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Albania
Public Finance Review

Part II: Improving the Efficiency and Quality of Public Spending

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CURRENCY AND EQUIVALENT UNITS

Currency Unit=Albania LEK
LEK 1 = 0.01 US$
US$1 = 104
(As of September 2, 2013)

FISCAL YEAR
January 1 – December 31

WEIGHTS AND MEASURES
Metric System

ACRONYMS AND ABBREVIATIONS

ASPA	Albanian School of Public Administration	MOs	Ministry of Education and Sports
BEEPS	Business Environment and Enterprise Performance Survey	MoD	Ministry of Defense
BAU	Business-as-usual Scenario	Move	Ministry of Finance
CEE	Central and Eastern Europe	Mohr	Ministry of Health
CIS	Commonwealth of Independent State	NE	Dime Economize
CIT	Corporate Income Tax	NER	Net Enrollment Ratio
Come	Council of Ministers	NCDs	Non-Communicable Diseases
CSC	Civil Service Commission	NSDI	National Strategy for Development and Integration
CSL	Civil Service Law	OECD	Organization for Economic Co-operation and Development
DALYs	Disability-Adjusted Life Years	OOP	Out-of-Pocket
DHS	Demographic and Health Survey	OPM	Office of the Prime Minister
Doper	Department of Public Administration	PAR	Public Administration Reform
DPL	Development Policy Lending	PAAHE	Public Agency for Accreditation of Higher Education
DRGs	Diagnostic Related Groups	PCF	Per Capita Financing
EC	*European Commission*	PFM	Public Financial Management
ECA	Europe and Central Asia	PFR	Public Finance Review
EMIS	Existing Education Management Information System	PIT	Personal Income Tax
EO	Education Offices	PHC	Primary Health Care
EU	European Union	PISA	Programmed for International Student Assessment
FCTC	Framework Convention for Tobacco Control	PPP	Public-Private Partnership
GDP	Gross Domestic Product	RESPA	Regional School of Public Administration
GER	Gross Enrollment Ratio	REDs	Regional Education Departments
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit, the German Society for International Cooperation	QSUT	University Hospital Center Mother Theresa
HBS	Household Budget Survey	SA	Social Assistance
HII	Health Insurance Institute	SB	School Boards
HRMIS	Human Resource Management Information System	SIGMA	Support for Improvement in Governance and Management
IT	Information Technology	SOEs	State Owned Enterprises
ICS	Investment Climate Survey	STR	Student-Teacher Ratios

ICD	International Classification of Diseases	UHS	Universal Health Services
INSTAT	Albanian Institute of Statistics	UN DESA	United Nations, Department of Economic and Social Affairs
IMF	International Monetary Fund	UIS	Unesco Institute for Statistics
KESh	Albanian Power Corporation	UNESCO	United Nations Educational, Scientific, and Cultural Organization
LSMS	Living Standards Measurement Survey	UNICEF	United Nations Children's Fund
LITS	Life in Transition Survey	UN	United Nations
MIS	Management Information System	WB	World Bank
		WHO	World Health Organization

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ACKNOWLEDGMENTS

This report was prepared by a World Bank team led by Abebe Adugna, lead economist for Albania, and Timothy Johnston, sector leader, Human Development. The chapters were authored by the following thematic team: Hilda Shijaku (introduction and country context and fiscal sustainability); Flora Kelmendi, Daniel Kutner, and Keiko Inoue (education); Marvin Ploetz, Lorena Kostallari, Timothy Johnston, and Dorothee Eckertz (health); Aylin Isik-Dikmelik (social assistance); and Ansi Shundi, and Ivor Beazley (public administration). Doerte Doemeland and Evis Sulko provided comments on the draft and supported the team during preparation of the report.

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EXECUTIVE SUMMARY

The growth of Albania's economy has slowed since 2008 and unemployment has risen. Not only has growth been substantially lower since the global financial crisis—from an average of 6 percent annually in the pre-crisis period to less than 3 percent annually post-crisis--but medium term growth is now projected to be lower because of a slow recovery in eurozone economies. The unemployment rate has increased from around 13 percent in 2007 to 16 percent in 2013. Speeding up growth will require productive investments in human capital, removal of infrastructure constraints, and a better environment for private investment, but Albania's fiscal space is constrained. Insufficient revenues and high public debt constrain the extent to which fiscal policy can support growth. If Albania is to free up resources for productive investment in education, health, and infrastructure, it must first put its fiscal policy on a sustainable path.

