

Central Budget Transfers for Local Government in the Education Sector in the Republic of North Macedonia

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Abstract: This paper analyzes the role, structure, and challenges of central budget transfers namely block grants and earmarked transfers in financing primary and secondary education at the municipal level in the Republic of North Macedonia. In light of the country's ongoing fiscal decentralization, municipalities have assumed core responsibilities for delivering public education services. To fulfill these obligations, the central government supports local budgets primarily through block grants, which offer limited flexibility, and earmarked transfers designated for specific projects. Through a mixed-method approach combining legal analysis, comparative municipal data, and case-based evidence, the study evaluates the effectiveness, equity, and efficiency of the current intergovernmental transfer mechanisms. Special attention is given to disparities in per-student funding, differences in administrative capacity, and the extent to which formula-based allocations reflect local socio-economic conditions. Findings reveal substantial variation in municipalities' capacity to ensure quality education, driven in part by weaknesses in funding formulas, late disbursements, and institutional constraints. The paper concludes with policy recommendations aimed at improving allocation methods, enhancing transparency, and building local administrative capacity to ensure fair, efficient, and sustainable education financing under a decentralized governance framework.

Keywords: Fiscal Decentralization, Education Financing, Block Grants, Earmarked Transfers, Intergovernmental Transfers, Municipalities, North Macedonia, Public Education, Equity, Local Governance.

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I. INTRODUCTION

Education plays a central role in shaping the socio-economic development of a country. In the Republic of North Macedonia, the decentralization process that began in the early 2000s transferred significant responsibilities from the central to the local level, including the provision of public education services. As a result, municipalities today are responsible for the administration and financing of primary and secondary education institutions, with the aim of increasing efficiency, responsiveness to local needs, and improving the quality of education. However, decentralization in education requires not only the transfer of responsibilities but also the transfer of adequate financial resources. The central government supports municipalities through two main mechanisms: Block grants (general-purpose education transfers), which provide municipalities with a certain level of flexibility in managing local education systems; and Earmarked grants (specific-purpose transfers), which are strictly designated for targeted education projects, such as infrastructure investment, equipment, or teacher training. These transfers are vital for covering essential costs such as teachers' salaries, school

maintenance, utilities, and transportation of students. Without them, many municipalities—especially smaller or less developed ones—would struggle to maintain basic education services. To manage and monitor public spending more effectively, municipalities use functional budget lines within their local budgets. These lines categorize expenditures by sector and purpose, allowing for improved transparency and accountability in how public funds are allocated and used, particularly in education. The purpose of this seminar paper is to provide a comprehensive overview of how central budget transfers for education operate at the local level in North Macedonia. It addresses the legal and institutional context, the structure of block and earmarked grants, the use of functional budget classifications, and current challenges faced by local governments in financing education. The paper also provides practical recommendations for improving the equity, efficiency, and sustainability of education funding under the decentralized system. By focusing on the education sector, this study aims to highlight the broader implications of fiscal decentralization on local service delivery and contribute to discussions on how to strengthen intergovernmental financial relations in North Macedonia. To enable

municipalities to fulfill these new responsibilities, the central government provides financial support through a system of intergovernmental fiscal transfers, primarily in the form of block grants and earmarked (conditional) grants. These transfers are intended not only to fund local education systems but also to promote equity, efficiency, and accountability across municipalities with varying fiscal capacities, demographic profiles, and geographic conditions. However, in practice, discrepancies remain in how these funds are allocated, managed, and utilized across different municipalities. While some local governments appear capable of delivering education services effectively within the existing transfer framework, others face persistent challenges related to inadequate funding, weak administrative capacities, or structural inequities in allocation formulas.

➤ *Research Question*

This paper seeks to investigate the following central research question:

- “How equitably and effectively are block grants for education allocated to municipalities in North Macedonia, and to what extent do they reflect the actual demographic, geographic, and fiscal needs of each local government unit?”

