. However, as indicated above, budget allocations were reduced for almost all vertical programmes in 2008, including the programmes related to the priority areas for children under the National Health Strategy related to the protection of mothers and children. Budget allocations to health examination of students remained unchanged. This trend is illustrated by the reduction in the share of total MoH budget allocated to child focused vertical health programmes, which went from 42.9 percent in 2005 to 31.1 percent in 2008. It will be important to follow the allocation of resources to vertical programmes in the 2009 budget, to see the evolution of this trend. Given the significant increase in the budget to administration, it is possible that some of the functions previously assigned to vertical programmes were reclassified to ‘administration’, and/or as suggested above, that some resources – particularly for health promotion – were integrated as part of an integrated health promotion strategy. The rate of execution of resources for ‘administration’ and their use needs to be examined further to determine whether there is a rationale for maintaining high budget allocations to ‘administration’ in the 2009 budget, particularly as in 2008 this was linked to a decrease in the budget to child-focused and other vertical programmes, which is not consistent with the government’s expressed commitment toward supporting preventive healthcare.

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20 This analysis only considers resources allocated to vertical programmes through the MoH’s budget and does not include donor funded projects that are not disbursed through the budget, such as those by the Global Fund financing HIV/Aids.
### Table 8: Changes in budget allocations to MoH health, 2005-2008

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Health examinations of children, pupils and students</td>
<td>260,586</td>
<td>260,586</td>
<td>0</td>
<td>561,889</td>
<td>116</td>
<td>561,889</td>
<td>0</td>
</tr>
<tr>
<td>Preventive health care</td>
<td>793,160</td>
<td>890,879</td>
<td>12</td>
<td>1,791,531</td>
<td>101</td>
<td>1,465,798</td>
<td>-18</td>
</tr>
<tr>
<td>Compulsory immunization of the population</td>
<td>830,619</td>
<td>830,619</td>
<td>0</td>
<td>806,922</td>
<td>-3</td>
<td>2,280,130</td>
<td>183</td>
</tr>
<tr>
<td>Prevention of Tuberculosis</td>
<td>195,440</td>
<td>994,707</td>
<td>409</td>
<td>1,185,886</td>
<td>19</td>
<td>1,100,879</td>
<td>-7</td>
</tr>
<tr>
<td>Protection of the population from AIDS</td>
<td>2,092,866</td>
<td>2,496,221</td>
<td>19</td>
<td>2,031,352</td>
<td>-19</td>
<td>1,910,521</td>
<td>-6</td>
</tr>
<tr>
<td>Health protection of mothers and children</td>
<td>407,166</td>
<td>272,476</td>
<td>-33</td>
<td>695,440</td>
<td>155</td>
<td>532,573</td>
<td>-23</td>
</tr>
<tr>
<td>Treatment of ill people that have no health insurance</td>
<td>140,065</td>
<td>377,850</td>
<td>170</td>
<td>1,385,098</td>
<td>267</td>
<td>1,309,283</td>
<td>-5</td>
</tr>
<tr>
<td><strong>Total budget allocations to vertical programmes with direct impact on children</strong></td>
<td>4,719,902</td>
<td>6,123,338</td>
<td>23</td>
<td>8,457,818</td>
<td>28</td>
<td>9,161,073</td>
<td>8</td>
</tr>
<tr>
<td>Other programmes in the Ministry of Health</td>
<td>4,413,777</td>
<td>4,968,167</td>
<td>13</td>
<td>7,455,090</td>
<td>195</td>
<td>8,437,280</td>
<td>31</td>
</tr>
<tr>
<td>Administration</td>
<td>317,608</td>
<td>1,821,971</td>
<td>474</td>
<td>2,595,366</td>
<td>42</td>
<td>4,939,078</td>
<td>266</td>
</tr>
<tr>
<td>Reform of the Health Sector</td>
<td>1,553,180</td>
<td>2,733,550</td>
<td>76</td>
<td>2,924,267</td>
<td>7</td>
<td>2,359,463</td>
<td>-19</td>
</tr>
<tr>
<td><strong>Total budget allocations Ministry of Health</strong></td>
<td>11,004,467</td>
<td>15,647,026</td>
<td>30</td>
<td>21,432,541</td>
<td>27</td>
<td>29,450,894</td>
<td>27</td>
</tr>
<tr>
<td>Share of budget alloc. vertical programmes with direct impact on children (as% of total MoH budget)</td>
<td>42.9</td>
<td>39.1</td>
<td>39.5</td>
<td>31.1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, authors' calculations / Figures converted from Denars, at the rate published by the National Bank, 61.4 Denar/Euro

### Table 9: Rate of budget execution, MoH, by programmes 2005-2007

<table>
<thead>
<tr>
<th>Service Description</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health examinations of children, pupils and students</td>
<td>260.59</td>
<td>260.59</td>
<td>100.0</td>
</tr>
<tr>
<td>Preventive health care</td>
<td>793.16</td>
<td>793.16</td>
<td>100.0</td>
</tr>
<tr>
<td>Compulsory immunization of the population</td>
<td>830.62</td>
<td>1,161.07</td>
<td>139.8</td>
</tr>
<tr>
<td>Prevention of Tuberculosis</td>
<td>195.44</td>
<td>195.44</td>
<td>100.0</td>
</tr>
<tr>
<td>Protection of the population from AIDS</td>
<td>2,092.83</td>
<td>2,111.89</td>
<td>57.9</td>
</tr>
<tr>
<td>Health protection of mothers and children</td>
<td>407.17</td>
<td>407.17</td>
<td>100.0</td>
</tr>
<tr>
<td>Treatment of ill people that have no health insurance</td>
<td>140.07</td>
<td>140.07</td>
<td>100.0</td>
</tr>
<tr>
<td>Administration</td>
<td>317.59</td>
<td>313.36</td>
<td>98.7</td>
</tr>
<tr>
<td>Reform of the Health Sector</td>
<td>1,553.26</td>
<td>411.73</td>
<td>26.5</td>
</tr>
<tr>
<td><strong>Total budget allocations / expenditure MoH</strong></td>
<td>11,004.40</td>
<td>9,156.51</td>
<td>83.2</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, authors' calculations / Figures converted from Denars, at the rate published by the National Bank, 61.4 Denar/Euro
Table 9 provides details about expenditure (budget execution) for each of the child-focused vertical programmes. The data illustrates a problem that stands out with regards to spending in the health sector: there are significant gaps between budget allocations and budget execution in vertical programmes, as well as in resources for ‘administration’ and ‘reform’. The column ‘Rate of budget execution’ shows how much of the budget allocated to each of the programmes has been spent as a percentage of the budget allocation for that year. We find that budget execution of some programmes, such as the reform of the health sector, protection against HIV/Aids and prevention of tuberculosis are particularly low.

In particular, the rate of execution of the 2007 budget was significantly low, raising the question about the absorption capacity for the larger budget allocation in 2008. Further, the 2008 budget includes a significant share of funds for capital investment, which suggests that the MoH is assumed to have the capacity to utilize resources for capital investments in health. The weak execution performance in 2007 could suggest a possible problem, so the outcomes will need to be monitored.

In relation to this, the overall increase in the budget for the MoH has been welcomed by interviewed MoH functionaries, as it is seen as enabling more effective action on prevention. However, according to these interviews, the Ministry acknowledges its weak planning capacity, with only three departments in charge of planning for the fifteen vertical programmes, which means that planning, monitoring and evaluation of the performance of the vertical programmes cannot be done adequately. Currently, budget decisions are made from the top down, without taking into account grassroots level planning which more closely reflects real needs. There is also insufficient capacity to monitor the use of these resources, so although health service providers report on their use of resources and provision of services, there is not enough human and physical resources to control the veracity of these reports, which can lead to problems related to the misuse of funds. In this sense, the creation of a separate planning unit with adequate human resources to undertake these activities was proposed by the MoH as a useful way to address some of the existing problems that limit its absorption capacity. According to their analysis, although the implementation of such unit would have an initial cost, it could pay for itself over the long run by enhancing the effectiveness in the use of resources across the different programmes. Currently, the incomplete data on resource utilization for all programmes does not allow for a robust assessment of their effectiveness. A management priority for the MoH is thus the promotion of bottom-up planning to make a transition from ‘historic’ budget allocations, to more results oriented planning. If resources to preventive health are going to be prioritised, it is therefore crucial that measures are taken to improve the financial management capacity of the MoH, including strengthening monitoring and evaluation capacity to better link outlays to health outcomes.

**Equity**

Significant progress has been made in improving mother and child health indicators during the last 10 years, primarily reducing neonatal and infant mortality, which has put the country on track for achieving the health related MDGs by 2015. However, there is still work to be done, particularly as some of the indicators show certain inequities
related to location, ethnicity and wealth. For example, the 2008 EU progress report points out that there are still 17 percent of children who are not covered by the public health insurance (CEC, 2008).