The first phase of the Albania Public Finance Review (PFR), published in March 2013[1], examined Albania's debt sustainability and proposed policies for achieving fiscal consolidation and reducing debt over the medium term. A no-reform baseline scenario indicated that without fiscal consolidation, Albania's principal debt ratios and interest payments will rise significantly over the medium term. To counter this scenario, the PFR discussed options for structural reforms to anchor long-term fiscal sustainability in three areas—energy, pension reform, and tax policy and administration—and assessed their medium-term fiscal impact.

As Albania consolidates its fiscal position, it will need a significantly better educated, skilled, and healthy labor force to improve its regional competitiveness, attract foreign direct investment, and continue toward income convergence with Western Europe. While many factors determine the quality of human capital, the level and efficiency of current public spending are critical. In light of the 2014-16 fiscal consolidation program already in place, Albania's principal avenue to enhancing investments in human capital in the short- to medium-term would be through efficiency gains. Over the medium to long term, as fiscal space opens, additional budgetary allocation to the social sector may be warranted, particularly in light of Albania's current substantially-lower-than-regional average investment in both health and education.

This second phase of the PFR assesses the quality of public spending on education, health, and social assistance and recommends policies that could increase efficiency as well as outcomes. It also examines the status of public administration reforms in Albania—a cross-cutting theme—in order to identify critical reforms to improve services and advance Albania's progress toward EU integration.

Education

Albania has already significantly increased access to all levels of education. Most recent gross enrollment rates compare favorably with regional peers and the OECD average. Primary and lower secondary enrollment are nearly universal, and between 2009 and 2013 preprimary enrollment shot up from 47.4 to 79 percent and upper secondary enrollment from 76 percent to 92 percent. While pre-primary and upper secondary enrollment rates are still lower than the OECD average, progress is notable and enrollment rates are higher than those of most neighboring countries.

[1] See World Bank, 2014, "Albania Public Finance Review: Part I: Toward A Sustainable Fiscal Policy for Growth", Europe and Central Asia Region. Washington, DC: World Bank.

This expansion in access has been augmented by growing provision of private education. Between 2007 and 2013, the share of private school enrollment in basic education (primary and lower secondary) increased from 4.1 percent of students to 5.4 percent; in upper secondary from 7.5 percent to 11.2 percent; and in higher education from 6.6 to 19.0 percent—almost tripling. Private provision has increased for nearly all regions, but particularly in the municipalities of Tirana and Shkodër, where private schools serve more than 10 percent of students. Durrës, Fier, and Shkodër districts show surges of enrollees in private upper secondary schools.

While access to basic education is relatively equitable across income groups, there is significant disparity in access to preprimary and higher education. For preprimary, net enrollment for the wealthiest quintile is twice as high as for those in the poorest quintile; and in higher education it is four times as high. The highly inequitable access to these levels of education highlights the need for better targeting of social service programs in Albania.

Learning outcomes, however, still lag. Although Albania has consistently improved its scores on international student assessments, learning outcomes remain stubbornly low even relative to neighboring countries with similar levels of income. More than 60 percent of 15 year-olds are functionally illiterate in math and about 50 percent in reading. The learning gap between the OECD average and Albania is equivalent to 2.5 years of schooling. The quality of education at all levels is inadequate to equip students with the skills the labor market requires. The good news is that gender parity has been achieved in learning; girls outperformed boys in reading on PISA 2012.

Albania spends much less on education than its neighbors. General government spending on education, at 3.06 percent of GDP in 2013 (10.4 percent of all public spending), compares unfavorably to both the average for Europe and Central Asia (4.6 percent of GDP) and virtually every other Western Balkan country: Kosovo (4.2 percent), FYR Macedonia (3.5 percent), Croatia (4.4 percent) and Serbia (4.7 percent). Per pupil, the picture is even worse.

There are serious inequities in the distribution of resources within Albania. In 2010, the government revised several norms—a minimum class size, criteria for creating multigrade classes, work hours required for full-time equivalent teacher positions—in order to improve the regional distribution of resources. Still, while Gjirokastër spends more than 150 percent of the national average per student, Durrës or Tiranë Bashki spend as low as little as 80 percent.