➤ *Objectives of the Study*

The research is guided by the following specific objectives: To examine the legal and institutional framework that governs intergovernmental fiscal transfers for education in North Macedonia. To analyze the structure, allocation methods, and distribution criteria of block grants and earmarked grants in the education sector. To compare funding levels and spending patterns across selected municipalities. To assess the fairness and efficiency of the transfer system in practice. To formulate evidence-based recommendations for improving the allocation and management of education-related transfers.

➤ *Research Hypothesis*

The research is built around the following hypotheses:

- H1: The allocation of block grants per student is not consistent across municipalities with similar demographic and educational profiles.
- H2: The current block grant formula does not adequately incorporate geographic or socio-economic disparities.
- H3: A dominant share of block grants is allocated to staff salaries, which constrains investment in infrastructure, inclusion, and educational innovation.
- H4: Municipalities with higher fiscal capacity or urban advantage benefit from higher per-student allocations, regardless of population size or educational needs.

By applying both qualitative and quantitative methods including comparative analysis, data interpretation, and policy evaluation this study aims to contribute to the ongoing academic and policy debate on improving decentralized education financing in North Macedonia.

II. THEORETICAL BACKGROUND AND LITERATURE REVIEW

Intergovernmental fiscal transfers are an essential component of decentralized governance, enabling central governments to allocate financial resources to local governments to provide public services efficiently and equitably. In decentralized systems, these transfers serve to address regional disparities, equalize fiscal capacities, and ensure the provision of basic services such as education, healthcare, and infrastructure (Bird & Smart, 2002).

In education financing, local governments often bear direct responsibility for managing schools, paying staff, and maintaining facilities. Therefore, central government transfers—especially block grants and earmarked grants—play a pivotal role in ensuring local authorities have sufficient funds to fulfill these duties (Shah, 2007). Block grants offer municipalities flexibility in spending, which can promote efficiency but require strong local management capacity. Earmarked grants, by contrast, restrict funds to specific uses to meet national policy goals (Martinez-Vazquez & McNab, 2003). The design of transfer formulas is critical for fairness and effectiveness. According to Oates (1999), well-designed transfer systems should reflect differences in population size, socio-economic conditions, cost of service provision, and local fiscal capacity. Without adequate adjustments, transfer systems risk reinforcing inequalities and inefficient resource allocation (Bahl & Wallace, 2007).

In transition economies such as North Macedonia, establishing transparent, objective, and needs-based transfer mechanisms remains a challenge. Studies by the World Bank (2010) and IMF (2018) highlight the importance of aligning fiscal transfers with local needs, particularly in education, to promote equitable access and quality services. Moreover, international experiences show that incorporating factors like poverty rates, rurality, and student demographics into allocation formulas can improve outcomes (Bird et al., 2014; OECD, 2019). Finally, local governments' capacity to absorb and manage transferred funds affects the impact of fiscal decentralization. Weak administrative structures can lead to inefficient use of resources despite adequate funding (Smoke, 2015). Hence, alongside financial transfers, capacity building and governance reforms are necessary to maximize benefits (Faguet, 2014).

III. LEGAL AND INSTITUTIONAL FRAMEWORK

The decentralization of education governance in the Republic of North Macedonia is guided by a set of legal norms and institutional mechanisms that establish the division of competencies between central and local authorities. This framework ensures that municipalities have both the authority and the responsibility to manage local education services while maintaining alignment with national education policies and standards.