Vertical programmes are fully funded by the government, they are free of charge and thus accessible to all the population, insured or not, including the poorest and most vulnerable groups, which makes them pro-poor and equitable. In particular, the programme covering health costs to the uninsured, which are often (not always) the poorest, is a way of ensuring that children living in poor households at least have a greater chance to access preventive and curative health services.

This suggests that the vertical programmes aimed at promoting health on children and their mothers require better planning and outreach to ensure that they are able to reach and benefit all children. This entails effective outcome-driven planning which should be accompanied by mobilisation of resources to undertake planned actions. Two concrete examples of where equity is still a concern with regards to child health outcomes are analysed below.

**Child mortality**

According to UNICEF’s Child Poverty Study, the infant mortality rate is estimated at 16 per thousand, while the probability of dying before the age of 5 (under-five mortality rate) is around 17 per thousand. These figures are above the EU average, which were 6.4 and 4.7 correspondingly\(^{21}\) in 2000. According to MICs data, coverage of antenatal care by skilled personnel (a doctor, nurse, midwife or auxiliary midwife) is almost universal with 98 percent of women receiving antenatal care at least once during the pregnancy. Antenatal care coverage is almost the same in urban and rural areas. However, unpacking these figures, the Child Poverty Study, points to some differences in infant and child mortality outcomes according to location and level of wealth. For example, the probability of children dying before they are five in urban areas is 10 per thousand while in rural areas it is 26 per thousand. This probability is also higher than average for children in households in the poorest wealth quintile, at 25 per thousand.

This would suggest that some vertical programmes, such as the Programme for the Active Health Protection of Mothers and Children, could still be strengthened to minimise these disparities. In particular, one of the programme’s goals is the: *Mitigation of the impact that that social factors have (poverty and social inequality) on the development of unfavourable health indicators on mothers and children*, and one of its planned outcomes is *to further reduce mortality rate of infants and small children, especially in the regions where this rate is higher than the national average*. But the presence of these inequalities would suggest that this goal is so far not being achieved.

Resources for this programme doubled from 2006 to 2007 and the budget allocation was maintained for 2008. In fact, in 2008, the estimated cost of implementing the vertical *Programme for the Active Health Protection of Mothers and Children* was 32.700 million Denars (533 thousand Euro) and the budget allocated to the programme is slightly

\(^{21}\) Source: Eurostat
above that request (34.500 million denars or 562 thousand Euro). This positive trends in budgets to this programme have the potential to improve existing inequities in child mortality, as long as interventions are planned in a way that reach children in households that so far have been marginalised, with health services and also with information about their gratuity and their benefits, to encouraging their uptake. Thus, monitoring the impact of the progress of child mortality indicators in 2008 would shed light on the extent to which the vertical planning process is working and whether further resources need to be allocated to strengthening the programme.

*Immunizations*

Immunizations also play a key role in the reduction of child mortality rates. 75.5 percent of children between 18 and 29 were found to be fully immunized during the MICS survey in 2005. This compares unfavourably with the average of 98 percent of children in immunized in the EU in 2000\(^2\). 

Table 10: Percentage of children aged 18-29 months currently vaccinated against all childhood diseases, 2005, MICS data

<table>
<thead>
<tr>
<th></th>
<th>Percentage of children 18 –29 months vaccinated against ALL childhood diseases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sex</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>71.5</td>
</tr>
<tr>
<td>Female</td>
<td>78.9</td>
</tr>
<tr>
<td>Residence</td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>80.4</td>
</tr>
<tr>
<td>Rural</td>
<td>69.5</td>
</tr>
<tr>
<td>Wealth index quintiles</td>
<td></td>
</tr>
<tr>
<td>Poorest</td>
<td>60.1</td>
</tr>
<tr>
<td>Second</td>
<td>84.0</td>
</tr>
<tr>
<td>Middle</td>
<td>79.2</td>
</tr>
<tr>
<td>Fourth</td>
<td>79.1</td>
</tr>
<tr>
<td>Richest</td>
<td>77.1</td>
</tr>
<tr>
<td>Ethnicity</td>
<td></td>
</tr>
<tr>
<td>Macedonian</td>
<td>88.3</td>
</tr>
<tr>
<td>Albanian</td>
<td>65.0</td>
</tr>
<tr>
<td>Roma</td>
<td>66.4</td>
</tr>
<tr>
<td>Other</td>
<td>76.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>75.5</strong></td>
</tr>
</tbody>
</table>

Table 10 shows the significant disparities in the distribution of fully immunized children, which are particularly high with respect to residence, wealth quintiles and to ethnicity. Given the gratuitous nature of immunizations, there would not seem to be a direct effect between wealth and immunization but the problems might be found deeper in the immunization programme, which might not be reaching areas of the country with higher poverty (for example, some rural areas) as well as having insufficiently developed health promotion mechanisms that would help attract populations of all ethnicities to this

\(^2\) Source: Eurostat
service. These problems are likely to be more closely linked to planning and delivery than to insufficient resources, although it is clear that a significant investment is needed to increase the total number of children that are fully immunized.

In 2008, the vertical Programme for Immunization requested a total of 80 million Denars (1.32 million Euro) and it was actually allocated more than double, 140 million Denars (2.28 million Euro), which is a 64 percent increase with respect to the budget allocated in 2007. This suggests a strong commitment to address the gap in immunization coverage to date, but given that the plan was developed for a budget allocation of about half of the real allocation, there is a likelihood that resources might not have been effectively absorbed or not spent in the most effective way. This will have to be monitored in 2009, while progress in the programme to date should be informing the 2009 budget request. Planning on how to best deliver these vaccines to marginalised children is paramount in order to ensure that additional resources are in fact reaching regions and population groups which have been excluded in the past.

With reference to these examples, it is possible to conclude that in addition to the budget resources allocated to these programmes, it is crucial to ensure that they are accessible and delivered throughout the country, including in more marginalised areas, particularly as, given that they are provided free of charge, their cost is not a barrier in itself. Lower uptake in rural areas and in the case of poorer children or children of ethnic minorities might also be related to lack of information about the health services available free of charge, a problem that can be related to parents' low level of education or effectiveness in health promotion. In this sense, strengthening outreach and quality of services, can be an important means to minimise obstacles to health seeking behaviour. The budget classification does not enable the identification of the share of resources used on health promotion by the different programmes, but this is an area that, according to international literature, is a cost effective way to carry out preventive health.

Summary of recommendations for Health

Below is a summary of some of the main recommendations from the analysis of the health sector:

− Enhancing capacities (both central and local level) in planning and monitoring of the relevant vertical programmes. For some specific vertical programmes, such as immunization, multi-year programming and planning is required to maximize the impact.

− Alternative mechanisms should be sought to address the problems that result in poor absorptive capacity of budget allocations, some possible alternatives include:
  • Strengthening the capacity and training of staff at the national and local level to improve strategic planning skills.
  • Setting up a unit in charge of planning, monitoring and evaluation of vertical programmes in the MoH with enough well qualified human resources that can effectively develop strategies to plan, monitor and evaluate the increasing amount of funds that are being allocated to preventive health services.
  • Outsourcing the planning and monitoring of some services to NGOs working at the local level who might have the capacity to undertake these activities with more expertise an at a lower cost;
  • Enhancing collaboration with professional associations that might provide technical expertise and support to strengthen the system;
- Given that this PER is an initial scoping study and as such is not carrying out more in-depth research on the cost effectiveness of vertical programmes and strategic planning within the MoH, it would be useful to undertake more of this work thorough further research in the sector, including:
  - Review to what extent the vertical programmes are aligned (both programmatically and financially) to the action plans of various specific health sector strategies. For most strategies, such as in the case of HIV/Aids, preliminary assessments suggest this is not the case, hence, vertical programmes do not contribute to the accomplishment of the outcomes/outputs stipulated in strategy documents.
  - Review basic benefit package interventions for maternal and child mortality (MCH) both with respect to content and also from the aspect of how resources are allocated and used, from the top all the way to beneficiaries. This would imply carrying out resource tracking work with the HIF and the MoH, following the development of costing analyses in specific segments of the MCH health care.
  - Improving results oriented planning to make sure that budget allocations respond to the needs identified, particularly with regards to addressing the gaps in health indicators in the poorest and other marginalised groups who are so far falling behind in the uptake of health services.

5.3 Social Protection and Child Protection

The government’s child protection activities are under the Ministry of Labour and Social Policy’s Social Protection (Social Protection or Social Care Budget). According to the Social Protection Programme for 2008 (MLSP, 2008), the budget can be classified into three main programmes:

1) **Non-institutional social protection**. Resources under this programme are dedicated to the activities carried out by the Centers for Social Work (CSW) which are considered the main providers of the social protection, as well as for their organisational units (shelter centers for homeless persons, daily centers for street children, drug users and members of their families as well as children with impairment in their development) and for the Institute for Social Activities (ISA). Some resources are also used for cooperation with NGOs who support the delivery of non-institutional protection and for refurbishment and equipping of the premises for extra-institutional social protection.