Both the institutional framework for pre-university education and the resource allocation formula are complex. The 13 Regional Education Departments (REDs), for 12 regions and Tirana, implement development policies for pre-university education, organize inspections in public and non-public schools, assess the quality of services, and manage teacher certification through cooperation with specialized institutions. In 24 districts local Education Offices (EOs) manage human resources, collect statistical information, supervise classroom and extracurricular activities, and manage financial resources for teaching materials, etc. REDs and EOs are responsible for the financial management and execution of conditional, unconditional (not earmarked), and investment grants. Allocation of resources to pre-university institutions is complex and lacks transparency. All public pre-university schools in Albania are funded from the national budget, but teacher salaries are paid through budget transfers to REDs and EOs. The REDs and EOs administer resources for non-salary education expenses; for other spending categories, municipalities and communes receive two types of transfers: *unconditional* grants cover maintenance, cleaning and school utilities, and recurring costs (water, electricity, sewage, heating, busing, etc.); and *investment* grants are given to improve education facilities.

The complex institutional arrangements and lack of clear criteria for financing—especially for pre-university education—have to be tackled to drive efficiency and equity in education. Partial decentralization of management and financing of pre-university education has led to less clarity about local investment and maintenance spending. Financing of education needs to be more transparent and accountable and investments need to be targeted to areas that will most effectively improve learning outcomes. Specifically, the government needs a transparent per capita financing formula that will account for and provide better funding to schools that disproportionately serve disadvantaged families.

Quality assurance for tertiary education needs to be reinforced. In the last decade Albania has seen an expansion in higher education enrollment in both public and private institutions. Now, to ensure that higher enrollment yields the desired benefits, quality aspects deserve more attention. Improving quality while expanding the system requires mechanisms to ensure that quality standards are complied with. It also seems that the financing has not kept pace with the number of students, further jeopardizing quality. The government needs to better regulate the expansion of tertiary education not only to assure quality but also to align the sector with population trends and country needs.

Data quality and availability must be improved to guide education policy and decision making. The education management information system (EMIS) does not provide timely and disaggregated data that can inform sound policy decisions. Lack of useful information makes it difficult to collect the evidence required to hold teachers, schools, REDs, and EOs accountable for their work. To allow for monitoring and reporting on education statistics and learning outcomes, the EMIS should be complemented with data from all levels of education on student characteristics and performance. In a decentralizing education system, lack of data is a critical constraint on autonomy and accountability. Moreover, there can be no evidence-based policy making at the central level if school and student data are unavailable or unreliable.

A number of steps can be taken to improve spending efficiency and learning outcomes in education (see Table ES.1 for a full set of recommendations)**:**

- Expand access to and quality of preprimary education by redeploying the fiscal savings from declining student numbers in higher grades;
- Improve the management and governance of the education sector through better sector planning and coordination across different levels of government to increase transparency and accountability in the use of resources and enhance policy making and education delivery;
- Promote transparency and equity by introducing per capita financing (PCF) to fund pre-university education;
- Improve the quality of education by strengthening the regulation of higher education—mainly through the implementation of the 2010 law on tertiary education--both to assure quality and to guarantee alignment with population trends; and by improving the generation and dissemination of quality data to guide evidence and policy making;
- Consider increasing public spending on education, as fiscal space opens over the medium to long term (after 2016), from the current 3 percent to about 4 percent of GDP, bringing Albania closer to its regional peers.

Health

Albania has also considerably improved health outcomes in recent years. Life expectancy at birth had reached 77 years by 2011 (80 for women and 74 for men), higher than in neighboring Serbia (74.5) and FYR Macedonia (75) and only three to five years behind high-income countries like Greece and Italy.

Infant mortality fell from 18.1 per 1,000 in 2007 to 15 in 2012[2]; and maternal mortality from 31 per 1,000 in 2005 to 27 in 2010. Still, both infant and maternal mortality rates are very high compared to the EU 2011 averages of 4.1 per 1,000 and 5.8 per 1,000. Neonatal mortality, an important indicator of the quality of health care, in particular needs attention.

This progress might, however, slow down or reverse if the health system does not adapt to the new burden of disease, which is mainly attributable to non-communicable diseases. The Global Burden of Disease Profile 2010 (Institute for Health Metrics 2010) cites diet as the main health risk in Albania, followed by high blood pressure and smoking. The Albanian Adult Tobacco Surveys in 2007 and 2009 found that daily smoking increased from 34.9 to 38.7 percent for the total population; from 58.8 percent to 60.7 percent for men; and from 11.5 to 17.4 percent for women. As for high blood pressure, among Albanians aged 15 to 49 surveyed in 2009 (DHS 2009), 80 percent of women and 90 percent of men with hypertension were not aware of their status and less than 3 percent were being treated to control their blood pressure. For instance, hypertension control rates in Serbia and Romania are more than twice as high as in Albania and awareness is by far higher (58 percent in Serbia and 44 percent in Romania).