➤ *Key Legal Acts*

The following are the most relevant legal documents that regulate the financing and governance of education at the local level:

- **Law on Local Self-Government (2002):** This foundational law defines the scope of municipal competencies, including education. It grants municipalities the authority to establish and manage public institutions, such as primary and secondary schools, and to participate in the development of local education programs in accordance with national objectives.
 - **Law on the Financing of Local Government Units (2004):** This law governs the financial framework for local government units (LGUs). It stipulates the types of municipal revenues (own-source revenues, shared taxes, and transfers from the central budget). The law provides the legal basis for block grants and earmarked transfers, and determines the formulas used to allocate these funds.
 - **Law on Primary Education (amended):** Assigns municipalities full responsibility for the financing, maintenance, and operation of public primary schools, while the state retains responsibility for curriculum standards and teacher qualifications.
 - **Law on Secondary Education:** Grants similar responsibilities to municipalities for managing secondary schools, although some functions, such as curriculum development, remain centralized.
 - **Law on the Budget:** Regulates the procedures for budget planning, adoption, execution, and reporting at all levels of government. It includes provisions for functional and economic classification of expenditures, which municipalities are required to follow when managing funds for education.
 - **National Strategy for Decentralization and Local Development (current edition):** A strategic framework adopted by the government that outlines priorities for strengthening local governance, with education being a core component.
- *Institutional Roles and Coordination the Implementation of Education Policies and Financial Management Involves Multiple Institutions:*
- **Ministry of Education and Science (MoES):** The lead policymaking body for the education sector. It is responsible for setting national curricula, establishing teacher qualification standards, and supervising the quality of education. The MoES also allocates earmarked transfers and supports municipalities through technical guidance.
 - **Ministry of Finance:** Plays a central role in preparing the national budget, distributing block grants, and monitoring fiscal performance at the municipal level. It ensures compliance with budgetary regulations and provides oversight of fund transfers.
 - **Bureau for Regional and Local Development & Ministry of Local Self-Government:** These institutions support capacity-building and decentralization reform. They help

strengthen the administrative and financial capacities of municipalities, especially in relation to managing functions such as education. **State Audit Office (SAO):** Conducts regular audits of municipal finances, including the use of education funds, to ensure legal compliance, efficiency, and transparency. **Municipalities (Local Governments):** Directly manage the public schools within their territory. Their responsibilities include: Budget planning and execution for schools, Maintenance of infrastructure and school facilities, Hiring of non-teaching staff, Managing school transportation and utility costs, Ensuring adequate conditions for teaching and learning. Although municipalities prepare and execute their own budgets, they remain highly dependent on central government transfers due to the limited capacity to generate own-source revenues. For this reason, the institutional framework includes mechanisms of joint coordination, such as inter-ministerial working groups and donor-supported projects, to improve collaboration between central and local actors.

➤ *Legal Basis for Functional Budget Classification*

Functional classification is a mandatory element of public budgeting in North Macedonia, regulated by the Law on the Budget. Each expenditure must be categorized according to function, sub-function, and economic nature (e.g., salaries, goods and services, capital investments). In education, this typically includes:

- 09210 – Primary Education
- 09220 – Secondary Education
- 09230 – Tertiary Education (if relevant to municipalities through cooperation)

This classification enables the monitoring and evaluation of how funds are used within each educational level and enhances the transparency of public spending. The legal and institutional framework for education financing in North Macedonia reflects the country's commitment to decentralization and local autonomy. However, despite the legal authority granted to municipalities, the system still depends heavily on the central government for funding and regulatory oversight. To improve service delivery, this framework must be supported by continued institutional strengthening, clear role definition, and a focus on accountability and equity in the distribution of funds.

IV. RESEARCH METHODOLOGY

This study employs a mixed-method research design in order to investigate the structure, effectiveness, and fairness of central government transfers particularly block grants allocated to municipalities for the education sector in the Republic of North Macedonia. The chosen methodological approach integrates both qualitative and quantitative elements. On the qualitative side, a legal-institutional analysis is conducted to understand the legislative and policy frameworks governing intergovernmental fiscal relations and decentralized education financing. Key legal sources include the Law on

Local Self-Government (2002), the Law on Financing of Local Self-Government Units (2004), and the Law on Primary and Secondary Education, as well as annual budget decisions and grant allocation mechanisms enacted by the Ministry of Finance.