2) **Institutional Social Protection** – Funds under this programme aim to support activities related to fostering of persons with social risk that are provided with full institutional protection (accommodation, food, clothing, heating, health care, etc.) within social institutions, which include those offering care to persons with physical and psychological disabilities, orphaned children, children and youth with educational-social problems and homes for elderly persons. Resources include the refurbishment and equipping of the premises for institutional social protection.

3) **Allowances and benefits** - This includes permanent financial assistance, social financial assistance, and financial assistance for support and care. Some of these allowances and benefits include child benefits, allowances for civilians disabled during war; protection of war veterans and disabled persons, the right to part time salary for those caring for a disabled child, one time financial assistance and assistance in kind, the right to
housing, financial assistance to a person that had the status of orphaned or child without parental care until the age of 18, the right to allowance for costs related to accommodation and allowance for poor families; and accommodation in student dormitories or other institutions.

The budgetary classification of social protection and related programmes is slightly different than that for other sectors; programme budgets for social and child protection are under two different budget headings and neither of them is under the Ministry of Labour and Social Policy’s (MLSP) budget, so to get an aggregated view of what is happening to the sector, in addition to expenditure by the MLSP, it is necessary to include the ‘social protection’ and ‘child protection’ budgets in the analysis.

As illustrated in figure 5, although the nominal budget for social protection as a whole has increased, it has been decreasing over time both as a share of the total budget and as a share of GDP.

**Figure 5: Trends in social protection expenditure, 2003-2008**

Figures for 2003-2007 are for expenditure (budget execution). Figure for 2008* is budget allocation.
Social Protection includes: MLSP, Social protection and child protection
Source: Ministry of Finance data, authors’ calculations

Given that the budget allocated to the MLSP is mainly used to carry out administrative functions and for undertaking the social protection reform (SPIL project), as well as being only approximately 1 percent of the total social protection budget, we will not look at it in the following analysis. Further, as explained in section 7.1, child protection under the MLSP is essentially allocated to ECD through the provision of childcare centres, which has already been analysed in the education section. Therefore, figures analysed in the rest of this section relate to funds allocated to the ‘social protection’ budget line only.

Out of the total expenditure on the ‘social protection’ budget line, the greatest share of resources - approximately 61 percent of the total in 2008 – is allocated to support ‘social funds’, which refer to the pensions and disability insurance fund and transfers to the employment agency (i.e. unemployment benefits). Over time, there has been a streamlining of ‘social funds’, largely as a result of the pension reform and the revision of entitlements, so that there total value has decreased (World Bank, 2008). This has
created some space in the Social Protection budget for other functions, as illustrated below:

**Figure 6: Expenditure to finance ‘social funds’ and other social protection programmes, 2005-2008**

![Graph showing expenditure to finance 'social funds' and other social protection programmes, 2005-2008](image)

Figure 6 shows that the share of resources going to social funds has been decreasing over time, from over 75 percent of social protection expenditure to just over 60 percent in 2008. This has made more resources available to other social protection programmes, which are the focus of this section’s analysis. In particular, the focus is on resources allocated to child-focused programmes, as per the classification above: institutional services, non-institutional services and allowances.

Table 10 presents the evolution of financing to social protection, classified for the purpose of the analysis broadly under ‘child-focused’ social protection programmes and ‘others’. This is not a precise classification given that several programmes, for example, inter municipal centres of social work do not exclusively work on child focused programmes. However, this classification provides a general sense of which programmes contribute more directly to the social protection of children. There are several general issues to note:

- The share of resources under social protection available for programmes (excluding resources to the social funds) has evolved positively in time, going from 24.38 percent of social protection resources in 2005 to 39.8 percent in 2008.
- The largest share of resources to social care programmes is allocated to allowances. In 2008, 41.7 percent of resources allocated to total social protection programmes (excluding social funds) went to diverse allowances, with an additional 7.2 percent to child allowances (benefits). So in 2008 56.1 million Euro were allocated to allowances (excluding ‘social funds), equivalent to 0.9 percent of GDP or 2.3 percent of the budget. Child allowances were only 17 percent of that total. Social funds were equivalent to 2.8 percent of GDP and 7.2 percent of the total budget.
- The amount of child allowances has increased only marginally over time. Other social care programmes receive only a small share of the budget.
- In particular, centres for social work received only 3.7 percent of the social protection budget (excluding social funds) in 2005, increasing to 4.3 percent in 2008.
### Table 10: Expenditure on ‘child-focused’ and other social protection programmes

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Programmes for protection of socially vulnerable populations</td>
<td>48.75</td>
<td>73.34</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Premises for non-institutional and institutional protection</td>
<td>-</td>
<td>3.30</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Support of Roma development</td>
<td>-</td>
<td>0.26</td>
<td>0.03</td>
<td>0.0</td>
<td>0.20</td>
<td>0.2</td>
<td>0.28</td>
<td>0.2</td>
</tr>
<tr>
<td>Reconstruction and equipment of premises for non-institutional protection</td>
<td>-</td>
<td>-</td>
<td>0.17</td>
<td>0.2</td>
<td>0.16</td>
<td>0.2</td>
<td>0.32</td>
<td>0.3</td>
</tr>
<tr>
<td>Reconstruction and equipment of premises for institutional protection</td>
<td>-</td>
<td>-</td>
<td>0.22</td>
<td>0.2</td>
<td>0.37</td>
<td>0.4</td>
<td>0.34</td>
<td>0.3</td>
</tr>
<tr>
<td>Transfer of competencies to the local self-government units</td>
<td>-</td>
<td>0.34</td>
<td>0.4</td>
<td>0.48</td>
<td>0.5</td>
<td>0.71</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Institutions for fostering children without parents</td>
<td>-</td>
<td>0.76</td>
<td>0.8</td>
<td>0.69</td>
<td>0.7</td>
<td>0.87</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Day centers for street children, drug users and children with disabilities</td>
<td>-</td>
<td>-</td>
<td>0.46</td>
<td>0.5</td>
<td>0.45</td>
<td>0.4</td>
<td>0.88</td>
<td>0.8</td>
</tr>
<tr>
<td>Institutions for fostering children and youth with social problems</td>
<td>-</td>
<td>0.51</td>
<td>0.6</td>
<td>0.55</td>
<td>0.5</td>
<td>0.92</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Shelters for homeless persons and victims of family violence</td>
<td>-</td>
<td>0.20</td>
<td>0.2</td>
<td>0.47</td>
<td>0.5</td>
<td>0.92</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Inter-municipal Centers for Social Work</td>
<td>-</td>
<td>3.39</td>
<td>3.7</td>
<td>3.70</td>
<td>3.7</td>
<td>4.88</td>
<td>4.3</td>
<td></td>
</tr>
<tr>
<td>Allowances related to the right for child protection (child allowances)</td>
<td>-</td>
<td>7.64</td>
<td>8.3</td>
<td>8.29</td>
<td>8.2</td>
<td>8.28</td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>Allowance related to the right to social protection</td>
<td>-</td>
<td>47.59</td>
<td>51.4</td>
<td>46.72</td>
<td>46.4</td>
<td>47.83</td>
<td>41.7</td>
<td></td>
</tr>
<tr>
<td>Others**</td>
<td>15.36</td>
<td>23.10</td>
<td>31.23</td>
<td>33.7</td>
<td>38.62</td>
<td>38.4</td>
<td>48.46</td>
<td>42.2</td>
</tr>
<tr>
<td>Sub-Total (Social care programmes)</td>
<td>66.47</td>
<td>24.38 (% of total SP)</td>
<td>92.55</td>
<td>32.75 (% of total SP)</td>
<td>100.69</td>
<td>34.64 (% of total SP)</td>
<td>114.70</td>
<td>39. (% of total SP)</td>
</tr>
<tr>
<td>(Social protection excluding transfer to social funds)</td>
<td>206.13</td>
<td>75.62 (% of total SP)</td>
<td>190.03</td>
<td>67.2 (% of total SP)</td>
<td>190.02</td>
<td>65.4 (% of total SP)</td>
<td>176.56</td>
<td>60.6 (% of total SP)</td>
</tr>
<tr>
<td>Support of the social funds***</td>
<td>206.13</td>
<td>75.62 (% of total SP)</td>
<td>190.03</td>
<td>67.2 (% of total SP)</td>
<td>190.02</td>
<td>65.4 (% of total SP)</td>
<td>176.56</td>
<td>60.6 (% of total SP)</td>
</tr>
<tr>
<td>Total budget for Social Protection</td>
<td>272.60</td>
<td>100.69%</td>
<td>282.58</td>
<td>100.69%</td>
<td>290.71</td>
<td>100.69%</td>
<td>291.26</td>
<td>100.69%</td>
</tr>
</tbody>
</table>

* 2008 data is for budget allocations, not budget execution

** Others includes: institutions for individuals with disabilities, homes for the elderly, allowances for civilians disabled during the war, protection of war veterans and other disabled persons, protection of refugees and asylum seekers, costs related to the pension reform

*** Support to the social funds includes transfers to the Pension and Disability Insurance Fund and transfers to the Employment Agency

**NOTE**: Budget classification for social protection has been evolving since 2005, so that in 2005, some existing programmes were classified under different budget lines than in 2006 and successive years.
Child-focused social care and protection

Although the issues related to financing of child-focused social care and protection are multiple, the analysis in this section focuses on two dimensions which seem as the most critical for addressing identified issues of child poverty and vulnerability in the country: the need to strengthen financing to the deinstitutionalisation of social care process, including through support to centres of social work (CSW) in line with their responsibility to provide quality assistance to vulnerable children, and the potential to reduce child poverty through a improving financing for child allowances.

