

Budget Impact of the Law on Albanian Education Workers of the 1990s



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28 May 2018

Executive Summary

On 18 April 2013, the Assembly of Kosovo adopted a resolution requesting the Government of Kosovo to draft a law regulating the status of teachers during the 1990s. Five years later, at the meeting held on 11 April 2018, the Government of Kosovo approved the Draft-Law on the Status of Albanian Education Workers of the Republic of Kosovo from the school year 1990/91 until the school year 1998/99. This draft-law was adopted without public consultation, which is in violation of current regulations of the Government of Kosovo. The draft-law passed the first reading in the Kosovo Assembly on 17 May 2018.

The Draft-Law on the status of Albanian Education Workers of the Republic of Kosovo from school year 1990/91 to 1998/99 is largely unclear. If the Assembly adopts this draft-law in its current form, it will have a significantly higher budget impact than the calculations done by the Ministry of Finance (MF).

According to MF and Ministry of Education, Science and Technology (MEST), beneficiaries of merit-based pensions¹ will receive an additional financial support of 67.75 EUR, respectively 23.25 EUR. According to GAP Institute calculations, in the current form, the draft-law provides that first category pensioners, namely beneficiaries with at least five years of work experience in the 1990s, will receive an additional pension between 73.75 and 228.75 EUR. Second category pensioners, those with one to five years of work experience, will receive an additional pension from 33.25 to 188.25 EUR.

According to one of GAP Institute's scenarios, in the first two years (2019 - 2020) the budget cost for this law is expected to be around 30.4 million EUR, namely 16.1 million EUR (114%) higher than the calculations made by the Ministry of Finance.

Adoption of the Law on Education Workers during the '90s would increase the budget for category-based social schemes. Therefore, GAP Institute recommends the drafting of a new comprehensive law on pension schemes funded by the state, which would include, inter alia, contributions of teachers in the 1990s. Should the Assembly proceed to amend the draft-law and adopt it, GAP Institute, at the end of this analysis, provided recommendations for concrete amendments to keep budget expenditures under control for the implementation of this law.

¹ Pension awarded by this draft-law for the contribution given to Albanian education 1990-1999.

Statistics on Albanian education during the ‘90s

In different periods during the 1990s, as many as 23,000 people received salaries. According to the book “Central Financing Council of Kosovo”², which MEST used as basis when evaluating the budget impact of this draft law, persons receiving salaries were divided into the following categories:

Table 1: People engaged during the 90s by categories

Activity	1992	1996	1998
Primary school	14,653	16,090	16,218
Secondary school	4,101	4,664	4,675
Higher schools and Faculties	860	1,100	1,240
Healthcare	-	220	289
Preschool institutions	-	16	84
Institutes	-	73	81
Academy of Sciences and Arts	-	22	29
Pedagogical Institutions	-	27	17
Education Councils	-	237	247
Financing Councils	-	492	700
Culture	-	16	30
Sport	-	10	12
Other	-	15	20
Total	19,614	22,982	23,600

Source: Hajrizi, Kastrati, Shatri, 2007

According to Article 2 of the draft-law, all these categories, with the exception of health, culture, financing and sports councils, will be beneficiaries of the merit-based pension.

In the same period, according to the authors of the book for the Central Financing Council of Kosovo (CFCK), the following funds have been collected for the financing of Albanian education:

² Mehmet Hajrizi, Ismail Kastrati, Bajram Shatri. Central Finance Council of Kosovo. Schoolbook, 2007. Prishtina.

Table 2: Funds collected for the financing of Albanian education and other activities during 1992-1999, in German marks (DM)

Year	Collected within Kosovo by the CFCK (DM)	Transferred from the “3% Fund” (DM)
1992	3,334,500	1,946,700
1993	5,667,770	3,148,800
1994	10,111,985	7,773,000
1995	17,545,128	12,590,683
1996	23,060,169	13,784,028
1997	28,194,417	12,543,109
1998	23,587,010	26,757,436
1999	Data missing	4,678,656
Total	111,500,709	83,222,412
CFCK+3% Fund	194,723,121 DM	

Source: Hajrizi, Kastrati, Shatri, 2007

The average salary of education workers during the 90s varied between 35 DM (1992) and 170 DM (1998). The highest salary was that of university professors (330 DM). In the early 1990s, a large number of technical workers in schools were financed by the Serbian budget, but later all were transferred to the payment system of the Republic of Kosovo. One reason for this was the higher payment than the one with the Serbian payroll system.

During the 1990s, over 20 thousand families volunteered to issue their houses for school use, and approximately 3,200 houses were allowed to serve as improvised schools³. The exact number of house-schools cannot be known, as there were also cases when classes were held on rotation basis in students’ homes.⁴

To finance the education system during the 1990s, financial contributions were given by 280 thousand households and businesses.

³ Bajram Shatri. Albanian education in Kosovo 1990–1999. Schoolbook, 2010. Prishtina.

⁴ Interview with Bajram Shatri, April 2018.