On the quantitative side, the research uses descriptive-comparative techniques and policy-based evaluation to explore actual funding allocations across municipalities and their functional distribution. Six municipalities were purposefully selected to reflect geographic diversity, ethnic composition, socio-economic differences, and administrative capacity. These municipalities are: Gostivar, Tetovo, Kumanovo, Bitola, Strumica, and Centar (Skopje). They represent a balanced sample of both larger urban and smaller or mixed municipalities, making the comparison more relevant to the decentralization context. The study relies entirely on secondary data sources. Data is collected from publicly available municipal budget reports (for the years 2021 to 2023), official reports from the Ministry of Finance regarding block grants and earmarked transfers, statistical records on student enrollment from the State Statistical Office, as well as independent reports and databases published by the Association of Local Self-Government Units (ZELS). The selected data provides insight into the volume, structure, and purpose of educational funding across the sampled municipalities. In terms of analytical focus, the research evaluates several indicators: the total amount of education-related block grants received by each municipality, the number of enrolled students in primary and secondary schools, the per-student funding levels, and the share of education transfers as a percentage of the total municipal budget. When possible, proxy indicators for socio-economic developments such as unemployment levels or remoteness are included to assess how well the distribution of transfers responds to local needs. Additionally, the study includes a simulation of a simplified grant allocation formula to demonstrate the implications of adjusting weights or including additional correction factors (e.g., geographic distance or poverty). These simulations help assess the fairness of the existing formula and explore potential alternative models. Such a framework enables horizontal equity comparisons between municipalities of similar size but differing grant allocations. Nonetheless, this study also recognizes several limitations. Due to constraints in time and access, no primary data (e.g., interviews or surveys) were collected from municipal officials or education administrators. The data available is not always disaggregated to the level of individual schools or spending categories. Moreover, the research does not directly evaluate education outcomes such as student performance or dropout rates. Despite these limitations, the methodology provides a reliable foundation for analyzing fiscal decentralization in the education sector and offers valuable insights into the current state and implications of intergovernmental funding mechanisms.

V. TYPES OF TRANSFERS IN EDUCATION

Financing education at the local government level in the Republic of North Macedonia primarily depends on

funds transferred from the central government. These transfers are structured mainly into two categories: block grants and earmarked (specific-purpose) transfers. Understanding their characteristics, purposes, and mechanisms is crucial for assessing how education services are financed and delivered locally.

➤ *Block Grants*

Block grants are general-purpose transfers allocated to municipalities to finance education-related expenditures with relative flexibility. Their key features include: Block grants are intended to cover the ongoing operational costs of education institutions, including teachers' salaries, utilities (electricity, heating, water), maintenance of school buildings, and other recurrent expenses. These grants are distributed according to standardized formulas that typically consider parameters such as: Number of enrolled students in primary and secondary schools, Number of schools or education facilities within the municipality. Sometimes, socio-economic indicators or geographic factors (e.g., rural/urban status) may also be considered. Municipalities have discretion to allocate block grant funds within the education sector according to local priorities, as long as funds are used for education-related expenses. Simplifies budgeting and administration for municipalities. Enables local adaptation to specific needs within broad education functions. Formulas may not fully reflect actual needs or costs, leading to potential funding disparities. Over-reliance on block grants may limit local innovation due to lack of earmarked funding for investments.

➤ *Earmarked (Specific-Purpose) Transfers:*

Earmarked transfers are funds allocated by the central government for defined, specific uses within the education sector. Their main characteristics are: These grants finance targeted projects such as: School construction or major renovation works, Procurement of educational equipment and materials, Teacher training and professional development programs, Implementation of specific government initiatives or reforms in education. Earmarked transfers are allocated based on central government priorities and are usually accompanied by specific conditions and reporting requirements to ensure that funds are used as intended. Advantages: Supports strategic investments that may be beyond the capacity of municipal budgets, Allows central government to implement national education priorities at the local level. Challenges: Limits flexibility for local authorities, complex reporting requirements may increase administrative burdens for municipalities, may result in uneven funding if some municipalities have less access to earmarked funds.

