

## REPORT

### **Strengthening Fiscal Transparency and Financial Accountability in the Public General Education System of Yerevan**

#### **Overview**

The purpose of this paper is to review and analyze the Yerevan City public general education system, namely its financing and management at the level of central government, local self-government, and public general education institutions, the strengths and weaknesses of the current system of financing educational institutions, and fiscal transparency and financial accountability; as well as to identify the existing issues, shortcomings, and deficiencies, to develop recommendations on addressing them and to inform the public about them.

**Legal Basis of Financial Accountability and Transparency in the Public General Education System:** the fiscal transparency and financial accountability provisions in the Armenian legislation are barely sufficient for the public to become aware of decisions taken at the level of the government and ministers, but fail to create adequate conditions for the public to learn about decisions taken at the level of the public general education institutions. This legal gap is not offset in practice, and neither the general public nor the beneficiaries of such educational institutions are aware of the financial flows of educational institutions, as a consequence of which they neither monitor nor support the financial policies of such institutions.

**General Overview of the Public General Education System in the City of Yerevan:** of the 253 public general education schools operating in the City of Yerevan, 159 of the educational institutions offering public general education operate under the Yerevan City Administration. During the 2012-2013 academic year, 21.3% of the total number of pupils of the country (78,552 pupils) attended the schools operating under the Yerevan City Administration. 76,423 of them were receiving the core curriculum. 3,107 classes with a total of 77,665 pupils were formed in the public general education schools of Yerevan. During the 2012-2013 academic year, the schools operating under the Yerevan City Administration employed a total of 6,545 teachers<sup>1</sup> (16 percent of the total number of teachers in the country).

The analysis of the situation in the public general education system in the City of Yerevan was conducted through three key indicators: access, quality, and efficiency.

In terms of **access** to public general education in the City of Yerevan, there are essentially no major problems, because the total capacity of the schools exceeds the number of learners. As to the education enrolment indicators, which could shed light on the actual level of access, they are usually not published with a regional (*marz*) breakdown. The national enrolment figures that are published fail to reflect the real situation, because the UNESCO methodology requires estimating enrolment on the basis of the number of learners of a specific age that are permanently present, rather than the number of learners currently present in the country. Considering that the number of learners that are temporarily absent from the country can significantly influence the enrolment figure, other tools need to be used to measure real enrolment in schools and the real dropout figure. The other challenge of measuring enrolment in education is that the schools do not have assigned coverage areas, and the parents are free to choose a school. It is widely known that many

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<sup>1</sup> Statistics of the National Center for Education Technologies contain the number of employed teachers, but not the number of staff positions, although the number of staff positions is more important to determining the amount of funding.

people residing near Yerevan prefer their children to study in schools in Yerevan, given some qualitative advantages of the latter.

There are usually input and output indicators of the **quality** of education. Significant differences between the results of graduation exams and unified national exams, as well as the discrepancies between the findings of international assessments and external evaluations show that these indicators cannot accurately reflect the actual quality of education. The general education graduation exams are not perceived as very important by the public, and are largely deferred to the schools, which undermines confidence in their results.

A key indicator of input quality is the qualification of the teachers. 92.1% of the teachers in Yerevan have university degrees, which is considerably higher than the national average of 87.2%. However, the percentage of teachers with a university degree in pedagogy is somewhat lower in Yerevan (91.7%) than nationally (92.1%).

Another key indicator of input quality is the average spending per pupil. According to the 2012 National Budget, the average annual spending per child studying in the public general education system of Yerevan was 133,000 drams, while the national average was about 195,000 drams. This difference is due to the fact that most of the schools in Yerevan have a sufficient number of pupils, while the regions have many small schools and schools operating below capacity.

The key indicators of education system **efficiency** are the teacher-to-pupil ratio and the average density of a class. Owing to schools with a large number of pupils, the aforementioned indicators are much higher in Yerevan than the national average (12.0, compared with a national of 9.0). Average class density in Yerevan schools (25.0) is also higher than the national average (16.2).

**Management of the Public General Education System of Yerevan:** according to the Constitution of the Republic of Armenia, Yerevan has the status of a community (municipality). The majority of the public general education system management powers are reserved for the Republic of Armenia Government and Ministry of Education and Science. The Ministry of Territorial Administration and local self-government bodies have very limited powers, which are mostly about managing the everyday activities of public general education institutions. The Yerevan City Mayor, acting in his capacity of the managing authority for public general education institutions, has the key powers of approving the cost estimate of public general education institutions and appointing the principals.

**Financing of Public General Education:** the Republic of Armenia Law on Education prescribes a number of principles and binding rules that should govern the financing of education. The Law provides, in particular, that “the percentage of education financing as a share of current expenditures of the state budget shall not be lower than the percentage during the previous fiscal year,” and the education sector budget financing “amount shall be determined in accordance with the National Program for Education Development.” Although the Second National Program for Education Development contemplates that education financing shall reach 4% of GDP by 2016, neither the 2013-2015 Government Medium-Term Expenditure Framework (MTEF) nor the 2014-2016 MTEF have planned these levels of education financing.