Deinstitutionalisation of social care and Centres for Social Work

In the past few years, there has been a move towards the de-institutionalisation of social care. For this purpose, a National Strategy for Deinstitutionalisation of Social Care Services (NSDSC) was developed in 2007, with the following goals (MLSP, 2007):

1. Improving the quality of the care for the citizens exposed to social risk
2. Creation of a network of different social care services at local level, according to the needs of the beneficiaries
3. Promotion of the principle of active participation of the beneficiaries and/or their families in the creation of the policy, in the planning, the use and evaluation of the services of the social care services.
4. Gradual transfer of the institutional care services into care services in the place of residence.
5. Decentralisation of the social care services and transfer of responsibilities and competences to the units of local self-government in the management and financing from local revenues to be provided through the fiscal decentralization process.
6. Introduction of pluralism of social care services providers and securing the sustainability and continuity of the services.

For this purpose, the MLSP has recognised CSW as key actors in the deinstitutionalisation process and has defined them as the main providers of social protection (MLSP, 2008), for which they have been given multiple responsibilities, including the coordination of a range of organisational units. Thus, in a context where deinstitutionalisation of social care is seen as the most adequate mechanism for improving the quality of care for vulnerable children, specifically children without parents or parental care, as well as children with behavioral problems, it would follow that CSW should be significantly strengthened to be able to undertake their functions and facilitate this process.

Although the NSDE identifies its target population and objectives from 2007-2014, it fails to provide the basis to assess the amount of annual resources to strengthen deinstitutionalisation. In particular, it provides no basis to estimate the costs for CSW of absorbing an increasing number of responsibilities in this process. Discussions with the MLSP and ISA suggested that there is little planning capacity in the ministry and in the CSW which would enable them to develop a strategic plan to assess their real resource needs. However, insufficiency of funds has been assessed as a major obstacle for CSW to perform their responsibilities. For example, a recent analysis of child protection services (UNICEF, 2007b) revealed that CSW have not been developed in line with their growing responsibilities, with serious staff shortages, limited capacity development that would enable them to deal with the challenges of providing and facilitating adequate care outside institutions.
According to budgetary data for the period 2005-2008 provided in figure 7, budget allocation to centres for social work (CSW) has been low, particularly with compared to the resources other social protection programmes (most of them allowances or benefits) are receiving.

Table 11: Composition of expenditure, Centres for Social Work, figures in millions of Euro

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salaries and Allowances</td>
<td>1.845</td>
<td>2.013</td>
<td>2.465</td>
</tr>
<tr>
<td>Social Contributions by employers</td>
<td>0.753</td>
<td>0.838</td>
<td>1.045</td>
</tr>
<tr>
<td>Other contributions from salaries</td>
<td>-</td>
<td>0.002</td>
<td>0.007</td>
</tr>
<tr>
<td>Compensation of employees</td>
<td>2.598</td>
<td>2.853</td>
<td>3.517</td>
</tr>
<tr>
<td>Travel expenditures and per diems</td>
<td>0.037</td>
<td>0.037</td>
<td>0.035</td>
</tr>
<tr>
<td>Utilities, heating, communication and transport</td>
<td>0.420</td>
<td>0.374</td>
<td>0.401</td>
</tr>
<tr>
<td>Small inventory, tools and other materials for repairing</td>
<td>0.096</td>
<td>0.097</td>
<td>0.100</td>
</tr>
<tr>
<td>Repair and Current Maintenance</td>
<td>0.045</td>
<td>0.043</td>
<td>0.048</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>0.147</td>
<td>0.127</td>
<td>0.618</td>
</tr>
<tr>
<td>Other Current Expenditures</td>
<td>0.010</td>
<td>0.012</td>
<td>0.032</td>
</tr>
<tr>
<td>Goods and services</td>
<td>0.755</td>
<td>0.689</td>
<td>1.234</td>
</tr>
<tr>
<td>Transfers to Non-governmental Organisations</td>
<td>0.020</td>
<td>0.039</td>
<td>0.056</td>
</tr>
<tr>
<td>Miscellaneous Transfers</td>
<td>0.002</td>
<td>0.018</td>
<td>0.006</td>
</tr>
<tr>
<td>Subsidies and transfers</td>
<td>0.022</td>
<td>0.057</td>
<td>0.063</td>
</tr>
<tr>
<td>Construction facilities</td>
<td>0.008</td>
<td>-</td>
<td>0.024</td>
</tr>
<tr>
<td>Purchase of Furniture, Equipment, Vehicles and Machinery</td>
<td>0.009</td>
<td>0.095</td>
<td>0.045</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>0.017</td>
<td>0.095</td>
<td>0.070</td>
</tr>
<tr>
<td>Total centres for social work</td>
<td>3.393</td>
<td>3.699</td>
<td>4.883</td>
</tr>
</tbody>
</table>

Figures for 2006-2007 are for expenditure (budget execution). Figure for 2008* is budget allocation.

Source: Ministry of Finance data, authors’ calculations
Table 12: Composition of expenditure, Centres for Social Work, figures in percentage (%)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation of employees</td>
<td>76.6</td>
<td>77.1</td>
<td>72.0</td>
</tr>
<tr>
<td>Goods and services</td>
<td>22.2</td>
<td>18.6</td>
<td>25.3</td>
</tr>
<tr>
<td>Subsidies and transfers</td>
<td>0.6</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>0.5</td>
<td>2.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Total centres for social work</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

In 2008, CSW received a 24 percent increase with respect to the previous year’s expenditure (from 3.70 million Euro to 4.88 million euro). Annual increases to CSW have been small, particularly in light of their growing number of responsibilities, which include targeting recipients of child allowances, managing the process of deinstitutionalisation and providing support to minors in the context of the new juvenile justice law as of 2009. Therefore, it is crucial to guarantee them better funding.

Tables 11 and 12 above provide data on the composition of budget allocations (2008) and expenditure (2006-2007) on CSW. Although there has been a nominal increase in expenditure on wages, the share of wages has been decreasing slightly as a share of total CSW resources. On the other hand, the budget allocated to ‘contractual services’ in 2008 was significantly higher than expenditure on this component in 2007, which might suggest an increase in the staff for CSW (not all public sector workers are civil servants and can be hired through the modality of contractual services on a non-permanent basis). Expenditure on utilities, capital, maintenance, and other running costs has been relatively constant during the past three years. In that sense, the slight increase in budget allocations to CSW has essentially been focused on staff, which is positive given the shortfall of staff identified with respect to the multiple functions CSW are responsible for.

The MLSP is undergoing a significant reform process, spearheaded by the World Bank financed SPIL project which aims, among others, to increase effectiveness in service delivery and resource management, working to strengthen capacities within the MLSP. Therefore, since CSW are one of the main stakeholders in the system of social protection provision, it would be pertinent to build their capacity in the different dimensions in which they relate to the provision of social protection. Currently, SPIL has planned for CSW to receive capacity building on how to target beneficiaries of allowances, but their capacities for strategic planning and management could be further strengthened. Additionally, as of social allowances generates fiscal space in the sector, part of the resources liberated should be reallocated to strengthening CSW to enable them to better perform their responsibilities. Functionaries working for the Institute for Social Activities commented on the restrictions posed to their good functioning and the performance of their activities by budgetary constraints.

23 With existing budget data it is not possible to know if the increase is a result of a larger number of staff or higher wages for existing staff, however, given the size of the increase, an the rise in ‘contractual services’ it is likely to be the result of more staff. This needs to be monitored during 2008.

24 The objectives of this project are to: (i) improve long-term sustainability of the pension system through increasing its efficiency and transparency, developing and strengthening institutional and administrative capacities, including improved administration of pension contributions and benefits; and (ii) improve the effectiveness, efficiency and targeting of social protection programs through strengthening of the institutional capacity for regulation.
With respect to deinstitutionalisation of social care, evidence from international experiences indicates that family-based and inclusive care are generally more effective in meeting social needs and are, on a unit cost basis, less expensive than institutional (e.g. Innocenti Research Centre, 2003; Barth, 2002). The 2008 Social Protection Programme (MLSP, 2008) is working along these lines with a proposed an allocation of 6.07 million Euro (372.8 million Denars) to programmes related to non-institutional care, against 3.4 million Euro (207.7 million Denars) for institutional care. Budget provisions for programmes under these categories were marginally larger in 2008 than in 2007. It will be important to monitor the rate in budget execution in 2008 to see how well these resources were used, as a basis for possible requests for greater budget allocations in 2009, which should be accompanied by more strategic, results oriented plans.