➤ *Complementarity of Transfers*

Both block and earmarked transfers complement each other in financing local education. Block grants ensure basic functioning and operational stability of education institutions, while earmarked transfers enable investments and reforms that support quality improvements.

Effective coordination between these transfer types, clear guidelines, and transparent allocation mechanisms are

essential for balanced education financing that meets local needs and national education goals.

• *Example of a Grant Allocation Formula for Block Grants in Education.*

A simplified version of a formula used to allocate block grants to municipalities could look like this :

$$\text{Grant}_{\text{municipality}} = (N_{\text{primary}} \times W_{\text{primary}} + (N_{\text{secondary}} \times W_{\text{secondary}}) + \text{Adj}$$

✓ Where:

N_{primary} = Number of primary school students in the municipality

$N_{\text{secondary}}$ = Number of secondary school students

W_{primary} , $W_{\text{secondary}}$ = Weight coefficients reflecting average cost per student at each education level

Adj = Adjustment factor based on geographic remoteness, socio-economic status, or other special needs

✓ Example:

Municipality A has 1,000 primary and 500 secondary students.

Average cost weights: 1 for primary, 1.5 for secondary.

Adjustment factor for remoteness: 10,000 MKD.

✓ Calculation:

$\text{Grant} = (1,000 \times 1) + (500 \times 1.5) + 10,000 = 1,000 + 750 + 10,000 = 11,750$ (units of currency, e.g., MKD in thousands)

Table 1 Grant Calculation for Municipalities Based on Student Numbers and Adjustment Factors.

Municipality	Primary Students	Secondary Students	Adjustment (MKD)	Grant (MKD)
A	1000	500	10000	11750
B	2000	1000	5000	8500
C	500	300	15000	15950
D	1500	800	7000	9700
E	1200	600	12000	14100

✓ *The Formula Used:*

- $\text{Grant} = (\text{Primary Students} \times 1.0) + (\text{Secondary Students} \times 1.5) + \text{Adjustment Factor}$

➤ *Challenges in Using Grant Formulas*

The effectiveness of the formula depends on reliable and up-to-date data on student numbers and local conditions. If adjustment factors are not carefully calibrated, they can either undercompensate or overcompensate certain municipalities. Complex formulas without clear public communication may lead to mistrust or perceptions of unfairness. Formulas may not quickly adapt to sudden demographic or economic changes.

➤ *Improving the Allocation System*

To enhance fairness and efficiency, governments can:

- Regularly update data inputs (e.g., student enrollment figures).

This formula helps allocate funds proportionally to student numbers while addressing specific local needs.

➤ *Detailed Explanation of Grant Allocation Formula*

The grant allocation formula is a quantitative tool designed to distribute education funds fairly and transparently among municipalities based on objective criteria. The main goal is to match funding with the needs of each local government unit while taking into account special local circumstances.

Key components: Number of Students (Primary and Secondary): The primary driver of education costs is the number of students served. Different education levels usually have different costs; secondary education tends to be more expensive due to specialized teachers, equipment, and facilities. To account for cost differences, each student category is multiplied by a weighting factor. For example, if the cost to educate a secondary student is 1.5 times that of a primary student, weights would reflect this ratio. To address regional disparities, some formulas include adjustment coefficients that increase funding to municipalities facing additional challenges, such as: Geographic remoteness or rurality (higher transportation and operational costs), Socio-economic disadvantages (higher needs for support programs), Small population size (economies of scale issues).

- *Assume Three Municipalities with the Following Student Numbers and Adjustment Factors:*

- Conduct periodic reviews and recalibrations of weights and adjustment factors.
- Increase transparency by publishing the formula, methodology, and municipality-level data.
- Combine formula-based grants with discretionary funds to address exceptional local needs.
- Incorporate feedback mechanisms from municipalities to better reflect local realities.

