

Malaj, Arben; Mema, Fatmir; Hida, Sybi

**Working Paper**

## Albania, financial management in the education system: Higher education

BERG Working Paper Series on Government and Growth, No. 54

**Provided in Cooperation with:**

Bamberg Economic Research Group, Bamberg University

*Suggested Citation:* Malaj, Arben; Mema, Fatmir; Hida, Sybi (2005) : Albania, financial management in the education system: Higher education, BERG Working Paper Series on Government and Growth, No. 54, ISBN 3931052516, Bamberg University, Bamberg Economic Research Group on Government and Growth (BERG), Bamberg

This Version is available at:

<https://hdl.handle.net/10419/38764>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

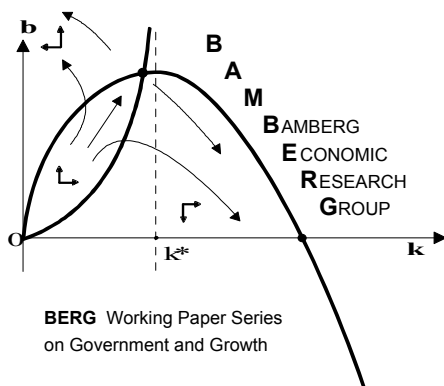
*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# Albania, Financial Management in the Education System: Higher Education

Arben Malaj, Fatmir Mema, and Sybi Hida

Working Paper No. 54  
December 2005



**BERG** Working Paper Series  
on Government and Growth

Bamberg Economic Research Group  
on Government and Growth  
Bamberg University  
Feldkirchenstraße 21  
D-96045 Bamberg  
Telefax: (0951) 863 5547  
Telephone: (0951) 863 2547  
E-mail: [public-finance@sowi.uni-bamberg.de](mailto:public-finance@sowi.uni-bamberg.de)  
<http://www.uni-bamberg.de/sowi/economics/wenzel/berg>

ISBN 3-931052-51-6



# Albania, Financial Management in the Education System: Higher Education

Arben Malaj<sup>\*</sup>

*FORMER MINISTER OF FINANCE, REPUBLIC OF ALBANIA.*

Fatmir Mema<sup>†</sup>

*VICE-DEAN OF THE FACULTY OF ECONOMICS, UNIVERSITY OF TIRANA, ALBANIA*

Sybi Hida<sup>‡</sup>

*HEAD OF BUDGET POLICY AND ANALYSIS DEPARTMENT, MINISTRY OF FINANCE, ALBANIA*

---

## Abstract

Recently, in Albania, the debate on the autonomy of higher education is growing. The debate is twofold; one is related with the problems of financing the higher education and the other in the choice of financial management system. The main resource of financing education and also higher education in Albania is the government, which means taxpayers, and a small part of the financing is coming by the tuition fees. In the case of Albania, when the GDP per capita is still low, the level of poverty is reasonable high; it is difficult for the students to afford the cost of higher education service. In the mean time the pressure from universities to increase the share of expenditures in higher education is pushing policymakers to think about the philosophy of the management of higher education in Albania. This paper is a thought-provoking paper that will try to help the stakeholders to find the best philosophy of financing and management of higher education. We agree that financial autonomy of universities is a superior system of the management of higher education but jumping to this system with the existing infrastructure, it is likely to fail.

Keywords: Albania, Higher Education Management

JEL Classification: H52, I20

---

<sup>\*</sup> Arben\_Malaj@ksg.harvard.edu

<sup>†</sup> f.mema@unitir.edu.al or fmema@yahoo.com

<sup>‡</sup> shida@minfin.gov.al



# **Albania, Financial Management in the Education System: Higher Education**

## **1 Introduction**

Albania's small economy in the wave of globalization besides other structural reforms undertaken during these years is trying to put much effort in supporting the education sector. The NSSD (National Strategy for Social and Economic Development), the government's plan to foster social and economic development treats the education sector as the main priority sector. A very important part of education sector that helps country to foster its economic growth is higher education. A well-educated work force is crucial to the economic and social health of every state, especially in today's global, information-based economy. In fact, higher education may be the most important key to the nation's continued prosperity and to the full participation of its people.

In Albania, the public sector is the main provider of education service at all levels; despite recent increases in the numbers of students in private schools. In 2002-2003, private schools accounted for less than 3.4 percent of the total student enrolment in pre-university (WORLD BANK, 2005). This rate is much smaller accounted for higher education, which means that we can classify the higher education in Albania purely financed by state budget. As a public sector, funded by state budget, education sector is not functioning by rules of free market. In this context, the government, according to its available resources, is obliged to determine the price of the service. Obvious, the price of the service is likely to be under the market price. Here, the market price is referred to both actors in the game, the price of service that students should pay, and the price of service that the universities should pay to professors.

During the last years the debate about the price of higher education has been a hot topic, and on December of 2004 it exploded and was associated with strike. The main requests of this strike were increasing wages of professors and about the financial autonomy of the universities. The strike lasted few weeks and the Government decided to accept partly their requests and promising further reforms on financial autonomy to universities. The salary of academic staff was increased and the universities now have more freedom to use the money coming from tuition

fees, especially those paid from part –time students. The level of salaries of academic staff in the end of 2004 was increased in average more than 60 percent.