Table 3: Contributors during the 1990s

Contributors	1993	1995	1997
Private enterprises	2617	4770	3027
Independent stores and activities	2697	5647	5970
Craft shops and Services	3285	4898	4162
Employees and pensioners 5%	32714	49430	42553
Households with members employed abroad	9983	45808	37516
Households	56698	145518	185770
Landlords	762	3160	1911
Taxis and transporters	631	1455	1540
Music artists	-	-	33
Donors	-	-	121
Total	109.387	260.686	282.603

Source: Hajrizi, Kastrati, Shatri, 2007

Draft Law on Albanian Education Workers of the '90s

On April 11, 2018, the Government of Kosovo approved the Draft Law on the Status of Albanian Education Workers of the Republic of Kosovo from the school year 1990/91 until the school year 1998/99.

The draft-law recognizes the right to additional pension for all education workers who have been engaged in the education system for at least a year during the 1990s. According to the draft-law (Article 3), there are three categories of beneficiaries: 1) teachers and all other education workers in all levels; 2) workers of secretariats; and 3) owners of houses transformed into schools.

According to Article 7, merit-based pensions are divided into two categories: those who have served over 5 years will receive a pension equivalent of 75% of current base salary in the primary education (405 EUR); and workers who have served one to five years will receive 65% of the basic salary in primary education. The pension is transferable to partners in case of death of the beneficiary, as well as to children until the age of 18, respectively 26 for cases where children are attending regular education.

In addition to the pension, the draft-law also envisages other benefits, such as exemption from payment for medical services, priority for medical treatment abroad, priority in cases where public institutions allocate collective housing, etc. An administrative Instruction is envisaged to be issued by MEST for benefits of owners of houses transformed into schools.

Financial impact according to the Ministry of Finance

In January 2018, the Ministry of Finance (MF) made a financial impact assessment of the Draft Law on Albanian Education Workers in the '90s. According to the MF assessment, in the first three years of implementation (2018-2020), the draft-law will create an additional budgetary burden of over 16.7 million EUR.

The MF's financial impact assessment attached to the draft-law is deficient for several reasons:

1. The MF fails to take into account the annual increase of the salary budget, based on the annual GDP growth, as envisaged by the Law on Public Finance Management and Accountability.⁵ The average annual GDP growth is around 4%;⁶
2. MF assumes that the current pension for contributing persons with university degrees is 240 EUR, but in fact this pension is 230 EUR⁷;
3. MF makes a general assumption that all education workers during the 1990s are automatically qualified to receive a contribution pension of 240 EUR per month, granted by MLSW, which includes all those with at least 15 years of working experience before 1999 and with university degrees.

Given that a number of teachers also served without having university education, and a number of technical workers only had primary or secondary education, then it is more likely that a number of beneficiaries will receive a pension of 158-186 EUR. Thus, not all beneficiaries will have a pension of 240 EUR, as calculated by the Ministry of Finance. According to some estimates, out of the 43 thousand beneficiaries of the contributing pension in Kosovo, about 92% receive a pension of 158-186 EUR, while the rest receive a pension of 230 EUR⁸;

4. According to Article 6.2, upon the death of the main pension beneficiary, their partners will continue to receive the benefit. Given the low level of employment in Kosovo, it is very likely that a significant number of partners benefit from basic pension of 75 EUR and this significantly increases the financial cost of the Law. This is also not taken into account in the MF calculation;
5. MF also fails to calculate the eventual budget impact of the administrative instruction on the benefits of owners of houses transformed into schools.

5 Law No. 05/L-063 amending the Law No. 03/L-048 on Public Finance Management and Accountability, as amended by Laws No. 03/L-221, No. 04/L-116 and No. 04/L-194, Article 7: Source: <https://qzk.rks-gov.net/Act-Detail.aspx?ActID=11333>

6 World Bank's forecast for real GDP growth in Kosovo for 2018 is 4.8%. For years 2018-2021, the Ministry of Finance forecasts a GDP growth of 4.4% on average. Source: <https://bit.ly/2Ktewfp>, page 30.