When planning public general education spending for purposes of the state budget, the Republic of Armenia Ministry of Finance calculates the wage fund on the basis of the pupil/teacher and pupil/staff (non-teaching staff) ratios, which are set by the Ministry without any standards, while other expenditures are costed on the basis of standards that, too, are contingent upon the number of pupils.

**Financing of Public General Schools:** considering that the central government has delegated some powers related to secondary education to the Yerevan City Mayor, the financing of education

programs in schools under the Yerevan City Administration is provided on the basis of a delegation contract between the Republic of Armenia Ministry of Territorial Administration and the Yerevan City Administration.

As a result of reforms in public general education management and financing, the public general education schools of Armenia were reorganized into state non-commercial organizations, and the system made a transition to financing based on the number of pupils under the following formula:

$$At = NI \times AI + Am,$$

where

**At** is the total amount allocated to an institution during a year;

**NI** is the number of learners in an institution;

**AI** is the annual amount per learner; and

**Am** is the minimum amount of institution maintenance costs.

The method of financing by the number of pupils pursues the following aims:

- Improving the efficiency and effectiveness of spending budget resources;
- Laying the foundation for school-level decision making;
- Ensuring school autonomy in revenue and expenditure planning;
- Promoting competition between schools;
- Treating schools in a differentiated manner;
- Ensuring community and parent community oversight of the spending of funds; and
- Creating preconditions for optimizing school organization and activities, as well as savings and redistributions of funds.

Considering that pupils are the direct beneficiaries of education services, the number of pupils is the unit for measuring the quantity of services, it is financially (and efficiency-wise) sensible to set the amount of budget financing per output unit, i.e. to make the quantitative output of the institution a factor influencing the amount of school financing.

The **drawback** of the financing formula based on the number of pupils is that the only unit for measuring the outcome of services is quantitative (the number of pupils), and no consideration is made for the qualitative results. Besides, the specific amounts of “**AI**” and “**Am**” are annually approved by a joint decree of the Minister of Finance and the Minister of Education and Science, but there is no document that describes their calculation methodology. There are no normative legal acts that would define the public general education staff remuneration principles or the number of institutions in which the required class density can be achieved, or the minimum or maximum number of classes. The extant rules fail to clearly regulate the conditions for opening classes or dividing them into groups. The structure of the current financing formula is incompatible with the structure of actual expenses in schools, because the expenses of schools are not a direct factor of the number of pupils. The only variable material expense is the salary of teachers, because it depends on the weekly number of class hours (set in the learning plan approved for every class), i.e. the number of classes. The amount of financing based on the number of pupils accounts for 76% of the school financing in Yerevan, while the teacher wages, which depend on the number of hours in the learning plan, account for 55.2% of the total expenses. In total expenses of schools operating under the Yerevan City Administration, the wage fund accounts for 91.3%. Hence, the small share of expenses that depend directly on the number of pupils, such as utility costs, property acquisition costs, and the like. Thus, considering that the teacher wage costs are indirectly related to the number of pupils, the institution income, unlike its expenses, is proportionately and directly dependent upon changes in the number of pupils.

In schools carrying out the public general education curriculum, there are at least two reasons for the emergence of arrears:

- a. The ineffective structure of classes, i.e. the existence of below-capacity classes; and/or
- b. The ineffective structure of schools, i.e. the need to keep additional staff for maintaining unused parts of the institution and heating such parts.

Some conclusions have been reached on the basis of the analysis of schools subordinate to the Yerevan City Administration, including the number of schools relative to the population of the City's administrative districts, the number of pupils, and the financial situation. While some administrative districts have virtually the same population and the same number of pupils, there are differences in the number of schools offering public general education services to the same number of pupils. For example, in the Malatia-Sebastia administrative district and in the Shengavit district, which have about the same population and virtually the same number of pupils, there are 14 and 25 schools, respectively. Hence, it is evident that, with this number of pupils and schools, not all of the schools in the Shengavit district will have the number of pupils required to using their full capacity.

The analysis of school capacity versus the actual number of pupils shows that the schools in the Malatia-Sebastia administrative district, for example, use 62% of their designed capacity to achieve a class and school structure that safeguards the schools against the emergence of arrears. In the Arabkir administrative district, however, which is using 77% of the school capacity, five of the schools have financial deficits, which is an indication of the inefficient distribution of pupils between the schools.

Yerevan secondary schools number 134 and 89 have virtually the same surface area of buildings, premises, and land plots, and both have been designed for a total capacity of 970 pupils. However, school number 134 currently has 194 pupils, while school number 89 has 1,031. As a consequence, their income was 37,297,200 and 124,262,300 drams, respectively, in 2013, and their expenses (as budgeted) were 46,389,900 and 113,395,000 drams, respectively.