The higher education institutions in Albania are functioning according to the “Law for Higher Education in the Republic of Albania” approved in 1999. The law permits opening of private higher education institutions as well, which till now there are functioning tow private universities. The demand to open the private universities is high and some of requests are under discussion in Ministry of Education and Science. Higher education in Albania is a binary system. Currently there are 12 universities, 2 academic schools and one no-university high school. There are located on 6 cities, and most of them belong to the capital city – Tirana. Most of universities in the other cities of Albania are open during the recent years, or better to say some of them are been upgraded to high school in universities. This changing in the higher education system is a welcomed event but in the same time it requires a careful monitoring in order to keep the quality of diplomas.

There are attempt to create a accredit rate of the universities in Albania, but till now this rating among universities / faculties does not exist. In 1999 a national Agency of Accreditation was created, but it still is under designing criteria and procedures necessary for higher education institutions accreditations. So, still in Albania does not work any legal / formal classification of universities, and if we go further it is impossible to compare our universities with others in different countries in Europe. In fact, there is not purpose of this paper to contribute to this issue. We will stop on financial problems of higher education in Albania. Following section describes the cost of higher education and the available resources financing it. The next section will try to analyze the financial autonomy of higher education in Albania. The paper will end with some conclusions and recommendations.

## **2 Cost and Financing Higher Education in Albania**

As it is noted above the education sector in Albania mostly is financed by public resources and a small part of it from the tuition fees – also are part of the state budget (MEMA, 2003). In this situation when education sector is offered as a public service, its financing is bound by the available resources that economy generates. In the cases when government does not fund a public service and when there are possibilities to treat this service as a private good the buyers can pay to have it. In the case of Albania, when the GDP per capita is still low, the level of poverty is reasonable high; it is difficult for the students to afford the cost of higher education

service. It is not by chance that a small number of students study in private universities.

In 1991, Albania changed its communist regime toward market economy. Since then, there is done a lot of progress but still the economy of Albania is not generating enough resources that can fund all demands of the consumers. The public expenditures in 2004 accounted less than 28 percent of GDP and budget revenue less than 24 percent of GDP (see in Annex). This picture tells that education funding in Albania is likely to be lower than Europe countries. In this comparison we do not take in consideration the number of students studying abroad.

The Ministry of Education and Science represents the state authority, which plays the role of compiler and coordinator of government policies for the development of public higher education institutions. Higher education in Albania is financed by taxpayers (through state budget) and from tuition fees. National system of the tuition fees in Albania is based on economic level of the country, and not in cost covering basis. At the moment, there are two systems of tuition fees in Albania; one is related to full time students and the other one to the part time students, including here post university levels. For the full time students, the fees are too low and are the same for all students, nevertheless of their level of studies, nationality etc. This system is trying to change gradually and to apply fees for different services offered from the higher education institutions. A different tuition fees system is applied to part time<sup>1</sup> students. The tuition fees vary among faculties. This policy has helped both, compensation of academic staff and the increase of the number of students.

The number for admission in higher education in Albania is limited, but during the last years the government policy has been liberal in increasing the number of admissions. Apart from this policy the rate of number of students to population is still low. The number of students' studying in Albania<sup>2</sup> per 100,000 inhabitants accounted around 1,400, when in the FYR of Macedonia it stands more than 2,000 (see table 1). The number of students in higher education depends on the capacity of universities in terms of financial resources and academic staff. At the moment, there is a growing debate on the policy to open public universities for all students. Both two big political parties have in their programs the policy of opening public

---

<sup>1</sup> The part time system started in 2002.

<sup>2</sup> Each year a considerable number of students are going for study abroad, approximately 3,000.



universities to everyone for the next government. Of course, this kind of policy will force the next government to look on the tuition fee system.

**Table 1.** *Number of students' studying in Albania.*

Academic Year	1998 / 99	1999 / 00	2000 / 01	2001 / 02	2002 / 03	2003 / 04
Male	15470	16095	15790	16036	16420	19976
Female	23032	24030	25069	26124	27180	32633
In total	38502	40125	40859	42160	43600	52609
Population in millions	3.05	3.06	3.06	3.08	3.10	3.12
<b>Number of students per 100,000 inhabitants</b>	1.26	1.31	1.33	1.37	1.41	1.69

Source: INSTAT (2004)

The cost of higher education is covered by state and it is related to the compensation of academic staff and other staff, the operation cost as well as spending on new development – capital investment. Being a priority sector, the salary policy of education sector during last years has been treated differently with other public services, especially for higher education. The average monthly wages in 2005 accounted more than twice compared with 2000. In the same time the cost per student during the last years has increased reasonable (table 2).