7 MLSW, Sector Strategy 2018-2022, Table 13

8 Interview with Bahri Xhaferi, Ministry of Labor and Social Welfare, 23 May 2018.

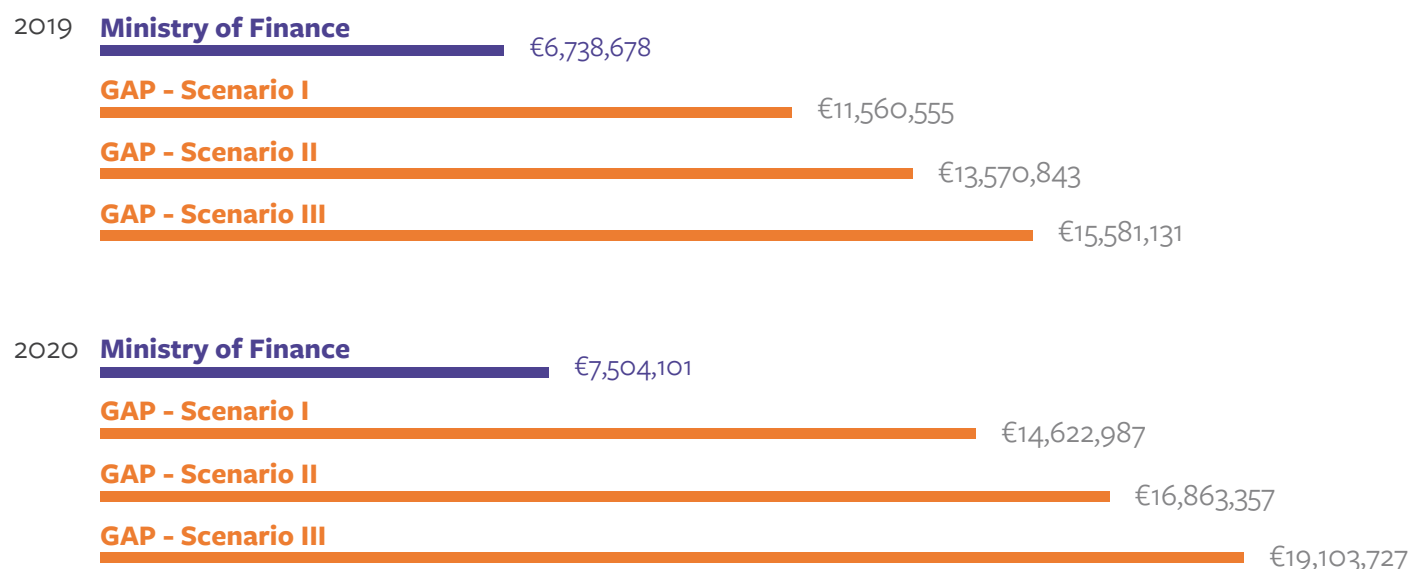
The GAP Institute model for calculation of budget impact

In this financial assessment, the GAP Institute took into account all factors that may have an impact over the years. Some of the assumptions of this model are:

- The effective duration of the law is estimated to be around 31 years, covering the period 2019-2049, if its implementation starts in 2019. The law's duration is determined based on estimates of the Kosovo Agency of Statistics (KAS) on average life expectancy (around 73 years⁹). We added to the average life expectancy the age difference between spouses, which is around 4 years, and the difference in life expectancy between women and men (4 years)¹⁰. The inclusion of these factors allows for the calculation of the budget burden of such pensions after the death of the primary beneficiaries (in cases where the main beneficiaries are men).
- Given that the basic salary of teachers was used as reference to calculate the pension, it is estimated that the same salary will be continuously increased by 4% on average per year, in line with the GDP growth of Kosovo¹¹.
- Dividing beneficiary teachers into two categories was done based on the breakdown of 71% for the first category and 29% for the second category, which is the same breakdown for the period 2018-2019 as presented in the estimates of MEST and MF in the draft-law in question.
- To find the distribution of teachers from 1990-1999, we have assumed a normal distribution of their age from 22 to 65, where the number of teachers involved in the calculation is 23,291¹².

According to the calculations of the GAP Institute, under the assumption that GDP growth will be around 4%; where 5% of beneficiary spouses receive basic/social pension; 20% have no higher education; and 5% of education workers do not have the work experience of at least 15 years prior to 1999 (Scenario II), the cost of the law in the period 2019-2020 is expected to be around 30.4 million EUR or 16.1 million EUR (114%) higher than the calculations made by the Ministry of Finance for the same period.

Figure 1: Budget cost of the law in 2019 and 2020



⁹ Kosovo Statistical Agency. Population Forecast of Kosovo 2017-2061. Source: <https://bit.ly/2rKB3MW>.

¹⁰ Kosovo Statistical Agency. Marriage statistics 2016. Source: <https://bit.ly/2IsrxsX>.

¹¹ For the period 2018-2021, the Ministry of Finance forecasts a GDP growth of 4.4% on average. Source: <https://bit.ly/2K-tewfp>, page 30.

¹² Mehmet Hajrizi, Ismail Kastrati, Bajram Shatri. Central Finance Council of Kosovo. Schoolbook, 2007. Prishtina.

The difference between the merit-based pension and the social pension (age and contributory)

Since the war, Kosovo citizens who reach the age of 65 will automatically qualify for social age pension. The amount of the social pension is currently 75 EUR. Since 2008, persons who reach the age of 65 and can prove that they have work experience of at least 15 years prior to 1999, will receive an additional pension. Since 2016, contributory pensions are also divided according to the level of education.

According to the Draft Law on Albanian Education Workers of the 1990s, the beneficiaries of the merit-based pension must give up their age and contributory pensions. Therefore, according to MF and MEST calculations, every merit-based beneficiary will cost the state budget an additional 67.75 EUR, respectively 23.25 EUR for second category merit-based beneficiaries.

However, to calculate this, MF and MEST failed to take into account the maximum contributory pension of 230 EUR, and used the amount of 240 EUR (it is unclear why) which consequently led to a miscalculation of 10 EUR per month for the merit-based pension for each beneficiary. Should the MF and MEST calculation be based on the maximum contributory pension of 230 EUR, the pension difference would be 77.75 EUR, respectively 33.25 EUR for the second category. This error led to MF and MEST undervalue the cost of the law by 2.7 million EUR for 2019 and 2020.