*Expenditure on other social care programmes*

Budget allocations to almost every social care programme under social protection has increased in 2008 with respect to 2007, including budgeted resources for Inter-municipal centres for social work, shelters the homeless and victims of family violence, day-care centres for vulnerable children, reconstruction and equipping of premises for extra-institutional protection, institutions for fostering people with disabilities, institutions for fostering of children without parents and institutions for fostering of children and youth with social problems. The average increase in 2008 budget allocation to these programmes with respect to 2007’s executed expenditure is 37 percent, which is a significant increase. In the case of programmes providing services, such as shelters and day-care centres for vulnerable children, most of the increase is linked to staff, either through the ‘compensation to employees’ budget line (in 2007 neither shelters nor day-care centres had a budget line for compensation of employees, which could suggest that none of their staff were on the government’s payroll, but this situation has changes in 2008, with the inclusion of the corresponding budget line) or through greater resources for contractual services.

However, it must be noted that problems with planning and roll out of programmes as well as insufficient absorptive capacity for funds means that not all budgeted resources are spent. In fact, in 2007, budget executed for the programmes mentioned above was on average 9% lower than their approved budget. This has important implications in terms of the need to ensure institutions receiving funds have sufficient capacity development to ensure effective expenditure, particularly in a context where available budgetary resources are low.

Devolution of social protection resources has remained low, only about 1% of budget in this sector has been devolved, corresponding mainly to resources for institutions for the elderly, which means that despite one of the aims of deinstitutionalisation being the promotion of local participation and decision making, most expenditure decisions are still made centrally or through inter municipal coordination. One of the reasons for this is that there is no or very little clarity in the responsibility assignments to LSG units because there was no comprehensive policy framework developed to precede or to inform the devolution of social protection resources and programmes. Therefore, according to the Law of Local Self-Governments a range of social protection functions were to be devolved to municipalities entering phase two, while in reality the only two devolved functions have been childcare facilities (ECD) and homes for the elderly (Martinez-Vaquez, et al, 2007). Therefore, the development of such a strategy for social protection, which presents the possibilities for the participation of local governments and local communities in decisions to enhance social services at the local level would facilitate the devolution responsibilities to LSG units, ensuring that the transfer of block grants corresponds to the effective delivery of services. This did not happen in the education sector, for example, where the National Strategy for Development of Education (NSDE) defines the responsibilities to be devolved.
In general, trend in the sector is positive, as it shows a greater prioritisation (in principle) of vulnerable groups of children and adults. One case in point are resources going to the development of Roma population – which, given that they have higher than average fertility rates – means that children can be more than proportionally impacted by these interventions. In 2007, resources spent on Roma development increased by 84 percent with respect to expenditure in 2006, and in 2008 budget allocations are 28 percent higher. Although the budget allocation for Roma Development is still low (approximately 280,000 Euro or 17.2 million Denar), it at least opens the potential to contribute favourably to programmes to support Roma population, depending of course, on the effectiveness of the programmes that these resources are used for.

Child allowances and child poverty
UNICEF’s Child Poverty Study (2007a) showed that despite the overall level of poverty having fallen in the past three years, poverty is greatest amongst households with children, for example, in 2007, the greatest share of poor households, 58.9 percent, were households with children. These findings are corroborated by recent data on poverty published by the State Statistical Office, which indicate a higher incidence of poverty in households with children:

Table 13: Relative poverty by type of household, 2005-2007

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poverty head count</td>
<td>Poverty gap index</td>
<td>Composition of the poor</td>
</tr>
<tr>
<td>Elderly</td>
<td>22.2</td>
<td>5.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Couples with children</td>
<td>24.8</td>
<td>7.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Other households with children</td>
<td>33.6</td>
<td>11.1</td>
<td>57.8</td>
</tr>
<tr>
<td>Households without children</td>
<td>27.1</td>
<td>8.8</td>
<td>30.1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>30.0</td>
<td>9.7</td>
<td>100</td>
</tr>
</tbody>
</table>


In the analysis above, household monetary poverty has also been highlighted as a factor of causing poorer education and health outcomes for children. In this sense, measure currently being taken to promote employment which impacts on household income are positive, but not so for those children living in households where parents remain unemployed or are underemployed receiving marginal incomes.

In this sense, tax and benefit systems can redistribute income towards families by different means such as providing a minimum income level for those without paid employment (unemployment benefits, social assistance, disability allowances) or supplementing the income of all households with children whether they are in employment or not (EC, 2008).

A recent study by the EC shows that in general, EU countries with the lowest child poverty rates are those who spend most on social benefits (excluding pensions). It acknowledges that this partly reflects a wealth effect that is observed among EU countries whereby the richest are those who can afford the highest levels of social protection and redistribution. Still, the assessment shows a number of countries with similar wealth and similar shares of GDP invested in social benefits achieve very different child poverty rate (EC, 2008:38). Particularly, the study shows that benefits have the strongest impact on child poverty reduction in the countries where expenditures identified...
As family/child benefits are highest (ibid). According to data analysis undertaken for this study, total public spending on the sum of allowances for social protection and allowances for child protection or child benefits (excluding social funds) is equivalent to 1 percent of GDP (this figure has remained relatively constant from 2006-2008). Compared with figures from several OECD countries’ public spending on family cash benefits, it is possible to say that the countries’ performance is ‘average’ with several countries such as Denmark, Sweden, Austria and Belgium spending more than 1.5 percent of GDP, while other countries such as Spain, Mexico, and the Netherlands spending less than 0.5 percent of GDP on cash family benefits (Bradshaw, 2007)

Focusing only on child allowances (or child benefits), the analysis indicates that budget allocations in 2008 remained almost constant with respect to their level in 2007, going from 8.29 million Euro (508.7 million Denar) in 2007 to 8.28 million Euro (508.5 million Denar). In 2007, however, child spending on child benefits had shown an increase of 7.8 percent with respect to 2006, when the amount spent on child benefits was 7.63 million Euro (469 million Denar). On average, child benefits are 15 percent of total benefits (excluding social funds). Given the potentially positive impact on child poverty reduction of child benefits, it is important to continue financing child allowances, even in the context of broader streamlining of benefits and allowances by the government. The SPIL project is contributing to improve the targeting mechanism and to minimise leakages in the allowance system, ensuring that benefits are received by households in need. If this is achieved, then the growing level of child poverty should be ample justification to increase the level of child benefits to poor households, ensuring that, in parallel, other development measures are put in place (such as community level work) to ensure that these allowances translate to better outcomes for children. In July 2008, the government announced its ‘Third Child Policy’ aimed at promoting fertility by providing families with an allowance for their third (and even fourth), with the eligibility criteria including that families live in regions with lower birth rates. Although overall this policy is positive since it will provide support to larger families, it is not designed in a way that targets poor households, so as long as this new benefit does not cause a reduction in the amount of resources available for child benefits to poor households (who might not have three children), the allowance can contribute to the overall benefit of households with children. Thus, it will be key to monitor the evolution of child allowances over time to see which households are being targeted to ensure that poorer households continue to benefit.

The government’s drive to introduce a conditional cash transfer programme (CCT) financed in part with a loan from the World Bank but also drawing on government budgetary resources (it is already in the MLSP 2008 Social Protection Programme), can have a positive impact on the level of child poverty in the country, although this is largely dependant on the programme’s design. If the condition of the transfer excludes poor children for the child benefit they currently receive their impact overall might not be positive as some children might not fulfil the conditions as a result of other causes of marginalisation (distance, culture, disability) which would need to be addressed before the conditioning of the transfer. However, if the CCT will be an additional benefit provided to poor households, it can have a positive effect on child poverty through impacting positively on household income as well as generating incentives for households to invest in children’s household development, as such programmes have shown to have in other countries where they have been introduced. However, care must be taken that resources allocated to this programme to not allocate resources away from other key areas child protection programmes.

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25 Figures on child benefits in EU countries in the study where weighed by the number of children in the population, so given that we do not have that same analysis (which is beyond the scope of the study), the figures are not a useful reference point. However, a similar analysis could be undertaken for the case of the country for comparative purpose in further research.