Also, in the higher education system in Albania, a student grant policy is applied. This system is applied to the students that fulfill three criteria: (i) belong to families with incomes under the economic level of life; (ii) are best students (classified by the highest mark); and (iii) are students of Mathematics and Physics in the Natural Sciences Faculty of the University of Tirana. The policy grant of students is applied also to the Albanian students studying abroad within bilateral agreements with different countries or on a private way. For the first category there are grants from foreign countries according to the students' results. In the same time, Albanian government offers grants for foreign students, coming in Albania according to bilateral agreements. The grant is 20% higher then that of Albanian students, and mostly tries to cover accommodation and food expenses.

**Table 2.** *The dynamic of universities salary*

In Lek	2000	2001	2002	2003	2004	2005
Average monthly wages in Universities	22.481	33.782	40.830	42.815	48.002	48.305
Average monthly costs per student	6.094	7.453	8.245	8.014	10.555	10.596

Source: MINISTRY OF FINANCE (2005)

So, beside the funding the cost of higher education for its citizens, the government of Albania is trying to fund there policy area, the social one, the policy of promoting good quality and the policy of increasing demand for those study fields that will be necessary in the future. Hence, it is obvious that the cost of higher education in Albania is increasing year by year. The cooperation of universities with private sector is still absent, with very few examples, the cost of financing them mostly is afforded by taxpayers. Regardless of the needs that other sectors have, the budget of education sector during last years has been increasing but it still does not fulfill the Albania (government) ambition (see table 3).

**Table 3.** *The dynamic of available financial resources of higher education*

In million Lek	2000	2001	2002	2003	2004	2005
Education Budget	17.192	19.488	19.034	21.269	25.281	27.383
Budget for Higher Education	2.006	2.596	3.047	3.338	4.449	4.466
a. from the state budget (taxpayers)	1.961	2.418	2.897	3.071	3.830	3.502
b. from own revenues (tuition fees)	45	178	150	267	619	964
b/a in %	2,2	6,9	4,9	8,0	13,9	21,6
Higher education budget to Total Budget, in %	11,7	13,3	16,0	15,7	17,6	16,3

Source: MINISTRY OF FINANCE (2005).

According to table 3 the share of higher education budget to total budget of education sector has increased substantially in 2005 compared to 2000, from 11.7 percent to 16.3 percent. This increase of the budget of higher education mostly is coming from tuition fees. In 2005, about 22 percent of the budget allocated to higher education is coming from tuition fees compared with 2.2 percent in 2000. The increase of tuition fees is applied to the part time students. Starting from this

year faculties are allowed to use their revenues deriving from tuition fees up to 90 percent, most of them cover operating cost – bonus to professors / staff.

### **3 Financial autonomy and fund allocation for higher education in Albania**

The concept of autonomy is analyzed by a number of researchers and, according to KOHTAMÄKI (2003, p. 3) the autonomy can mean freedom of action but also capacity to act and achieve results (power). The entire autonomy of universities is related to institutional freedom of universities, the academic freedom within universities, and the financial autonomy of universities. According to NEAVE (1998) and his historical category of models of university autonomy, there have been the Bologna model, the Paris model, the Humboldtian model and the British model. The Bologna model of autonomy consisted of the freedom of the individual to learn (KOHTAMÄKI, 2003).

Albania has signed Bologna Declaration and is taking steps to move its higher education to this model. The law for higher education in the Republic of Albania gives much room for freedom to universities- institutional research and it has opened the possibility of financial autonomy. There is given purely institutional freedom, the Dean is the main leader of a faculty's every day activity and is elected by the staff of the faculty. All managerial positions in within universities are elected. It is clear that universities in Albania are independent of all political authority. Also, the law clearly define that universities are free in choosing the fields of teaching and research. About the freedom of financial autonomy the law clearly define that universities have their own budget and the management of their budget is done according to the legal regulations.

So, the law permits that universities in Albania should manage their own budget as an independent entity. Moving from existing financial management system of universities to another system requires a different legal infrastructure. A pipe is needed first, in order to send the oil from east to west. It is clear that the existing infrastructure does not match with the philosophy of financial autonomy of universities. There will be other criteria on the amount of funds that universities will get from the state budget. As the number of public universities is increasing, the allocation of funds is becoming more complex. The allocation should take in consideration both, the government policy of increasing the enrollment rate of higher education and increasing the quality of education.

The universities in Albania are treated in the same manner as other public institutions in the budget point of view, with some regulations done recently for the revenues coming from tuition fees. At the moment the financial management system consists in two steps. The first step, after the budget is approved by Parliament for Ministry of Education and Science as separate item for higher education, the Ministry allocates it among universities. The amount of budget for higher education is based on the macroeconomic situation and also on the requests of universities based on some criteria's (see below). In many cases the requests of universities do not match with the funds allocated to them. The second step is related to the allocations of the funds within universities, which follow the same criteria with universities budgeting. The main role in this process is played by the Ministry of Education and Science, and the staff of universities.

