THE STATE AND SOCIAL SECURITY - CHALLENGES IN ALBANIA

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There is more consensus and less conflict regarding the significant role of the state in providing basic social protection than in other economic and social sectors. There are no clear boundaries between social and economic policies. This is especially true for post- socialist countries because of old and new legacies. Social policies attempt to perform many functions: (a) alleviate poverty, (b) reduce the gap between the different strata of society, (c) give political support to new democratic systems, and (d) encourage economic growth.

Social policies could be a strong factor of success during the transition period by ensuring public credibility, social acceptability and political support. Macro-economic conditions are not the only guarantee for the successful implementation of reform. In retrospect, it has to be accepted that part of the Albanian 1997 crisis was rooted in the social unrest resulting from loss of credibility in the future of ongoing transformation.

Despite the hardships of rapid and radical reform, economic progress since 1992 has eased most of the population from the extreme poverty (and near starvation) that prevailed in the 1990-1991 period. Albania's prospects for continued economic growth are relatively positive and a number of key steps paving the way for sustained growth over the medium and long-run have already been taken. But even a highly successful broad-based growth path will fail to raise directly the standard of living of all the people: the elderly, the sick, and the long-term unemployed are groups that will need special help during the transition.

The shock to employment in the cities was probably more severe in Albania than in any other transition country. Simple calculations conclude that the unemployment rate in urban areas is now over 30% of the active labour force. This is because of:

- rapid liberalisation of the economy and the failure of inefficient industries;
- industrial privatisation policies;
- internal migration processes;
- the high birth rate;
- the low vocational education level of the local labour force.

In general, employment created by new private enterprises cannot absorb the workforce that lost their jobs due to the shrinking state sector. The category

of long-term unemployed people (76% of total unemployment) threatens to become a heavy burden on Albanian society and an enormous waste of economic resources, not only at present but also in the future.

The government has not adequately invested in labour market programmes, public works or industrial policies during 1992-1997. It has thus not been able to meet the significant needs of the Albanian labour market for professional education, the treatment of the long-term unemployed and other vulnerable groups, or the stimulation of employment in existing business sectors.

Albania is the only country in Central and Eastern Europe classified by the World Bank as a low-income country (GDP per capita in 1995 was US$670 and in 1996 was US$826). A poor family is considered one with a monthly income lower than 5,400 Lek (US$36). According to this definition, about 20% of Albanian families lived under the poverty line in 1996. Poverty is more extended in rural areas (mainly in northern and northern-eastern parts of the country), but it is much more severe in the cities. Around 30% of the rural population and around 15% of the urban population is in relative poverty. Beyond those in poverty, many other people are vulnerable to poverty. Their income is not far above the poverty line and they are also facing poor public services and deteriorating social services.

Poverty and unemployment combined with high expectations of a better life abroad has led to unprecedented and uncontrolled emigration to neighbouring European countries. About 13% of the population and 28% of the active labour force now live abroad and more people want to emigrate - most will do so illegally.

Since 1993 a new modern social protection system has been set up in Albania. However, its effectiveness in alleviating poverty is affected by serious financing problems, an underdeveloped institutional capacity, and by an almost complete lack of information necessary to monitor living standards, social development and to address the development of targeted policies. The social safety net in our country is composed of:

- The *Social Insurance Scheme* which includes a Compulsory Insurance Scheme, a Voluntary Insurance Scheme, a Supplementary Insurance Scheme (covering civil servants and military personnel), and a Special State Pension Scheme. The system functions on a *pay-as-you-go* basis which means that actual contributions should cover actual payments for all kinds of benefits.
- The *Unemployment Support Scheme* supported only by employer contribution and with restrictive application for the unemployed due to restructuring of state enterprises. This scheme provides an entitlement period of one year with average benefits being slightly higher than the minimum wage. This can be considered as quite generous, since other transition countries have reduced entitlement periods to 6-9 months.
- The *Basic Social Assistance Scheme* which provides cash benefits on a *means-tested basis* for families with no sufficient income. This assistance is awarded

to low income groups and is being gradually developed into a sustainable poverty alleviation scheme.