26 A comprehensive assessment of such types of programmes in a range of countries can be found in Barrientos and Holmes, 2007.
Summary of recommendations for Social Protection

Below is a summary of some of the main recommendations from the analysis of the social protection sector:

- To increase budget allocations to CSW given the small share of resources they receive from the social protection programmes envelope and their multiple responsibilities regulating and implementing programmes in the sector.
- Since one of the aims of the SPIL project, is to develop the capacities within the MLSP to better manage, target and deliver resources, it would be useful to ensure that the CSW benefit from this capacity building.
- Particularly, as the reform process in the MLSP contributes to render the use of resources more efficient and effective, fiscal space will be generated in the sector; part of the resources liberated should be reallocated to strengthening and providing more funds to CSW.
- It is necessary to develop a clear strategy for the devolution of social protection functions to ensure that roles and responsibilities are clearly defined and that the process can progress as capacities are strengthened at the local level, to ensure that services are delivered effectively to vulnerable children.
- Given the potentially positive impact of child benefits on child poverty reduction, it is important to continue to finance child allowances, ensuring that resources are effectively channeled to beneficiaries (minimizing leakages) in line with the broader effort by the government to render allowances more effective.
- It will be important to monitor the evolution of child allowances over time to see which households are being targeted to ensure that poorer households continue to benefit despite the extension of child benefit to households with three children. In particular, further research could involve doing specific benefit incidence analysis of child benefits on poverty reduction.
6. Concluding remarks and policy recommendations

The review of child-focused expenditures in education, health and social protection has highlighted the significant progress made by the government in the advancement of children’s rights, but has also pointed at some obstacles that need to be addressed to ensure that the best interest of all children informs policy making and implementation. The research findings presented in the body of this paper enabled us to reach the following conclusions and policy recommendations.

6.1 Concluding remarks

The 2008 budget shows important improvements in budget allocations to some key child-focused social sectors with respect to previous years, when these sectors had not received sufficient attention. There also improvements in relation to quality and equity dimensions which had been neglected for more visible investments in access and infrastructure development in the past. However, budget allocations are only on side of the process, a systematic review of budget allocations and spending can help ensure that resources are effectively used to address the needs of children. Investments in children need to be sustained in the medium to long term so it is important to ensure that positive trends in the 2008 budget are maintained or improved in the 2009 budget. This is important to guarantee that progressed achieved is not reversed but consolidated and improved.

Despite the positive trend there were areas with limited or no progress including the allocations for inclusive education for disabled children and to ECD. Evidence of the positive impact on investments in these areas should be use to secure better funding. Another key challenge that remains is the promotion of equity and quality child-focused spending in the context of decentralisation.

The new government programme 2008-2012 proposes a range of important policy actions for the promotion of child protection, development and education, some of which started in the previous period and others that have been recently introduced as a recognition of the need to foster the fulfilment of children’s rights. It will be important to monitor, going forward, that expenditure on these key areas is prioritised.

6.2 Policy recommendations

Given that many of the positive changes in budget and expenditure are recent, it is necessary to continue engaging child-focused budget monitoring in the medium term to ensure child-focused spending remains a priority and to understand the impact these improvements are having on equity outcomes; this can involve a range of stakeholders including the government, civil society/NGOs and international partners.

In addition to the sector specific policy recommendations identified in the analysis of each of the sectors, below are the main sector specific recommendations as well as some broader recommendations that refer to issues of adequacy, equity and quality of public expenditure and improvements in the PFM systems that are related to findings in the report, as well as recommendations on possible future lines of enquiry that could be useful future steps in moving the child-focused PFM agenda forward, taking this report as a first step.

6.2.1 Adequacy, equity and quality in child-focused public expenditure

Despite positive trends in budget and expenditure in some areas, for example, overall resources going to the education sector and to preventive health, there were other areas in which the
analysis indicated insufficient budget attention. In particular, according to the analysis presented in detail above, areas that require attention are:

**Education**
- A significant share of the increase in resources to the education sector has been channelled to two government flagship programmes: compulsory secondary education and the *One Computer to Every Student*. Investments in other dimensions of quality of education, such as resources going to BED for curricula development and teacher training, or investment on school construction and reconstruction, have increased, but not at the same rate. Given the poor educational performance of students, particularly in basic numeracy and literacy skills, it seems important to invest significantly in basic components of educational quality.
- ECD (through financing of preschool and childcare centres) has not been sufficiently financed, particularly given the high returns to investment in ECD and its relevance to child development. Despite overall allocations to the education being above the OECD average, resources going to ECD are significantly below the OECD average.
- Although there are earmarked allocations for education and development of Roma children, these funds are small in proportion to the significant investment need to promote improvements in child wellbeing indicators in which Roma children are faring particularly badly. For this papers, it is recommended that existing models implemented by NGOs and international partners are considered as models for possible scaling up of the actions.
- There is no specific budget attention given to inclusive education, particularly of disabled children.

**Social Protection**
- Resources going to centres of social work (CSW) are very low, and have been identified as insufficient to operate particularly given the multiple responsibilities under their charge. The efficiency gains in the MLSP through the social protection sector reform could be seen as an opportunity to provide additional funds to these centres.

**6.2.2 Public financial management (PFM)**

**Results-oriented budget planning**
- In some areas, the analysis indicated weak linkages between policy, planning and expenditure. A way to improve these linkages and move towards results-oriented budget planning would involve developing concrete indicators for the achievement of objectives, linked to activities and costs, which should then feed into budget planning processes from the bottom up. Having clear budget indicators will enable better budget performance monitoring. Amongst the sectors analysed, such detailed planning is done only in the case of vertical health programmes.

**Decentralisation**
- Ministries of Education and Labour and Social Policy that are involved in devolution of funds should make the formula for the distribution of resources to municipalities and the criteria considered more transparent, enabling discussions about possible improvements to ensure that these formulas sufficiently reflect equity concerns and local needs.
- In the context of decentralisation, it is important to continue supporting the capacity development of local governments planners and policy makers, particularly those in charge of newly devolved areas within education, social protection and health. This capacity building should include general dimensions of strategic planning and results-oriented budgeting but also a specific dimension of child-friendly planning to encourage more child-responsive budgeting at
the local level, that addresses local needs as well as responding to specific issues of quality and equitable access to services.

- As decentralisation progresses, accountability mechanisms at the local level need to be strengthened. In the case of local governments, this includes the publication of the use of devolved funds (both earmarked and block transfers) as well as the use of local revenues. This is of particular importance in terms of child focused spending, as an increasing share of resources and responsibilities for the provision of child-focused services are devolved.

**Health**

In order to improve the capacity to absorb larger budget allocations to preventive health and vertical health programmes, a planning, monitoring and evaluation unit should be developed in the Ministry of Health to enable the development of effective strategies for the use of resources as well as to monitor the use of these resources. Effective planning in the sector requires capacity building within the Ministry and also with those involved in health planning at the local level.

**Social Protection**

- In the case of functions to be devolved in the area of social protection (namely daycare centres for orphaned and disabled children, and the de-institutionalization of services), it is necessary to develop a clear and coherent decentralisation strategy that defines roles, functions and funding responsibilities, particularly with regards to priority programmes for vulnerable groups and those that require inter municipal cooperation.

**Participation of civil society**

- Promoting the engagement and active participation of civil society in monitoring budgets and service delivery can be a very effective way to promote accountability at the national and local levels, and over time lead to more effective provision of services and more adequate use of resources.

### 6.2.3 Future lines of inquiry

Below are some future lines of enquiry that help develop more robust evidence base to engage in policy advocacy, particularly in the area of children and public financial management:

- Based on the issues highlighted in this report with respect to budget allocations and past performance on expenditure in the three areas under analysis, it would be useful to undertake an analysis of expenditure once data for 2008 is published to identify if resources were reallocated at the time of expenditure to address specific needs, whether the level of budget executions was adequate, or to identify any significant changes between planned and executed budgets in 2008. This could better inform budget execution in the relevant areas during the 2009 fiscal year.

- Carrying out benefit incidence analysis of public expenditure on child-focused programmes, particularly those in which there has been less research in the country such as ECD and de-institutionalization of social protection services for children, to determine causal linkages between public spending and child outcomes that can serve as stronger basis for promoting greater investment in these areas. Further, this would generate useful data feeding into key policy documents such as annual progress reporting to the EU and into the social inclusion strategy planned to be developed during 2009.

- Impact analysis on investment in quality dimensions of education (teacher training, longer teaching time, adequacy of teaching and learning material) with respect to other investments in the sector, could provide useful evidence to advocate for more effective investments in education.
As decentralisation moves forward and data on expenditure by LSG Units is produced, particularly related to education, childcare centres (ECD) and social protection for children, undertaking local level budget and expenditure analysis would be crucial to monitor the extent to which priority areas are being funded, the level of resources being spent on quality and equity aspects of education, social protection and health services as discussed in this report.

In-depth expenditure effectiveness analysis, including through instruments such as public expenditure tracking surveys (PETS) should be promoted to determine the extent to which resources are reaching beneficiaries, identifying possible bottlenecks, leakages of funds or problems in management at the different levels. A particular focus could be resources targeted to programmes for vulnerable children (for example, Roma, orphaned and disabled children).
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Appendix 1: Methodology and limitations of the study

The analysis presented in this paper was done using a mixed methods approach including the following:

1) Desk based review and analysis of relevant documentation – including donor reports (EU, WB and IMF); reports by relevant UN agencies (UNICEF, UNDP, UNIFEM), report and analyses produced by the government (such as the National Programme for the Adoption of the Communautaire, 2008); government’s policy planning and strategy documents (the government’s work Programmes, since 2002, sector strategies in the 3 focus areas, and annual operational plans of relevant sectors which are ultimately the basis for budgeting); relevant legislation (such as 2005 Budget Law, Law for Local Self Governments, Law on Child Protection, Law on Social Protection, amongst others); and additional scholarly literature relevant for the analysis.