In the statute of the University it is also defined the structure of the financial management in the University. The highest status of University belongs to the Senate. The Senate of the University is an elected collegial organ of the University. This organ decides on the most important issues in the area of teaching, scientific research and financial management. The Rector (elected by the Senate) directs and legally represents the University for the financial problems. For each university and faculty, a chancellor is selected for the financial transactions purpose. The chancellor of the university is proposed by the Rector and approved by the Ministry of Education and Science. The chancellor of the University has the following duties and competencies in the financial management area: (i) follows all the economic and administrative activities of the University; (ii) organizes and follows step by step the procedure of budget preparation and implementation and the distribution of budgetary funds and other sources of financing; (iii) organizes the auditing in all the Faculties within the University; (iv) chief of the commission of investments and purchasing; (v) delegated by the Rector, represents the university, for all the financial issues with the bank and other financial institutions;

In the Statute of the Universities is stated that in the organizational structure of the University exists the Finance and Accounting Department and the Investments sector like a separate one and they do not depend from the Finance and Accounting branch. The Finance and Accounting Department works in close cooperation with the economic units in all of the Faculties depending from the University. The economic units in the Faculties report to the Finance and Accounting department every two months, but from the other hand this department reports to the Chancellor every four months. Based on the law on Higher Education the Statute

of the University and the regulations of the Universities, the Senate of the University decides for the most important financial issues.

There is a legal contradiction in the role of the Rector and the Chancellor of the University (the Dean and the Chancellor of the Faculty). The Rector directs and represents the University; meanwhile the chancellor monitors all the economic activities of University. So, from this point of view the chancellor is more important regarding the financial issues than the Rector. Here we have to emphasize that the Rector of the University is the main authority of the budget (the Dean for the Faculty). In the Faculties the internal auditing is made by the Finance and Accounting Department of the University, meanwhile the Directory of Monitoring in the Ministry of Education and Science does the monitoring of the budget and expenditures.

The allocation of funds within the University is realized contemporary with the allocation of funds for Higher Education institutions<sup>3</sup>. The process we explained earlier regarding the budget preparation and submissions takes place in the same way also within the University. The distribution of funds within the University is based in the following criteria's: (i) number of enrolled students for undergraduate studies of each Faculty; (ii) number of full-time and part-time professors; (iii) surface of the buildings of the Faculty; (iv) specific expenses of the teaching process; (v) amount of revenues generated by the Faculty. Based on these criteria's these funds are distributed within the Universities. It is important to mention that the number of students of each faculty and the number of full-time professors / staff for universities are decided by Government. It is obvious that universities do not have much freedom to manage their budget resources.

Hence, the amount of budget for universities / faculties depends on number of enrolled students for undergraduate studies and depends on number of employees ('an input budget system'). It is clear that our system of financing higher education is not according to the efficiency, which is in accordance to the number of graduated students, in accordance to the number of credits, in accordance to the other quality measurement. Although, the allocation of funds is done according to quantities data, the new procedures that are in place now in budget planning create incentives to use quality measurement (not fully) in the amount of budget funds. But, unless, in our higher education system does not exist a qualitative evaluation of universities it is impossible to plan the budget based on these measurement.

---

<sup>3</sup> For more see also MEMA (2003, 2004).

So, the infrastructure that financial management of universities operates is reasonably far away from the overall concepts applied in the European model regarding the management of Higher Education Institutions. We have to emphasize that the legislation doesn't handle clearly the problem of financial autonomy and financial management. On the one hand, it doesn't create obstacles but on the other hand it is very evasive because it doesn't determine boundaries within which the financial autonomy can be operational. It is accepted that financial autonomy of universities influence the progress of higher education system but its implementation does not mean necessarily that it will solve all problems that our system face. Universities are not like other businesses that can improve their performance according to the raise of their capital. The performances of universities depend on many factors, such as the culture of the country, their history – experience, the structure of society, the economic system, etc. In his speech, the Minister for Education of Singapore after his visit in three public universities in US in 2004 stated: “that autonomy has to encompass a total culture within a university. It is not just a matter of autonomy in specific processes. Each of these universities illustrates that for autonomy to succeed, a university requires a culture of ownership and commitment at all levels: the Board of Trustees, the university leadership and key administrative staff, and an active, involved faculty”.

Hence, it is immediate that apart from the law, a legal framework should be created in order to leave the financial management entirely to universities / faculties. The legal framework should be related to regulations dealing with authority of the universities on how the funds are allocated to them and how they use their money. Also, another important issue is related with the legal structure among universities and within them responsible for the accountability on budget process. Financial autonomy implies the transfer of management responsibility from the government to public higher education institutions. This new development also presumes the acceptance of the challenge for increasing responsibility towards the state and society. Let analyze some of the problems that can be raised in the financial management of universities.