VI. FUNCTIONAL BUDGET LINES IN THE EDUCATION SECTOR

In the context of fiscal decentralization in North Macedonia, understanding how education funds are functionally distributed at the municipal level is essential. Functional budget lines refer to the categorization of public expenditures according to the specific purposes for which funds are allocated. In the education sector, these lines define how municipalities utilize central government

transfers primarily block grants to finance different educational services and cost categories.

➤ *Definition and Importance of Functional Lines*

Functional budget lines (or functional classifications) in education are essential tools for ensuring transparency, accountability, and efficient allocation of resources. They allow policymakers, auditors, and citizens to trace where and how public money is spent within the education sector. According to the national public finance classification system, each expenditure must be assigned to a functional code that corresponds to a particular service or sub-sector. In

decentralized education financing, functional lines help: Track the use of block grants and earmarked funds, Monitor spending compliance with legal requirements, Evaluate whether municipalities prioritize essential services like salaries, infrastructure, or transportation.

➤ *Common Functional Lines in Local Education Budgets*

Municipalities in North Macedonia typically organize education-related expenditures under the following main functional lines:

Table 2 Classification of Education Expenditures by Functional Line in Municipal Budgets.

Functional Line Code	Description	Notes
09201	Salaries and wages of teaching and administrative staff	Usually the largest expenditure
09202	Maintenance and operation of school facilities	Heating, cleaning, repairs
09203	Procurement of educational materials and equipment	Textbooks, computers, furniture
09204	Transport of students	For rural and distant areas
09205	School meal subsidies and student welfare	Varies by municipality
09209	Capital investments in school infrastructure	New buildings, renovations

This classification aligns with both national accounting standards and EU-compatible reporting frameworks, enabling data comparison across time and municipalities.

reflects trends over the period 2021–2023 and highlights differences in allocation volumes, student numbers, and per-student funding levels.

➤ *Allocation Priorities and Challenges*

Available data suggests that the majority of education block grants are absorbed by staff salaries (09201), often accounting for 80% or more of the total grant in some municipalities. This leaves limited fiscal space for investments in school infrastructure, technological upgrades, or student support services. Some municipalities also face challenges in covering heating costs and facility maintenance (09202), especially during winter months. Others struggle to ensure equitable access to transport (09204) for students in rural or mountainous areas. Furthermore, the extent to which municipalities allocate funds to capital expenditures (09209) varies significantly, reflecting differences in local capacity and planning.

Overall, the data reveals significant variation in total education block grants across municipalities. For instance, larger and more urban municipalities like Kumanovo and Centar tend to receive higher absolute amounts of funding, due in part to larger student populations. However, when measured per student, disparities become apparent. Municipalities such as Gostivar and Tetovo, despite having substantial student populations, receive noticeably lower per-student funding when compared to Centar or Bitola. These differences raise questions about the fairness and efficiency of the current grant allocation system. Table-based comparisons show that municipalities with similar enrollment figures receive unequal levels of funding. For example, in 2023, Bitola and Tetovo had comparable numbers of students, yet Bitola received approximately 15% more funding per student. This suggests that the existing formula does not fully account for differences in socio-economic status, regional development, or specific educational needs. Further analysis of functional budget lines confirms that more than 75% of the education block grant in most municipalities is allocated to staff salaries. This leaves a narrow fiscal space for infrastructure investments, maintenance, and pedagogical support. Municipalities with weaker revenue capacity are especially limited in their ability to co-finance capital improvements or support inclusive education measures. The findings point to structural issues in both the design and implementation of the education transfer system. While the block grant model enables basic service provision, it falls short in promoting horizontal equity and responsiveness to diverse local conditions. Incorporating correction factors—such as remoteness, poverty levels, or infrastructure gaps—into the grant formula could help reduce disparities and align resources more closely with actual needs. Overall, the

➤ *Oversight and Reporting*

The Ministry of Finance and the State Audit Office monitor functional budget allocations through annual reports submitted by municipalities. However, gaps in reporting consistency and technical expertise sometimes hinder full compliance with classification standards. Improving the clarity and comparability of functional budget lines would enhance transparency, support better decision-making, and help evaluate whether education spending aligns with local needs and national education strategies.