Contributions have increased by 25% in 1993 up to 42.5% in 1994 and 45.9% of the payroll today. Nominal insurance contributions are high at 36% of the payroll for pensions and short-term benefits (of which 10% is paid by the employee), plus 0.5% for employment injury insurance, 6% for unemployment and 3.4% for health insurance, half of which is paid by the employee. The number of actual contributors is low due to widespread evasion.

According to the new Act, the age of retirement has been raised from 52 years for women and 56 for men to 55 and 60 years respectively. The period of insurance has also been raised from 20 years for women and 25 years for men to 35 for both. The new Act respects all the rights that people had already gained from the old insurance system. So the full application of the new standard will be gradually achieved during a transitory period extending through to 2014. The new pension system has improved the link between contributions and benefits of the recipients. But the pension budget in Albania is actually in deficit. The main reasons are as follows:

- The great number of retired people now numbering up to 500,000 out of a total population of 3,200,000. This is not caused by natural ageing of the population as in other countries in transition, but is due to the forced earlier retirement policies followed in 1980-1992 which artificially boosted employment.
- The reduction of contributions due to the dramatic decrease in the number of employees in the state economic sector.
- The decrease in the number of privately employed individuals paying contributions because of employers' reluctance to cover for such contributions. About 50% of privately employed individuals are not insured, hence the significant decrease in contributions.
- The fact that farmers no longer pay contributions.
- Emigrants, 80% of whom are young adults, do not contribute to the pension fund at all.

Such a drastic decrease in contributions has had a very harmful effect on both the social insurance budget and the state budget. Eventually, individuals will feel insecure when facing a lack of pension benefit in the future. The realisation of supplementary and voluntary pension schemes is conditioned by the existence of private pension institutes. Although the necessary legal framework has been in place for some time now, no such institution has been set up in Albania yet.

During the period 1995-1997, social protection expenditure in Albania was slightly less than 10% of GDP excluding expenditure on health care which was less than 4% of GDP. This is much lower than in the majority of other Central and Eastern European countries and is conditioned by macro-economic performance and budget constraints. Albanian budget deficits in 1995, 1996 and 1997 were

7%, 11% and 12% of GDP respectively. The average deficit of other economies in transition during the same period was only 3-4% of GDP. However, public expenditure on health amounted to around 3% of GDP in 1997 which is on a par with other developing countries with a similar income per capita. But as a share of GDP, expenditure on health has been falling since 1992 and this has had a negative impact on the availability and quality of health provision, especially in rural and new urban areas. Urgent measures are needed to reverse this trend, including increased public expenditure. Prior to 1995, access to the health service was not limited by ability-to-pay barriers as health care was fully financed from the state budget. Now pharmaceutical co-payments, under-the - table payments and health insurance contributions are the order of the day.

The *Health Insurance Scheme* started in January 1995. These insurance contributions are compulsory. The scheme is financed by the contributions of both active and inactive members of the population. The first group of contributions is paid by employer and employee whilst the contributions of the inactive population are paid by the state. From this year, insured persons will get reimbursed for a part of the cost of drugs (some up to 100%) and for visits from the family doctor.

It is worth mentioning the fact that Albania did not inherit any previous experience in the field of social insurance except for that created during the socialist system. So the adoption and adjustment of the most successful schemes of social protection in other countries and their respective legislation was the only way to go. The ratification of the “Social Charter of Europe” by the Albanian government involves a serious commitment to review the existing legal framework and duly complete it. Reputable international organisations like the World Bank, ILO, ISSA, WHO are very useful co-operators in this great undertaking.

Despite their own peculiarities, post-socialist states should not withdraw from the social sector and leave social policy “to the market” as neo-liberals originally thought. For both political and economic reasons, liberal ideals of competition and individualism can play only a limited role in the social policy arena.