The first step of financial autonomy of universities in Albania should be related to the decision of budget allocation. In the point of view, it is widely believed, the lump-sum budgeting could be a remedy for a large part of the current problems in the Higher Education sector (ZIEGELE, 1998. p.1). This author shows that moving to a lump-sum budgeting system, three main important factors that should be analyzed. The first one deals with the distinction between formal and factual autonomy. Formal autonomy means that higher education institution has the

competence to decide how public money is spent. The factual autonomy is not finally determined by that competence, because it is not clear if higher education (HE) institution is really free in its decision – to spend on equipment or to decide for additional staff. ZIEGELE (1998) stated that if the formal autonomy encloses no factual autonomy, lump-sum budgeting is a reform measure without any effects. It is too important that before our financial system in higher education moves to the lump-sum budgeting a careful analyses is needed on factual autonomy of universities. This analysis should be focused on governance structure of universities.

Another important factor related with lump-sum budgeting is that there is not guaranteed, that HE institutions really use their financial autonomy in an efficient and effective way that is favorable to society. Here a moral hazard problem can arise, it is not clear that the cadre of management of universities may use their power for themselves interest. To prevent the moral hazard problem in the HE institutions a system of sanctions and incentives, which regulates the behavior of decision makers, should be created. In the exiting structure, the use of the revenues deriving from tuition fees is not based on clear regulations and much power is given to the Dean. In this context, a careful analysis should be done for this management tools.

The last important factor related to the lump-sum budgeting system is that financial autonomy in the long run may not be accepted by society and politicians and is in danger of being cancelled. The step to the financial autonomy should be done carefully and taking the agreement of all actors. In the context of financial autonomy it is difficult for public auditing to judge the autonomous choices of university decision makers. It is difficult for the public (including politics) to agree with the results of higher education because of self-interested decision makers. This situation can create conflicts between universities and the public, and especially with students. In this aspect, it is very important that a very comprehensive framework of accountability should be created in order to support the life of university autonomy.

The three factors mentioned above should be the subject of discussion before deciding to give financial autonomy to universities. All problems that expected to come from the financial autonomy should be analyzed and all solutions to be put in the legal framework of universities management. As we mentioned above the autonomy of universities is related to many factors, and the implementation of financial autonomy to all universities may be in danger. It is not fair to compare the management of west universities with our universities. Of course, our

universities during recent years have taken institutional and academic autonomy, but it is still early to judge about the degree of factual degree of our universities / faculties. Also, another important factor that influence the time of moving to financial autonomy is the absent of accreditation rating of our universities. The financial autonomy without this rating probably will influence negatively in the quality of higher education. It will also affect negatively the quality of teaching and researching.

As we mentioned above, moving to a lump-sum budgeting system will require a legal framework (maybe law) that deals with the funds allocations among universities. The allocation of funds among universities should take in consideration the final result – the incentive to produce good quality of higher education. The experience in other countries or our experience on decentralization tells that the best way to allocate a lump-sum is using a formula. It is very important and very difficult to determine the elements of formula. The formula should take in consideration all factors that influence the aim of universities, its running costs as well as tuition fees – which will be analyzed later. It is important that the formula takes in consideration the quality of universities and the competition between universities. Designing this kind of formula a list of related issues should be analyzed.

The idea of formula in the financial autonomy of universities in Albania has been treated by the INSTITUTE FOR CONTEMPORARY STUDY (RULI et al., 2004). We are not going to analyze the elements of formula proposed in this study but will continue to raise problems that should be solved by government before moving to financial autonomy. Before to go to the elements of formula it is important to decide in what part of financial resources, the formula will be used. It is necessary for the government to decide if they are using different methods of budget allocation to universities, those related to teaching and those related to research. The experience of other countries shows that funds for research are used separately from those of teaching. Of course this decision will be taken after analysis, but according to the impact that research has in economic development we propose that these funds should be separated. Also, it is important if the funds for capital investment will be part of formula or will be treated separately. It is important to remember that the capital assets of universities has been created during years, and are not the same among universities.

Another important decision that should be made before discussion the elements of formula is the ‘policy’ of tuition fees. We call this ‘policy’ because its effects are much bigger than a payment of a fee. Apart of what kind of tuition fee system will



be used their level depends on many factors. The demand for a specific university does not depend only in its quality (good name) but in the structure of the economy, and the government is obliged to regulate this sector (i.e. giving grant to students studying mathematics). It is difficult to decide if the money from tuition fees should be within formula or outside it, but at the moment for us it seems to be out of formula. But again the tuition fees should be considered very careful in the financial autonomy reform.

At the moment, it is difficult for us to list all the potential elements of formula for the allocation of funds among universities, and we are sure that this is a hard job. Our opinion again is that without an accreditation system the financial autonomy is not credible. As we mentioned in the introduction our higher education institutions are different from each other regarding subjects, experiences, locations, demands, cost per student, etc. It is necessary that the elements of formula take in consideration all those elements. In Europe there is a mix of examples of allocation of lump-sum grants to universities. In Germany, in Lower Saxony about 70% of the lump-sum grant should be calculated by volume-oriented indicators (25% according to the number of graduates, 25% according to the number of students in the first year of the first two years of study and 20% according to the number of research units containing professorates and certain other research institutes) (ZIEGELE, 1998). The system of lump-sum allocation of higher education in England is more complex, using two different formulas for teaching and research, and the elements of each formula reflect many factors that influence higher education.