2) Interviews with key local stakeholders, including technical staff in the relevant ministries (Ministry of Finance, Ministry of Education, Ministry of Health, Ministry of Labour and Social Policy), with the head of the National Child Rights Commission, UN agencies, major multilateral donors, relevant civil society/NGO informants, and UNICEF staff working in the sectors of focus.

3) Analysis of budget allocations and budget execution data for each of the sectors under analysis (Education, Health and Social Protection) to identify the following:
   - Trends in spending in these three key social sectors from 2003 to 2008.
   - Changes in intra sectoral spending to estimate approximately how much is being spent on child-focused programmes, how much is invested in promoting quality, access, and equity (Analysis from 2005 to 2008).
   - In each of the sectors we will look at patterns between approved budget (allocations) and actual expenditure (execution) in key child-sensitive programmes within these sectors, as a relative measure of efficacy in spending (Analysis from 2005 to 2008)

4) Tracing the links between child-focused ‘policy’ as expressed through:
   - state level commitments, such as the UNCRC or principles set out by CEC and EU documents to guide the process of enlargement.
   - national policy objectives related to children, as framed by the Program of the Government (2008-2010);
   - sectoral government policy commitments and strategies, such as those expressed in sectoral development plans and work programmes; and
   - planned expenditure as expressed in some annual operational plans.

And budget allocations and expenditure, according to annual budgetary information from the Ministry of Finance.

This analysis enabled us to identify to what extent planned budgets and expenditure in the selected social sectors are being undertaken according to child-focused policy commitments - as a principle of adequate strategic planning and expenditure effectiveness. In this way it is possible to highlight areas in which more budgetary efforts are needed to meet agreed policy commitments, or where objectives are being fulfilled.
Drawing on some of the key findings in UNICEF’s Child Poverty Study (2007a), the report looks at possible links between some child poverty indicators - such as number of children in households living under the poverty line; demand for basic social services by different groups and by levels of wealth where possible, in order to identify patterns of inequity – and expenditure efforts in the corresponding policy sector or programmatic area. The analysis in this report, however does not provide enough evidence to establish causal linkages, nor does it entail direct a benefit incidence analysis, although some patterns linking child wellbeing outcomes and expenditure in related sectors are identified to highlight possible areas for future and more detailed analyses.

Limitations of the study

• The budget is classified according to programmes in each sector. Some of these programmes are child-specific and others are not, while some programmes might have indirect impacts on children. This does not enable a ‘precise’ identification of child-focused spending, although it does provide a good sense of the share of resources invested in programmes that contribute to child wellbeing. Analysis will therefore reflect this nuance, to avoid reaching conclusions that are not robust.

• Given the change in budget classification, from line to an approximation to programme budgeting as of 2005, as well as reclassification of programmes with budget implications (for example, in the health and social care sectors), expenditure trends in the period 2003-2008 are only done at aggregated sector level.

• Given that sectoral budget data provided by the Ministry of Finance does not provide details of the size of the transfers to each municipality (there is only a budget line identifying aggregated transfers to units of local self government), this study is unable to draw links between local level expenditure and child wellbeing outcomes by region, although it will comment on the importance of ensuring block transfers take into account regional disparities.

• Since this child-focused budget and expenditure analysis is envisaged as a ‘first step’ or baseline analysis in the area of child focused public expenditure, it lays out some important findings that can feed into a more comprehensive and in depth public financial management (PFM) review which would, amongst other elements, entail a thorough analysis of systems, reform processes and institutions in the country – which are beyond the scope of the current review.
Appendix 2: Overview of relevant legislation

This section provides an overview of relevant legislation corresponding to the sectors to be analysed in section seven with the aim of enabling the identification of the State's obligations with regards to the provision and financing of child-focused services. Despite the existence of sectoral strategies, plans and programmes, which provide details and operationalise the law, the main duties to which the government can be held accountable are in the laws, and thus in principle, public resource allocation should be commensurate to those responsibilities. An interesting measure introduced by Parliament in 2007 was that all laws enacted must include their fiscal provisions to avoid the excessive enactment of laws with functions that were unrealisable given fiscal constraints. This is also allows for a clearer mapping of functions with respect to funds, particularly as not all the programmes and plans contain budgetary provisions.

A2.1 The Constitution

Values, rights and duties, in regard to the protection of children’s rights, are defined in the Constitution which reflects an important effort from legislators to incorporate the general rights and protection needs of families and children. According to constitutional provisions, families in need, mothers and children and children without parental care are entitled to special care and protection on behalf of the state. The Constitution indicates that specific articles of the legislation determine rules, controls and the delegation of rights and duties (UNICEF, 2007a)

A2.2 Law on Social Protection (LSP)27

According to the provisions contained in the LSP, the state (both central and local government) is responsible for providing social protection, aimed at preventing or overcoming social risks. State provided social care service include:

- Measures for the prevention of social risks (social prevention);
- Measures for non-institutional social care and protection: help to individual families for marriage problems, housing problems, and the social care of elderly and disabled people;
- Measures for social care and protection within social institutions - help to individuals with physical and psychological problems; and
- Social assistance.

Social Prevention

According to the LSP provisions, social prevention entails “measures to prevent the occurrence of social risks for individual citizens, families and specific groups in the population, including education and counselling, self-help schemes, volunteering and other interventions that correspond to users needs” (Article 13). Social prevention services are implemented through the Centres for Social Work (CSW).

Non-institutional social care and protection

Social protection outside social institutions includes:

- The right to individual help, including counselling and appropriate information services that empower people to make good decisions and develop their social potential;

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27 Synthesis of the LSP taken from UNICEF, 2007. The LSP is soon to be amended so some of the provisions might change by the end of 2008.
Family help, including counselling family members aimed at overcoming problems within the family, especially problems with parent-child relations;

Home care and help specifically targeted at elderly people and people with physical disabilities;

Daily and temporary care including counselling, educational and entertainment activities as well as feeding and hygiene maintenance. Besides elderly people and people with physical and intellectual disabilities, day and temporary care services are also provided for children with disabilities, street children, substance abusers, as well as homeless people and victims of domestic violence; and

Foster family care for elderly people, people with severe intellectual and physical disabilities, parentless children, neglected children and children with behavioural problems.

Non-institutions social protection is the responsibility of the CSW and the day centres for elderly people, street children, drug addicts, alcoholics, homeless people, victims of domestic violence, and people with intellectual and physical disabilities. These centres provide counselling, educational and cultural activities and recreation and entertainment. The day centres for the homeless and shelters for victims of domestic violence also provide housing, temporary care, feeding and hygiene maintenance services.

Institutional Social care and protection

When there is no alternative to provide for their upbringing, children without parents and children without parental care, are entitled to care and protection within institutions. Others who are entitled to care and protection within state institutions are neglected children; children who receive no financial support; children with behavioural problems; pregnant women for a month before giving birth; parents up until the child is months old; people with physical and intellectual disabilities who need permanent care; elderly people with physical disabilities; people with intellectual disabilities that are not able to take care of themselves; and those whose housing facilities do not allow the provision of home care.

The recent trend in the social care has been to reduce as much as possible social care provided within institutions to give priority to home care. This is particularly important for children, who need to grow up in a family environment for optimal physical and intellectual development.

Social assistance

There are several types of social relief targeted at different users according to their needs:

- Permanent social relief for people that are unable to work and receive no financial support, including: persons with physical or intellectual disabilities who have no capacity to study or work; mothers who are alone during pregnancy and mothers who are alone for a month after childbirth; single parents up until the child is three years old; children up to the age of 5 and students aged up to 6, if they are attending school regularly; and persons over 65;
- Social relief for people who are able to work but are financially impoverished;
- Social benefits for persons over 26 years old with severe physical or intellectual disabilities;
- Healthcare assistance;
- Social benefits to compensate people who take care of physically or intellectually disabled children and as such are limited in the amount of time they can spend working;
- One-time aid and aid-in-kind;
• Housing assistance;
• Financial assistance to children up to the age of 18 who are without parents or any other type of parental care.

The remaining types of social relief do not take into consideration the number of children within a supported family. The size of social assistance depends instead on the total number of family members without taking into account their age or specific needs. Aid in kind includes: clothes, food and other items deemed necessary for ensuring at least the minimal conditions for children’s subsistence.

According to the LSP, social assistance eligibility criteria for a family or household is determined as a percentage of the average monthly net salary in the previous year and depends on the number of family members but not on their particular needs. The social assistance transfer is equivalent to the difference between the eligibility criteria and the real household income. There are some criteria for exclusion from the right to social assistance, mainly related to the ownership of property or land (notwithstanding its profitability or lack thereof) as they are regarded as means that can ensure family survival.