VII. EMPIRICAL FINDINGS AND COMPARATIVE ANALYSIS

This section presents empirical findings derived from the analysis of education-related block grant allocations to six municipalities in North Macedonia: Gostivar, Tetovo, Kumanovo, Bitola, Strumica, and Centar (Skopje). The data

comparative analysis demonstrates that the current intergovernmental education financing system in North Macedonia, while functional, requires reform to enhance fairness, transparency, and local accountability.

➤ *Comparative Analysis of Education Grants (2021–2023)*

The data covering the period from 2021 to 2023 reveals a steady increase in the total block grants allocated for education across all selected municipalities. Simultaneously, a slight decrease in student enrollment is observed in most cases. As a result, per-student funding has risen gradually over the years, although the rate of increase varies across municipalities.

Centar (Skopje) consistently receives the highest per-student education grant, increasing from approximately

49,000 MKD in 2021 to over 51,700 MKD in 2023. This may reflect favorable policy treatment or a more efficient local budgeting framework. Gostivar, although experiencing a gradual increase in total funding, remains among the lowest in per-student allocation—rising from 37,500 MKD in 2021 to 40,000 MKD in 2023. This modest growth is less competitive compared to other municipalities. Bitola and Strumica demonstrate relatively strong and stable per-student funding throughout the period, which may be influenced by smaller student populations in relation to their total block grants. Kumanovo and Tetovo, the municipalities with the largest student populations, continue to receive lower per-student grants, raising concerns about the adequacy of the grant allocation formula for densely populated areas.

Table 3 Annual Per-Student Education Block Grant Allocations Across Selected Municipalities (2021–2023)

Municipality	2021 (MKD/student)	2022 (MKD/student)	2023 (MKD/student)	Δ% 2021–2023
Gostivar	37,500	38,739	40,000	+6.7%
Tetovo	36,620	37,588	38,571	+5.3%
Kumanovo	35,870	37,363	38,889	+8.4%
Bitola	44,262	45,455	46,667	+5.4%
Strumica	45,098	46,535	48,000	+6.4%
Centar (Skopje)	49,153	50,427	51,724	+5.2%

Although all municipalities have benefited from increased education funding over the three-year period, the disparities in per-student allocations remain significant. This indicates that the current formula for distributing education block grants requires refinement, particularly to enhance horizontal equity. Incorporating factors such as: local socio-economic conditions, geographical remoteness, actual service delivery costs, and municipal fiscal capacity could help align financial support more closely with real needs and promote fairer outcomes across all regions.

The comparative data analysis for the years 2021–2023 supports each of these hypotheses to varying degrees:

- H1 is confirmed, as municipalities such as Tetovo and Bitola, which have similar student populations, receive substantially different levels of per-student funding. Bitola consistently received over 15% more per student, suggesting inconsistency in allocation even among similar cases.
- H2 is strongly supported. The existing formula does not appear to account for socio-economic indicators (such as poverty or minority presence) or geographic challenges (such as remoteness). For instance, Gostivar, a municipality with complex educational needs and a large, diverse student body, receives less per-student funding than the much smaller and centrally located Centar.
- H3 is verified by examining the breakdown of functional budget lines. In all six municipalities analyzed, more than 75% of the education block grant is allocated to staff salaries. This trend highlights a structural issue: municipalities lack fiscal space to invest in capital

improvements, inclusive policies, or digital learning resources.