Another aspect of financial autonomy of universities should be related to the other funds that universities could benefit, like those from donations, local government, sponsorships etc. It is important that some time this kind of resources may influence the competition among universities. It is important for the universities to have a favorable environment to benefit from cooperation with business community. The financial autonomy system should create incentives for universities to be involved in the cooperation with other academic institutions within countries and abroad. Maybe a kind of proxy of universities cooperation can be used in formula. So, those universities that have more teaching / researching cooperation with the well-known universities in the world should be encouraged by allocating more research funds.

Another important factor that should be under discussion at the time of designing the infrastructure of financial autonomy is the policy of loan. The loan here will be treated in two contexts, in the context of universities and in the context of students.

In the context of universities the policy of loan on its functioning depends on the role of capital funding. If capital funding belong to the Ministry of Education and Science (government), then it will be better to stop universities to borrow. If the capital funding belongs to lump-sum grant (formula), then specific criteria should be established for the right of universities to borrow. In this case, a careful infrastructure that takes in consideration all events should be created. The borrowing from public entities could be a big problem for the state budget.

The other aspect of the loan policy is related to the students' point of view. It is important for the government to solve some social problems that derive from the using public services. It is known that the government is not able to offer free services for all citizens. The government can use the same scholarship policy for those students coming from families with low-income levels, but it should also open the light of credit and loan scheme. These kinds of schemes are known in the west countries and seem to produce a good result. If we are going to a financial autonomy of universities, and using differential tuition fees, financial autonomy should be associated with credit and loan scheme. It is important that the infrastructure of using these schemes has to be rationale. It is likely that the moral hazard problems to arise between students and universities, students and banks, and banks and universities.

As we mentioned earlier, the autonomy is likely to produce good results, but in the same time it is likely to fail because of self-interest behavior of cadres of managers. With financial autonomy the universities will have a lot of responsibilities. The degree of transparenance and accountability of universities will play a very important role on progress of this system. Periodically ex ante analysis and ex post analysis should be part of this system. This system with lots of regulations requires a strong auditing and controlling, both internal and external. Maybe a new structure of monitoring the financial management of universities is necessary to be created. External control plays a very important role on the progress of financial autonomy. It is important to see how the contradictions between the Ministry of Education and Science (government) and universities, and universities and faculties would be solved. So, all questions that rise from this exercise should be answered by the infrastructure that financial autonomy operates.

## 4 Conclusion

It is clear that financial autonomy of universities is a superior system of the management of higher education. The available public resources of the government allocated to higher education sector do not match with the needs of this sector. The only way to improve the higher education system in Albania is to create incentives for universities, to afford all demands and to improve their service. At the moment it seems to be two ways of achieving this objective; first to move to a financial autonomy system, and second to allow a differentiate tuition fee system. Both these movement require careful treatment. A comprehensive legal framework should be created and be discussed intensively before it is implemented.

Financial autonomy should be given to universities if the necessary infrastructure is created. The government of Albania and the universities by themselves should cooperate in the designing of all legal frameworks in order for financial autonomy to work, to recommend an appropriate model of autonomy for public universities that will enable them to respond to the opportunities and challenges of a more competitive university landscape and to achieve global excellence.

It will be preferable if financial autonomy would be implemented in the form of pilot project. In order to cover all problems that are likely to derive from financial autonomy there will be preferable to choose two universities with different characteristics: the location of universities should be different (one in Tirana, one in other region) and the cost per student to be different (one universities that have high cost per student and one a low cost). This pilot experiment would be important because it will influence also the designating of legal framework.

The new infrastructure that will be established should review the governance structures and framework of accountability of the universities that should accompanied and support university autonomy. Also, it is important to see what role the direct beneficiaries of higher education – students should have in this new system. Supposed that this system will be followed by increased fee, a specific treatment on the social (maybe credit system) point of view is needed to be established.

## 5 Annex.

*Table: Selected macroeconomic indicators*

	2000	2001	2002	2003	2004	2005
Population (in 000)	3.401	3.063	3.084	3.103	3.120	3.135
GDP (in million Leke)	530.906	610.426	677.684	744.974	835.448	918.105
GDP (in million USD\$)	3.695	4.254	4.834	6.116	8.033	8.744
GDP growth	7,3	7,2	3,4	6,0	5,9	6,0
GDP per head in USD\$	1.086	1.389	1.567	1.971	2.575	2.789
Inflation, end of period	4,2	3,5	1,7	3,3	2,0	2,6
Budget Revenues, % of GDP	24,6	23,9	22,8	22,4	22,1	22,5
Public Expenditure, % of GDP	31,9	30,5	28,4	27,0	26,7	27,1
Budged Deficit, % of GDP	-7,3	-6,6	-5,6	-4,6	-4,6	-4,6
Public Debt, % of GDP	74,2	67,7	63,2	61,3	55,4	53,7
Public Expenditure in Education, % of GDP	3,0	3,0	3,0	3,1	3,1	3,2
Exchange Rate (Lek/USD)	143,70	143,48	140,20	121,80	104,00	105,00
Exchange Rate (Lek/Euro)	132,60	128,50	132,40	137,50	135,00	135,00