A2.3 Amendment to the Law on Child Protection (LCP)

This amendment to the Law on Child Protection (published in the Official Gazette of RM, 98/08, 107/08), aims to implement the legislative commitments set out by national child protection systems of EU member states. The Law envisages the creation of a social and institutional environment that will enable the community and families to prevent and respond to child violence, poverty, exploitation and abuse. According to the Law every child has the right to be protected from abuse and exploitation and the right to have inquiries made to safeguard their welfare. It is substantial and important piece of legislation intended to apply protective social practices especially in the cases of child poverty.

The Law incorporates the provisions under the UNCRC and other relevant conventions, protocols and other documents. It also establishes a judicial framework for providing protection to children whose life, health or welfare are endangered, and for protection of the rights of all parties involved in the adjudication of child abuse or neglect cases, through the mandatory reporting of suspected instances of child abuse or neglect. Under the LCP, each child in need is entitled to receive, preferably in his own home, the care, emotional security, guidance and control that will promote the best interest of the child. If a child should be removed from the control of his parents, guardian or custodian, adequate care shall be secured for the child.

The Law seeks to coordinate the efforts of central and local authorities, in cooperation with other involved parties and concerned individuals, to:
• Protect the safety and welfare of children, freedom of expression of opinions and equal right of education of every child
• Preserve the unity of the family whenever possible.
• Provide assistance to parents to deal with and correct problems in order to avoid removal of children from the family
• Undertake actions necessary for preventing abuse or neglect of children.
• Provide protection, treatment and rehabilitation, as needed, to children placed in alternative care.
To encourage the mental, emotional, and physical development of each child, by providing them with the protection, care, treatment, counselling, supervision, and rehabilitative resources which they need and have a right to receive.

To protect children from the illegal usage of narcotics and other addictive substances, when the safety of the child is in danger during armed conflicts and including the child to harmful practices with political and religious background.

The Law also provides effective judicial procedures through which the provisions of this chapter are executed and enforced and which recognise and enforce the constitutional and other rights of the parties and assures them a fair hearing. With regards to the fiscal implications of this new law, according to its explanatory section, additional funds for children’s allowance will be needed after the country joins the EU (apparently not for the time being). Funds for the public institutions set up by the government will be secured from the central budget, while the funds for the public institutions set up by the units of local self government will be secured from their budgets.

A2.4 Law on Primary Education (LPE)

The LPE (Official Gazette of RM, 103/08) articulated the legislative commitments set out by education systems of EU member states. It also intends to set parameters for raising education standards, promote innovation in schools and reform the education system. The LPE is based on a framework of non-discriminatory principles established by article 12 of the Agreement for European Communities.

The LPE sets compulsory primary education in duration of nine years for all children from 6 to 15 years of age, which is organized in three periods (one additional year of preschool more than in the previous law). The model takes into consideration the experience in EU member states, while the three stages of the primary education relate to periods of three school years each, which is an improved way of monitoring children’s progress. It enacts the promotion of universal school curricula, and focuses on the need to work with schools and local authorities facing particular challenges, for which coordinated efforts of central and local authorities, in cooperation with other related parties involved in the process of education, is required.

The LPE also introduces new requirements for the principles of democracy, non-discrimination, respect of children’s differences, multi-culturally and universally acceptable knowledge. Those aims are to be achieved by raising expectation so that current rates of progress are exceeded for all children and young people, ensuring that those who teach and support children’s learning process are able to enhance their own knowledge, skills and expertise; supporting schools to improve their performance. The LPE aims to promote higher standards of achievement and improved quality of learning and teaching for children and young people who express more knowledge and capability. The more flexible model helps teachers, scholars and parents to develop partnerships with one another and support the sharing of expertise.

The Law also introduces a new framework that ensures clearly defined role and status of teachers, scholars and parents, with precisely settled rights and obligations. This safeguards the importance and responsibilities of teachers and schools, while at the same time ensuring that other staff can give teachers effective support in the classroom and that schools have appropriate flexibility to deploy their staff in the way that will raise standards in the most effective way possible. The law encourages the effective use of monitoring and evaluation to review the work of teachers. This process seeks to maximise objectivity by drawing on information from wide range of different sources and an independent and a critical analysis of teacher’s work.
The fundamental aspects of primary education’s approach are as follows:

- Primary education as integral part of the unique education system.
- Primary education is an organisation contracted to serve the public interest of the community as a whole.
- Equal right of education to every child.
- Primary education is compulsory for all children
- Non-discrimination on the basis of sex, the colour of the skin, nationality, social, political, and religious status in primary education.
- Care for pupils with special education needs.

With regards to its fiscal implications, the new LPE explains that it requires additional funds in the amount of 64,798,000 denars is needed for 2008, intended for:

- Development of new curricula;
- 380 new employees (100 of which are needed for the longer stay of children in schools due to the 9 years duration of the primary education, 250 are needed for teaching English and 30 for drafting and implementation of standardised evaluation tests for teachers);
- Purchase of new computer software and hardware;

In 2009 additional funds in the amount of 209,473,000 denars are needed for:

- the new 380 employees;
- professional upgrading of teachers; and
- implementation of standardized evaluation tests for teachers;

In 2010 additional funds in the amount of 252,981,000 denars are needed for:

- New 380 employees;
- Professional upgrading of teachers;
- Higher salaries of the teachers; and
- Implementation of standardized evaluation tests for teachers;

**A2.5 Amendment to the Law on Secondary Education (LSE)**

Based on the LSE (Official Gazette of RM, 81/08 and 92/08), secondary education is implemented based on curricula and programmes for: gymnasium, vocational secondary education, secondary art education and secondary education for students with special educational needs. Secondary education should enable students to acquire knowledge and develop skills for work and further education. Gymnasium and secondary education in arts last four years while secondary vocational education lasts either 3 or 4 years.

The biggest novelty of this new LSE is the introduction of compulsory secondary education for every pupil under equal conditions defined by the Law. In accordance with the Law secondary education in public schools shall be provided free of charge. The law also encourages effective use of monitoring, evaluation and reviewing the work of teachers. This process will seek to maximise objectivity by an independent and a critical analysis of teacher’s work.

The fiscal implications of this new Law, are the need for additional funds in the amount of 12,400,000 denars for 2008, intended for drafting and implementation of standardised evaluation tests for teachers and for training of evaluators; while for the same purpose additional annual funds in the amount of 47,132,000 are needed in 2009 and 2010.

**A2.6 Law on Local Self-Government (LLSG)**

With the LLSG (Official Gazette of RM, 05/02), Local Authorities (Municipalities) are competent for execution of affairs of public interest in the spheres of social protection and child protection and
primary and secondary education. The Law establishes the general manner for the implementation of duties within municipal responsibility.

For the purpose of execution of duties within their competences, municipalities can establish local authority social work services for protection of children such as kindergartens (property, financing, investments, and maintenance); social care provision for disabled persons; children without parents and parental care; children with educational and social problems; children with special needs; children in one-parent families; street children; persons exposed to social risk; persons concerned with drugs and alcohol abuse; exercising the right and education of preschool age children. According to the LLSG, the execution of these competences should be in accordance to an overarching National Social Protection Development Plan, which should provide a detailed mapping of the decentralisation of social protection functions. However, in the absence of such a document, local level competences are in practice defined through partial agreements and based on the Ministry of Labour and Social Protection (MLSP) Annual Social Protection Programme.

With respect to education, the LLSG grants municipalities the competence for establishing, financing, and administrating primary and secondary schools, in collaboration with the central government and according to the corresponding sectoral laws, as well as organising transport for pupils and when required, their accommodation in dormitories. The Municipality can delegate the execution of certain duties of public interest of local significance to other legal or natural persons, based on a contract for execution of duties of public interest.

The LLSG also defines local government’s responsibilities in the health sector, which include i) management of public health institutions and facilities on the level of primary health care; ii) health promotion and health prevention activities; iii) Surveillance of communicable diseases; iv) Support of patients with special needs (people with mental health problems, children victims of violence etc.); and (v) protection of health of workers

A2.7 Law on Financing Local Government (LFLSG)
The LFLSG was enacted in 2004 (Official Gazette of RM, 61/04), amended in 2004 (Official Gazette of RM, 96/04) and in 2007 (Official Gazette of RM, 67/07). This law sets the legal framework and conditions for the creation of a consistent system for financing units of local self-government. The goal of this Law is to operationalise the constitutional provisions for the autonomy of the units of local self-government. The fundamental aspects are directed towards:

- Enhancement of local self-government system based on principles of democracy and decentralisation.
- Competencies and responsibilities in performing the local public services in manner of the best interest of the citizens.
- High-quality resolution of the problems that citizens face in their working and living environment.

The Law on Local Government Finance provides details of the budgetary process for municipalities, from planning to auditing and delineates the sources of income for LSG, including taxes, fees, charges, revenues from ownership and donation, transfers from the central government (earmarked, capital and block grants), and borrowing. It also aims to introduce a new system of financing that guarantees financial independence to Units of LSG, fosters local public ownership, promotes high-quality and cost-effective performance of the public services In this sense the Law establishes completely new fiscal relations between the central government and the local self-government through the realisation of fiscal decentralisation.