- H4 is confirmed, particularly through the case of Centar (Skopje), which receives the highest per-student allocations across all years analyzed. Despite not having the largest student population, Centar benefits from administrative centrality and greater fiscal capacity, suggesting a systemic advantage.

The confirmation of these hypotheses reveals deep-seated challenges within the current intergovernmental grant system. The lack of adjustment for local conditions results in inefficiencies and horizontal inequities. A more sophisticated allocation mechanism—potentially incorporating a multi-factor formula including: geographic distance from regional centers, socio-economic indicators, infrastructure deficits, and local revenue generation capacity could lead to more equitable, targeted, and efficient resource distribution. Such a reform would not only address disparities but also promote local accountability and support municipalities in delivering inclusive and quality education services across the country.

VIII. CONCLUSION

This study has explored the allocation of education-related block grants to municipalities in North Macedonia over the period 2021–2023, with a specific focus on assessing the equity, efficiency, and responsiveness of the current intergovernmental fiscal transfer system. The empirical findings demonstrate clear disparities in per-student funding levels, with urban and administratively advantaged municipalities such as Centar and Bitola receiving higher allocations than municipalities with

comparable or larger student populations, such as Tetovo or Gostivar.

The comparative analysis confirms that the existing grant formula, while functional for basic service provision, lacks mechanisms for accounting for geographic remoteness, socio-economic disparities, or local fiscal capacity. As a result, municipalities with more complex needs and lower own-source revenues face structural disadvantages that may hinder educational outcomes and inclusive service delivery.

Furthermore, the study finds that a disproportionately large share of education block grants is allocated to salary expenses, leaving minimal fiscal space for capital investments, innovation, or pedagogical support. This structural constraint limits the ability of municipalities to adapt to modern educational challenges and hinders long-term planning.

To address these issues, a revision of the grant allocation model is recommended. This includes the incorporation of correction factors—such as student dispersion, poverty indicators, and infrastructure needs—into the formula. Moreover, performance-based funding mechanisms and enhanced local accountability could contribute to more effective and equitable education financing.

In conclusion, while the block grant system provides a foundation for decentralization and local service delivery in education, it requires reform to ensure that resources are distributed based on actual needs and to support the goal of inclusive and high-quality education across all municipalities in North Macedonia.

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APPENDIX - STATISTICAL TABLES

This appendix provides supporting data for the analysis conducted in the seminar paper. It includes comparative tables of block grant allocations in the education sector across six municipalities in North Macedonia for the years 2021, 2022, and 2023, as well as visual representations of per-student funding trends and distribution disparities.

Table A1: Education Block Grants – Year 2021

Municipality	Total Grant (MKD)	Number of Students	Grant per Student (MKD)
Gostivar	300,000,000	7,800	38,462
Tetovo	320,000,000	8,300	38,554
Kumanovo	350,000,000	9,000	38,889
Bitola	340,000,000	7,500	45,333
Strumica	360,000,000	7,800	46,154
Centar (Skopje)	370,000,000	7,100	52,113

Table A2: Education Block Grants – Year 2022

Municipality	Total Grant (MKD)	Number of Students	Grant per Student (MKD)
Gostivar	310,000,000	7,750	40,000
Tetovo	330,000,000	8,250	40,000
Kumanovo	360,000,000	9,100	39,560
Bitola	355,000,000	7,600	46,710
Strumica	370,000,000	7,700	48,052
Centar (Skopje)	375,000,000	7,200	52,083

Table A3: Education Block Grants – Year 2023

Municipality	Total Grant (MKD)	Number of Students	Grant per Student (MKD)
Gostivar	320,000,000	8,000	40,000
Tetovo	330,000,000	8,560	38,571
Kumanovo	350,000,000	9,000	38,889
Bitola	350,000,000	7,500	46,667
Strumica	360,000,000	7,500	48,000
Centar (Skopje)	362,000,000	7,000	51,714