Source: MINISTRY OF FINANCE (2005)

## 6 Literature

- KOHTAMÄKI, V. (2003), "Financial autonomy of professional higher education institutions – comparison between Finland and some European countries", University of Tampere, Finland. [www.uta.fi/finhert](http://www.uta.fi/finhert)
- INSTAT, (2004) "Students enrolment by universities", <http://www.instat.gov.al/graphics/doc/tabelat/Treguesit%20Sociale/Arsimi/Arsimi2004/Ars9.xls>
- MEMA, F. (2003), "Autonomy and financial management at universities: the case of Albania", Workshop, UNESCO - CEPES, Rumania, May 2003
- MEMA, F. (2004), "Albania: "Vortices of imbalance", Higher Education in Europe, Vol. XXIX, No 3, October 2004, p. 309-317
- MINISTRY OF EDUCATION AND SCIENCE, (1999), "Law for Higher Education in the Republic of Albania"
- MINISTRY OF FINANCE, (2005), "Working materials", [www.minfin.gov.al](http://www.minfin.gov.al).
- NEAVE (1998) On Being Economical with University Autonomy: Being Account of the Retrospective Joys of a Written Constitutions. In *Academic Freedom and Responsibility* Malcolm Tight (ed.). p. 31-48.
- RULI, G., PUKA, LL., LLACI, SH., AND ÇELA, H. (2004), "Increasing the financial autonomy of higher education institutions as a fundamental element for the development of institutional autonomy", Institute for Contemporary Studies, Tirana, Albania.
- THE BOLOGNA DECLARATION OF 19 JUNE 1999.
- WORLD BANK (2005) "Albania Poverty and Education in Albania: Who Benefits from Public Spending?". Report No. 32983-AL.
- ZIEGELE, F (1998), "Financial Autonomy of Higher Education Institutions: The Necessity and Design of an Institutional Framework" Gütersloh, Germany. Centrum fur Hochschulentwicklung, Arbeitspapier, nr.17

## BERG Working Paper Series on Government and Growth

---

- 1 Mikko **Puhakka** and Jennifer P. **Wissink**, Multiple Equilibria and Coordination Failure in Cournot Competition, December 1993
- 2 Matthias **Wrede**, Steuerhinterziehung und endogenes Wachstum, December 1993
- 3 Mikko **Puhakka**, Borrowing Constraints and the Limits of Fiscal Policies, May 1994
- 4 Gerhard **Illing**, Indexierung der Staatsschuld und die Glaubwürdigkeit der Zentralbank in einer Währungsunion, June 1994
- 5 Bernd **Hayo**, Testing Wagner's Law for Germany from 1960 to 1993, July 1994
- 6 Peter **Meister** and Heinz-Dieter **Wenzel**, Budgetfinanzierung in einem föderalen System, October 1994
- 7 Bernd **Hayo** and Matthias **Wrede**, Fiscal Policy in a Keynesian Model of a Closed Monetary Union, October 1994
- 8 Michael **Betten**, Heinz-Dieter **Wenzel**, and Matthias **Wrede**, Why Income Taxation Need Not Harm Growth, October 1994
- 9 Heinz-Dieter **Wenzel** (Editor), Problems and Perspectives of the Transformation Process in Eastern Europe, August 1995
- 10 Gerhard **Illing**, Arbeitslosigkeit aus Sicht der neuen Keynesianischen Makroökonomie, September 1995
- 11 Matthias **Wrede**, Vertical and horizontal tax competition: Will uncoordinated Leviathans end up on the wrong side of the Laffer curve? December 1995
- 12 Heinz-Dieter **Wenzel** and Bernd **Hayo**, Are the fiscal Flows of the European Union Budget explainable by Distributional Criteria? June 1996
- 13 Natascha **Kuhn**, Finanzausgleich in Estland: Analyse der bestehenden Struktur und Überlegungen für eine Reform, June 1996
- 14 Heinz-Dieter **Wenzel**, Wirtschaftliche Entwicklungsperspektiven Turkmenistans, July 1996
- 15 Matthias **Wrede**, Öffentliche Verschuldung in einem föderalen Staat; Stabilität, vertikale Zuweisungen und Verschuldungsgrenzen, August 1996