Table 4: Level of age and contributory pensions

Year	Basic pension level per month (€)	Contributory pension level per month (€)
2002	28	-
2003	35	-
2004	40	-
2005	40	-
2006	40	-
2007	40	-
2008	40	75
2009	45	80
2010	45	80
2011	45	80
2012	50	101
2013	60	112
2014	75	140
2015	75	140
2016	75	Primary education: 158
		Secondary: 172
		Higher: 186
		University: 230

Source: GAP Institute and MLSW Sector Strategy 2018-2022

The continuous annual growth of the basic salary

With the changes made to the Law on Public Finance Management and Accountability, the basic salary in the public sector will increase depending on the annual GDP growth of Kosovo. According to MF forecasts, in the coming years, economic growth will be at least 4% per year, then from 2019 to 2049 the merit-based pension of the two categories will vary from 304 to 985 EUR for the first category, respectively 263 to 854 EUR for the second category (Table 5):

Table 5: Monthly merit-based pension 2018-2049

Monthly pension			Monthly pension		
Year	Category I - 75%	Category II - 65%	Year	Category I - 75%	Category II - 65%
2018	304 €	263 €	2034	569 €	493 €
2019	316 €	274 €	2035	592 €	513 €
2020	329 €	285 €	2036	615 €	533 €
2021	342 €	296 €	2037	640 €	555 €
2022	355 €	308 €	2038	666 €	577 €
2023	370 €	320 €	2039	692 €	600 €
2024	384 €	333 €	2040	720 €	624 €
2025	400 €	346 €	2041	749 €	649 €
2026	416 €	360 €	2042	779 €	675 €
2027	432 €	375 €	2043	810 €	702 €
2028	450 €	390 €	2044	842 €	730 €
2029	468 €	405 €	2045	876 €	759 €
2030	486 €	421 €	2046	911 €	789 €
2031	506 €	438 €	2047	947 €	821 €
2032	526 €	456 €	2048	985 €	854 €
2033	547 €	474 €	2049	985 €	854 €

However, the MF and MEST financial impact assessment failed to take into account the increase of the base salary in proportion to the economic growth, giving the wrong impression that the base salary will remain unchanged over the years.

Work experience and university qualification of education workers during the 1990s

To assess the budget impact MF and MEST make a general assumption that all education workers of 1990s have at least 15 years of work experience prior to 1999 and have completed university education, thus receiving a pension of 240 EUR per month. This is an erroneous calculation. Education workers during the 1990s also include individuals without university degrees (such as technical workers and a number of teachers) and without the working experience of at least 15 years (such as persons who started working for the first time during the '90s). In addition, because the law allows for the transfer of the pension to the spouse upon the death of the education worker during the 90's, and since a significant number of spouses are only eligible for the 75 EUR basic age pension, the resulting budget impact will be much higher.

According to Article 6.2, in the event of the death of the person who contributed to the education during the 90's, the partner will become a beneficiary even if he/she hasn't worked at all and receives a social pension of only 75 EUR per month. Since around 5% of people in Kosovo die at the age of 65-70, this is an additional factor that increases the cost of this law, in the very first year of its entry into force. Taking into account the gap in life expectancy and the marriage age of spouses, for the effective duration of this law about 26% of beneficiaries on average will be partners of primary beneficiaries.

Scenarios of the GAP Institute on the budget cost of the law

Considering all the above-mentioned assumptions, GAP Institute has prepared a number of scenarios on the real cost of the law's effective duration. According to the following assumptions, we believe that the third scenario reflects the closest cost estimation of the draft-law over its lifespan. The four scenarios are based on the following assumptions.

Scenario I:

- The basic salaries in education will increase by an average of 4% per year¹³;
- According to KAS data, 5% of the primary

¹³ For the period 2018–2021, the Ministry of Finance forecasts a GDP growth of 4.4% on average. Source: <https://bit.ly/2Ktewfp>, page 30.

beneficiaries have died and according to the draft-law their spouses will become beneficiaries. The assumption is that spouses receive a basic (social) pension of 75 EUR;

- About 10% of primary beneficiaries have no higher education completed;

Scenario II:

- The basic salaries in education will increase by an average of 4% per year¹⁴;
- According to KAS data, 5% of the primary beneficiaries have died and according to the draft-law their spouses will become beneficiaries. The assumption is that spouses receive a basic (social) pension of 75 EUR;
- About 20% of primary beneficiaries have no higher education completed;
- Over 5% of primary beneficiaries do not have at least 15 years of work experience prior to 1999.

Scenario III:

- The basic salaries in education will increase by an average of 4% per year;
- According to KAS data, 10% of the primary beneficiaries have died and according to the draft-law their spouses will become beneficiaries. The assumption is that spouses receive a basic (social) pension of 75 EUR;
- About 20% of primary beneficiaries have no higher education completed;
- Over 10% of primary beneficiaries do not have at least 15 years of work experience prior to 1999.

We have also included the high scenario IV, which consists of the following assumptions:

- The basic salaries in education will increase by an average of 4% per year¹⁵;
- According to KAS data, 10% of the primary beneficiaries have died and according to the draft-law their spouses will become beneficiaries. The assumption is that spouses receive a basic (social) pension of 75 EUR;
- About 20% of primary beneficiaries have no higher education completed¹⁶;
- Over 20% of primary beneficiaries do not have at least 15 years of work experience prior to 1999.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Bajram Shatri. Albanian education in Kosovo 1990–1999, pages 23–24. Schoolbook, 2010. Prishtina.