**Strengths and Weaknesses of the Education System Financing:** the single-line school financing, which is based on the number of learners, pursued the aim of improving school expenditure efficiency by decentralizing the determination of expenditure priorities, and promoting the efforts of schools in improving the quality of education and school efficiency. This mechanism can function properly if there are a large number of beneficiaries and the school needs to make an effort to engage them. In a country like Armenia, where there are numerous small communities, the schools in such communities are unable to attract a large number of beneficiaries, resulting in difficulties caused by the small number of learners. This policy could have been effective in Yerevan owing to competition and a larger pool of potential beneficiaries. However, the experience to date shows that government financing is just sufficient for executing the “mandatory expenses,” leaving little to be invested in the development of schools.

## **Conclusions and Recommendations**

The problems in public general education financing, transparency, and accountability are mostly due to the overall system of financing, and are not specific to Yerevan in any way.

The number of learners is the main indicator used to determine the amount of financing for public general schools. However, the numbers used for calculating the financing are different from those published by the Statistical Service. Moreover, the reports published by the Republic of Armenia National Statistical Service show the aggregated data for institutions subordinate to the Yerevan

City Administration and those under the Republic of Armenia Ministry of Education and Science, which makes it impossible to assess their performance individually. The data for Yerevan institutions should be presented separately from the data for regional institutions under the Ministry of Education and Science and the data for other regional institutions.

Furthermore, the statistical data is mostly published with a breakdown by types of educational institutions, while the financing indicators are broken down by degrees of educational programs. This is another reason obstacle to having comparable data.

While the Yerevan educational system is the most efficient in the country in terms of many indicators, it is often excluded from national policy development efforts and not viewed as a priority. Clearly, the reason is that the education system faces numerous challenges, which are rather acute in the rural communities, while national policies are generally drafted nationally and are not strongly linked with sector development policies and regional development programs.

Despite the scarcity of resources, some of the education system efficiency indicators for Armenia are comparable to those of some developed nations. Owing to reforms in the sector, the pupil/teacher and pupil/staff (non-teaching staff) ratios in public general schools reached 14.5 and 24.1, respectively, in 2008 and 2009, from 14.0 and 23.2, respectively, in 2007. The pupil/teacher ratio is mostly a factor of average class density, because the teacher workload and the number of class hours are constant. Average class density of public general schools was 20.95 in 2008 (according to data from the National Center for Education Technologies, average class density in public general education institutions was 18), which is even lower than the OECD 2007 figures of 21.4 in elementary school and 23.9 in middle school.

Calculated for full secondary school, these indicators do not adequately reflect the situation, because standard class density and mandatory class hours under the syllabus are different at the various levels of general education. Considering that the international publications usually provide a breakdown of these indicators between elementary and middle school, Armenia would need to provide a similar breakdown, as well.

The education sector expenditure programs are implemented through specific classified programs that are reflected in the government's Medium-Term Expenditure Framework and the national budget.

At present, the main expenditures of the public general education institutions are not standardized by legal acts (i.e. there are no legal rules setting standards as to the number of deputy principals, teaching staff positions (psychologists/speech therapists, and the like), and support staff that a school needs, or the cost of checking written assignments, being a class leader, working in methodological associations, and receiving remuneration for other activities). Some provisions of the existing legal acts have not been unambiguously construed or fail to regulate the real-life situations. The financing is determined in accordance with the Republic of Armenia Law on State Non-Commercial Organizations, and spending decisions are made loosely. The current structure of the public general education financing formula (by the number of learners) is causing some problems. As a consequence, budget financing for schools is becoming polarized, undermining the goals of public general education and the principles of government policies.

Thus, an effective system of indicators needs to be introduced in order to improve the efficiency of the education system by developing evidence- and fact-based policies.

Therefore, it is necessary:

- To develop the public general school financing methodology, which will clearly define the new formulae and the procedures of calculating all the indicators and ratios;

- To use not only quantitative indicators (the number of learners), but also qualitative indicators (such as the percentage of a school's teachers that have university degrees, or the previous year's achievement rates of a school's pupils) as a unit for calculating the amount of financing under the public general school financing methodology;
- To prescribe the number of learners per class and the formation of classes and split class hours in a way that class formation does not directly affect either the amount of school financing or education quality;
- Based on the existing reality, to define the procedure of remunerating educational institution staff for additional work (checking written assignments, being a class leader, working in methodological associations, and the like);
- To make the financing formula based on the number of learners compatible with the structure of actual expenditures of the schools, with a special focus on expenditures that are not related or are only marginally related to the number of pupils (heating, certain current expenditures, and the like);
- To ensure full implementation of program-based financing, defining a system of non-financial indicators for performance assessment, based on which the school expenditure policies can be planned efficiently;
- Parallel to the system of non-financial indicators for performance assessment, to develop and implement a program implementation monitoring and evaluation system that will, among other things, streamline the data collection arrangements;
- To ensure capacity building in both public general schools and the central government and local self-government authorities responsible for general education, which will improve the efficiency of both the program budgeting process and the management of programs, which in turn will support the effective implementation of expenditure policies in the education sector; and
- To amend the legislation of the Republic of Armenia with a view to increasing the fiscal transparency and financial accountability of the public general education system.