- 16 Matthias **Wrede**, Shared Tax Sources and Public Expenditures, December 1996
- 17 Heinz-Dieter **Wenzel** and Bernd **Hayo**, Budget and Financial Planning in Germany, February 1997
- 18 Heinz-Dieter **Wenzel**, Turkmenistan: Die ökonomische Situation und Perspektiven wirtschaftlicher Entwicklung, February 1997
- 19 Michael **Nusser**, Lohnstückkosten und internationale Wettbewerbsfähigkeit: Eine kritische Würdigung, April 1997
- 20 Matthias **Wrede**, The Competition and Federalism - The Underprovision of Local Public Goods, September 1997
- 21 Matthias **Wrede**, Spillovers, Tax Competition, and Tax Earmarking, September 1997
- 22 Manfred **Dauses**, Arsène **Verny**, Jiri **Zemánek**, Allgemeine Methodik der Rechtsangleichung an das EU-Recht am Beispiel der Tschechischen Republik, September 1997
- 23 Niklas **Oldiges**, Lohnt sich der Blick über den Atlantik? Neue Perspektiven für die aktuelle Reformdiskussion an deutschen Hochschulen, February 1998
- 24 Matthias **Wrede**, Global Environmental Problems and Actions Taken by Coalitions, May 1998
- 25 Alfred **Maußner**, Außengeld in berechenbaren Konjunkturmodellen – Modellstrukturen und numerische Eigenschaften, June 1998
- 26 Michael **Nusser**, The Implications of Innovations and Wage Structure Rigidity on Economic Growth and Unemployment: A Schumpeterian Approach to Endogenous Growth Theory, October 1998
- 27 Matthias **Wrede**, Pareto Efficiency of the Pay-as-you-go Pension System in a Three-Period-OLG Modell, December 1998
- 28 Michael **Nusser**, The Implications of Wage Structure Rigidity on Human Capital Accumulation, Economic Growth and Unemployment: A Schumpeterian Approach to Endogenous Growth Theory, March 1999
- 29 Volker **Treier**, Unemployment in Reforming Countries: Causes, Fiscal Impacts and the Success of Transformation, July 1999
- 30 Matthias **Wrede**, A Note on Reliefs for Traveling Expenses to Work, July 1999
- 31 Andreas **Billmeier**, The Early Years of Inflation Targeting – Review and Outlook –, August 1999

- 32 Jana **Kremer**, Arbeitslosigkeit und Steuerpolitik, August 1999
- 33 Matthias **Wrede**, Mobility and Reliefs for Traveling Expenses to Work, September 1999
- 34 Heinz-Dieter **Wenzel** (Herausgeber), Aktuelle Fragen der Finanzwissenschaft, February 2000
- 35 Michael **Betten**, Household Size and Household Utility in Intertemporal Choice, April 2000
- 36 Volker **Treier**, Steuerwettbewerb in Mittel- und Osteuropa: Eine Einschätzung anhand der Messung effektiver Grenzsteuersätze, April 2001
- 37 Jörg **Lackenbauer** und Heinz-Dieter **Wenzel**, Zum Stand von Transformations- und EU-Beitrittsprozess in Mittel- und Osteuropa – eine komparative Analyse, May 2001
- 38 Bernd **Hayo** und Matthias **Wrede**, Fiscal Equalisation: Principles and an Application to the European Union, December 2001
- 39 Irena Dh. **Bogdani**, Public Expenditure Planning in Albania, August 2002
- 40 Tineke **Haensgen**, Das Kyoto Protokoll: Eine ökonomische Analyse unter besonderer Berücksichtigung der flexiblen Mechanismen, August 2002
- 41 Arben **Malaj** and Fatmir **Mema**, Strategic Privatisation, its Achievements and Challenges, Januar 2003
- 42 Borbála **Szüle** 2003, Inside financial conglomerates, Effects in the Hungarian pension fund market, January 2003
- 43 Heinz-Dieter **Wenzel** und Stefan **Hopp** (Herausgeber), Seminar Volume of the Second European Doctoral Seminar (EDS), February 2003
- 44 Nicolas Henrik **Schwarze**, Ein Modell für Finanzkrisen bei Moral Hazard und Überinvestition, April 2003
- 45 Holger **Kächelein**, Fiscal Competition on the Local Level – May commuting be a source of fiscal crises?, April 2003
- 46 Sibylle **Wagner**, Fiskalischer Föderalismus – Theoretische Grundlagen und Studie Ungarns, August 2003
- 47 Stefan **Hopp**, J.-B. Say's 1803 *Treatise* and the Coordination of Economic Activity, July 2004
- 48 Julia **Bersch**, AK-Modell mit Staatsverschuldung und fixer Defizitquote, July 2004



- 49 Elke **Thiel**, European Integration of Albania: Economic Aspects, November 2004
- 50 Heinz-Dieter **Wenzel**, Jörg **Lackenbauer**, and Klaus J. **Brösamle**, Public Debt and the Future of the EU's Stability and Growth Pact, December 2004
- 51 Holger **Kächelein**, Capital Tax Competition and Partial Cooperation: Welfare Enhancing or not? December 2004
- 52 Kurt A. **Hafner**, Agglomeration, Migration and Tax Competition, January 2005
- 53 Felix **Stübben**, Jörg **Lackenbauer** und Heinz-Dieter **Wenzel**, Eine Dekade wirtschaftlicher Transformation in den Westbalkanstaaten: Ein Überblick, November 2005
- 54 Arben **Malaj**, Fatmir **Mema**, and Sybi **Hida**, Albania, Financial Management in the Education System: Higher Education, Dezember 2005