Figure 2: Scenarios on the total cost of the law (2019-2049) based on various assumptions on the number of beneficiaries who do not receive a 230 EUR pension but rather a basic pension or a pension with high-higher education

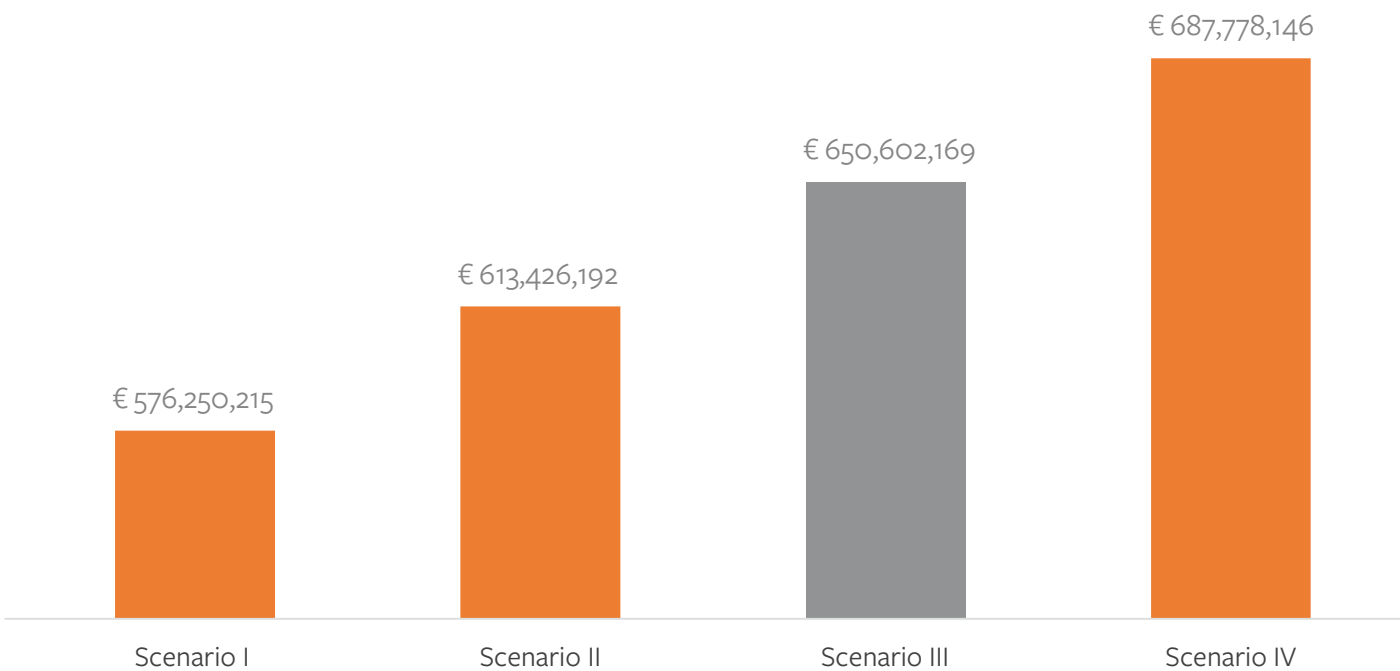
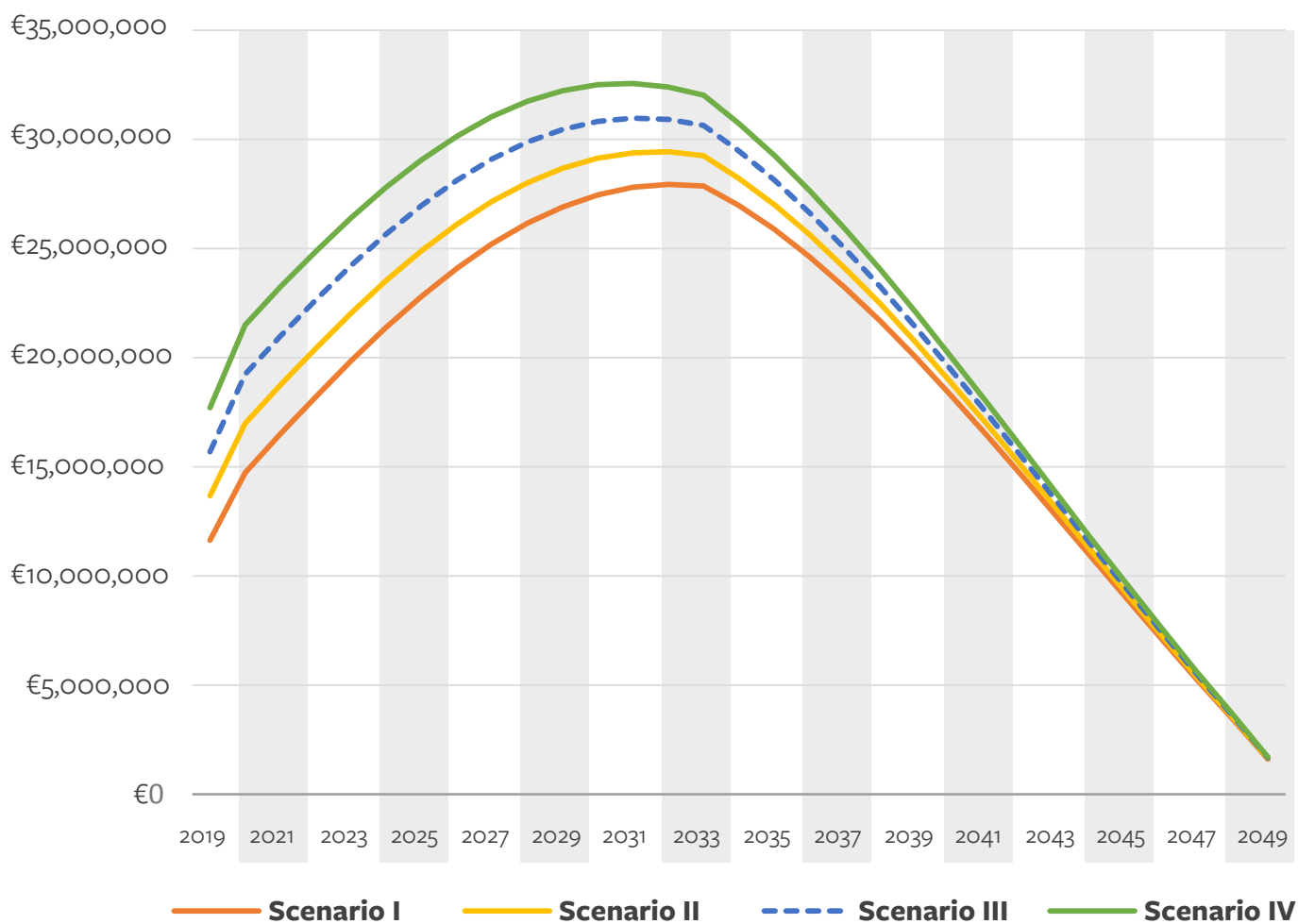


Figure 3: Cost trends of the draft-law

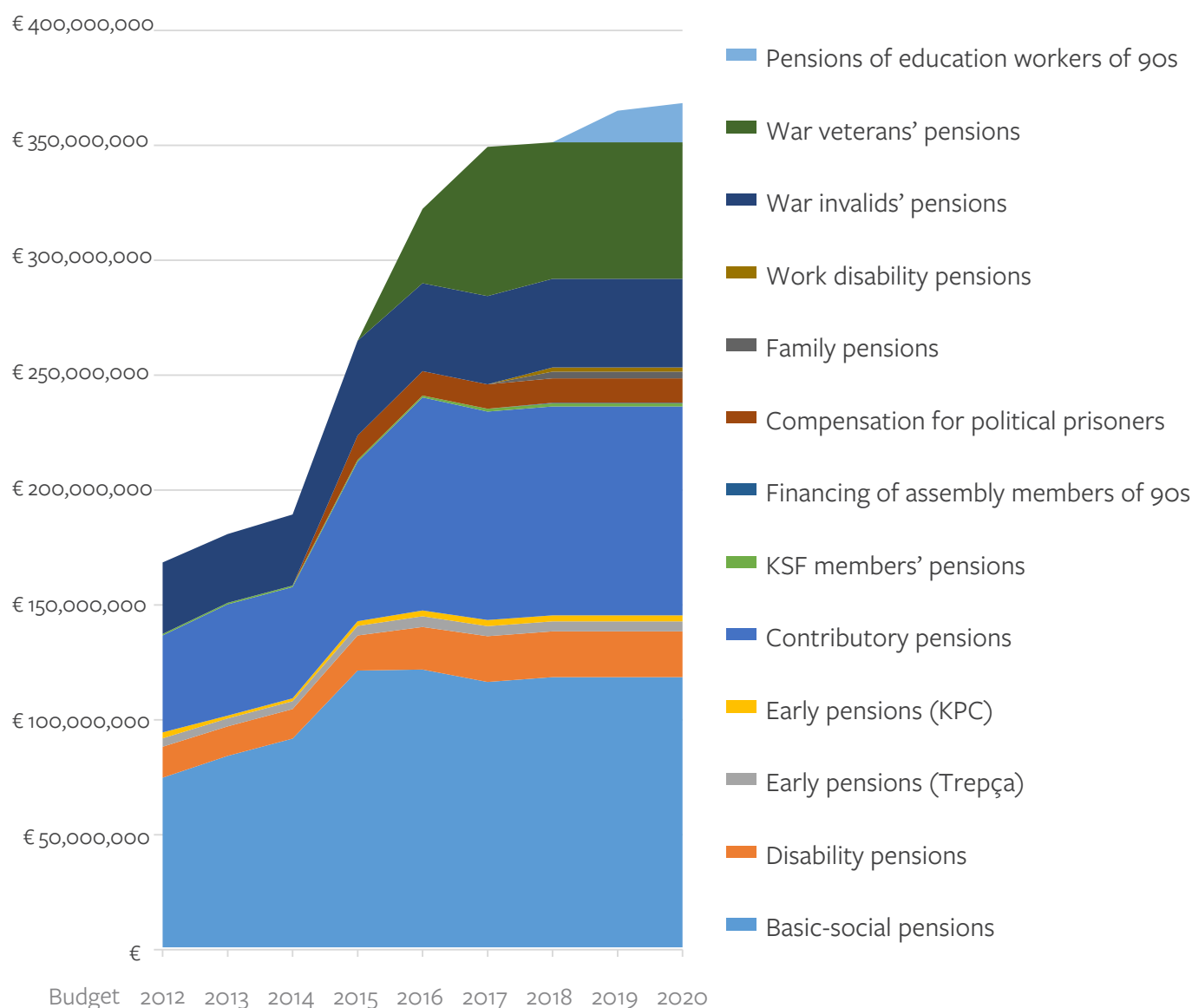


The increase of social schemes by category

Kosovo is among the countries with high spending on social schemes. In 2018, MLSW will spend around 400 million EUR on different social schemes. According to the 2018 budget's functional classification, the "Social Protection" category comprises the second largest category of expenditures, after economic issues. This category of expenditures is twice as high as health expenditures.

With the exception of the social assistance scheme, all other schemes are category-based pension schemes. Category-based pension schemes are schemes based on monetary transfers based on the past of individuals or certain social groups, which are not necessarily related to their social status. Category-based pension schemes include pensions for war veterans, former political prisoners, former members of the Kosovo Protection Corps, members of the Kosovo Security Force, Trepça employees, etc. Merit-based pension scheme of education workers during the 1990s is expected to be added to these schemes.

Figure 4: Budget increase trends for social schemes



Considering the continued growth of category-based social schemes and the adoption of separate laws for various categories, the Government of Kosovo must review all social schemes, in particular the category-based pensions, adopting a new law on state funded pensions, which will include all such categories.

Conclusions and recommendations

The draft-law on the status of Albanian Education Workers of the Republic of Kosovo from School Year 1990/91 to 1998/99 creates a significantly higher budget burden than that initially calculated by MF and MEST. In this analysis, GAP Institute provided a more exact financial assessment, though it is difficult to give an accurate assessment. This is because there is no enough information in the draft-law that would allow a precise financial calculation.

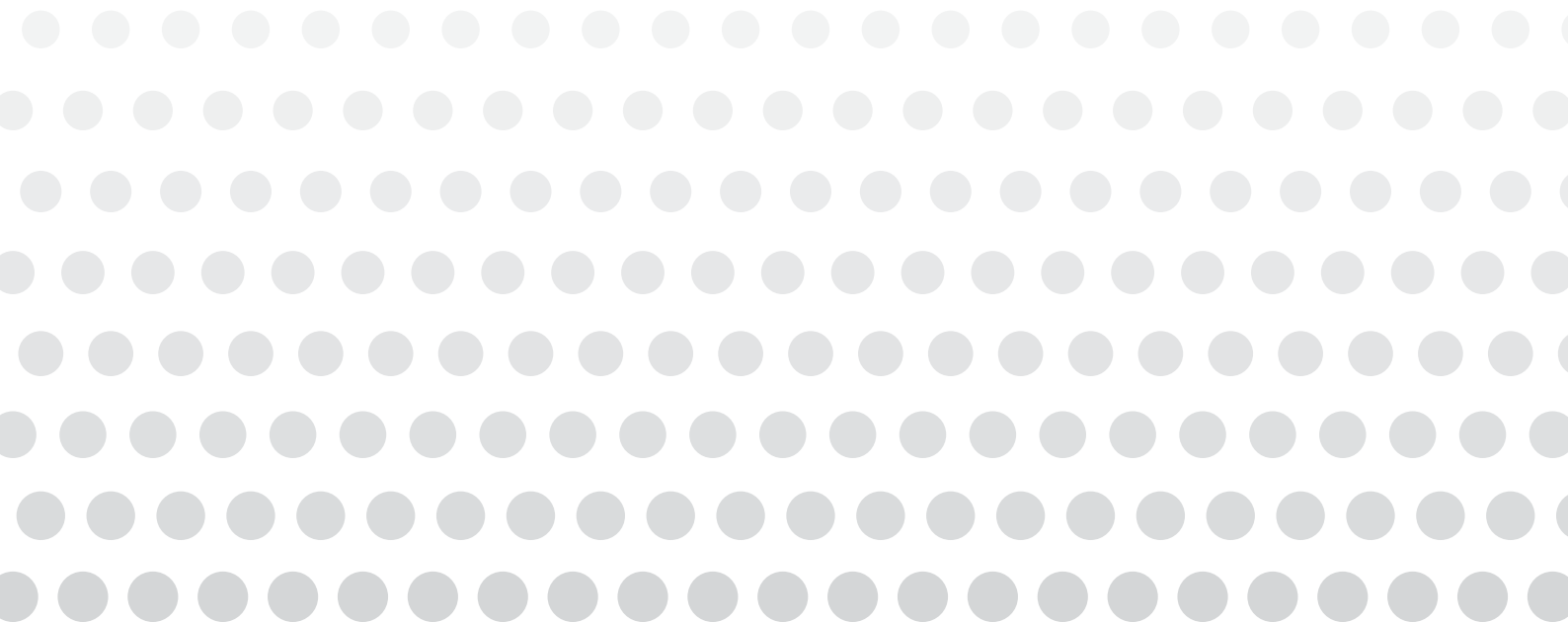
An accurate financial assessment can only be made when there is clear information of all persons who have worked during the 1990s, their working years in education during the 1990s, their overall experience and formal education, and information regarding spouses and their work experience and formal education. This data is currently missing both in MF and MEST. The Ministry of Finance has failed to respond to the several GAP Institute requests to publish the list of teachers of the 1990s, used as basis for the financial impact assessment.

Based on the data presented in this analysis, GAP Institute recommends:

- Kosovo Assembly must return to the Government the Draft Law on the Status of Albanian Education Workers of the Republic of Kosovo from school year 1990/91 to the school year 1998/99, and instruct the Government to draft a new law on pension schemes funded by the state, which would also include the merit-based pensions of education workers during the 1990s.
- If the Assembly of Kosovo continues with amendments to the draft-law and its adoption in the second reading, GAP Institute recommends the following:
 1. Remove par. 2 of Article 6, which provides for the transfer of the pension to the spouses;
 2. Amend Article 7 to ensure that the merit-based pension is not connected with the basic salary, and define more detailed criteria for beneficiaries of the merit-based pension, based on years of service in the Albanian education of the 1990s. Thus, a single monetary value should be defined for all persons who served one to ten years;
 3. The Assembly to request a new financial impact assessment from the MF, including accurate data on the number of teachers who will retire each year.
- Instead of continuous annual funding, to look into the possibility of making a one-off payments, based on the years of service in Albanian during the 90s, as was the case with pensions of former political prisoners.



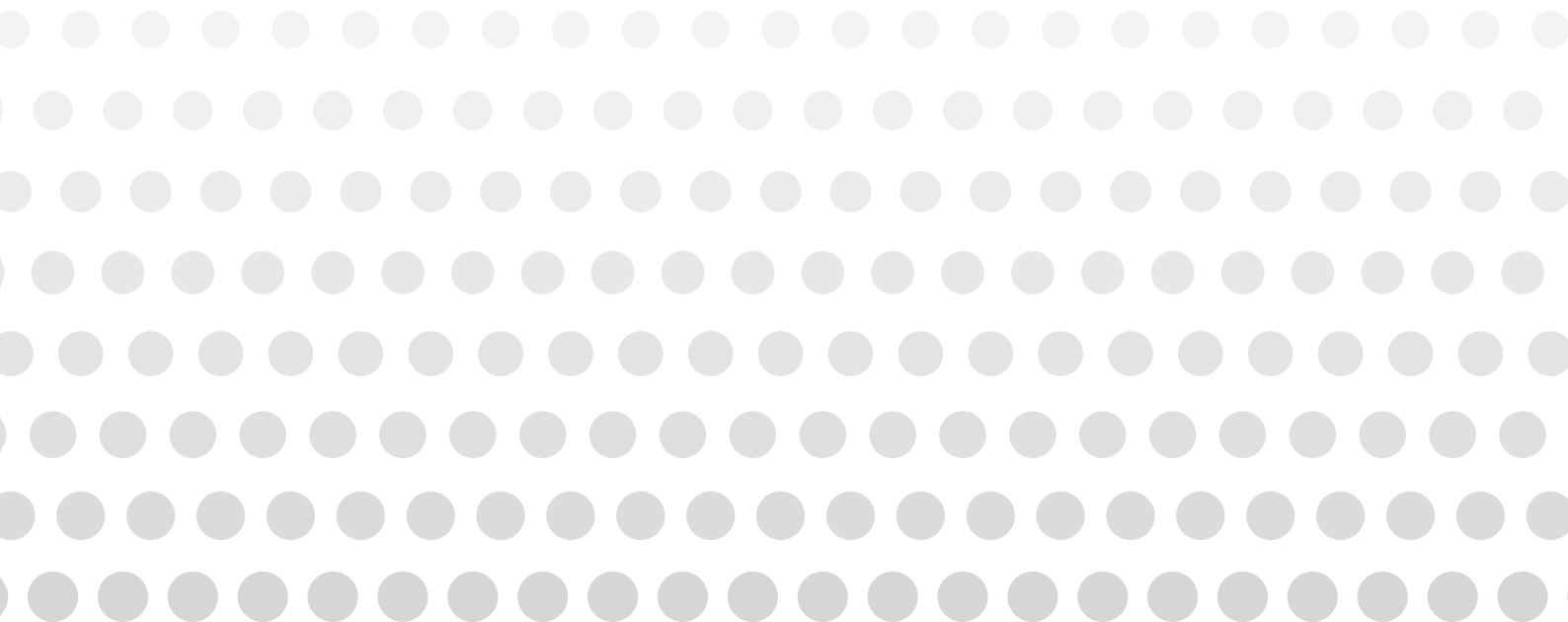
GAP Institute is a Think Tank established in October 2007 in Kosovo. GAP's main goal is to attract professionals to create an environment of professional development and research, as seen in similar institutions in Western countries. This also provides Kosovars with opportunities to research, develop and implement projects in order to advance the Kosovo society. Priority for this Institute is the mobilization of professionals to address the country's economic, political and social challenges. GAP's main goals are to fill the gaps between government and citizens, and between problems and solutions.



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