At 2.6 percent of GDP, Albania's public spending on health is among the lowest in the region, though that in part reflects the country's low level of public spending generally. More than 50 percent of the health budget goes to hospital-based services, mostly to the University Hospital Center Mother Theresa Tirana, the country's only university hospital. Primary care accounts for about 30 percent and public health services for about 8.5 percent. About 90 percent of the budget is for recurrent spending, including growing transfers to the Health Insurance Institute (HII). Capital spending takes about 10 percent of the budget.

Because protection of households against high out-of-pocket (OOP) spending is inadequate, the incidence of both catastrophic and impoverishing spending on health care is extremely high. OOP payments account for about 50 percent of total health spending, far above the 15–20 percent the World Health Organization (WHO) recommends to ensure financial protection of the population. While low- and middle-income countries typically have higher OOP expenditures, the spending level in Albania is even higher than in other countries with similar income. Despite public health insurance, Albanian households spend on average about 8 percent of their income on OOP health payments. Pharmaceuticals account for about half, with outpatient care the other major driver. The impact on poverty is significant: In 2012, after accounting for OOP payments to finance health care, the headcount poverty ratio increased by 41 percent and the poverty gap by 103 percent.

The government's plan to transition to purely general revenue-financing, together with establishing universal health coverage for the entire population, should be based on careful analysis, sequencing of reforms, mobilizing more revenue. The fiscal implications would be considerable. On the revenue side, payroll insurance premiums, which still account for almost 25 percent of health sector revenues (0.6 percent of GDP), need to be replaced by generating more general revenue. One possibility is to raise the excise tax on tobacco products, which would also help to reduce smoking rates. On the cost side, the fiscal implications of universal coverage will need to be assessed, including expanding insurance over one-third of the population previously not covered, and enhancing protection against OOP expenditures. Further analysis of the fiscal impact will be needed once sources of additional revenue have been identified to fund the move to universal coverage. However, even with additional efficiency gains and further revenue enhancements, as fiscal space opens up the sector will likely need a higher budgetary allocation to better fund basic health services.

[2] UN Millennium Development Goal Indicators.

Effective steps to improve the efficiency of public spending and health outcomes would be to (see Table ES.1 for a full set of recommendations):

- Improve pharmaceutical procurement and payment systems, including by promoting competition and transparency, reducing margins while increasing incentives to dispense lower priced medicines;
- Rationalize the hospital sector, by streamlining organization along the lines of the Master Plan from 2010, and gradually increase the percentage of public financing for primary care;
- Reduce out of pocket payments for health, through reducing prices and copayments for essential medicines; and expanding insurance coverage starting with the poorest;
- Shift to output-based purchasing of primary and hospital care, and strengthen the Health Insurance Institute's capacity as a strategic buyer of health care;
- Use information technology more effectively to enhance efficiency and quality;
- Mobilize more revenue (e.g., through higher taxes on tobacco) and, as fiscal space opens, consider increasing public spending on health care over the medium to long-term.

Social Assistance

The Albanian social assistance system consists of both cash benefits and social services. The main cash programs are the *Ndihma Ekonomike* (NE) program and disability assistance. The NE program is the main poverty-targeted benefit; disability assistance is a categorical benefit provided irrespective of the economic status or degree of disability. The central government finances both, but local governments carry them out based on centrally designed eligibility criteria, and local councils make the final decisions.

Albania spends about 1.6 percent of GDP on social assistance, comparable with other countries in the region, but over time the relative balance has shifted significantly in favor of disability benefits, which has more than doubled, from 0.4 percent of GDP in 2000 to 1.0 percent in 2010. Meanwhile, NE spending declined from 0.8 percent of GDP to 0.38 percent. However, in recent years NE spending has stabilized at about 0.9 percent of GDP.

NE is fairly well-targeted but its coverage is low. About 66 percent of total benefits are captured by the poorest 40 percent of the population, 46 percent by those in the poorest quintile. The wealthiest quintile receives 8 percent. Between 2008 and 2012 NE targeting accuracy deteriorated, with a lower share going to poorer households (from 56 percent to 46 percent). NE targeting accuracy is among the lowest in Eastern Europe and is well below the regional average.

NE coverage is low due to definitions and eligibility criteria that cause serious errors of exclusion. As of 2012, the percentage of poor the program covers was 24 percent (though up from 22 percent in 2008), but its coverage of the non-poor went up from 5.2 percent in 2008 to 7.4 percent in 2012. It appears that many poor Albanians do not receive any financial protection at all.

NE benefits account for just 16 percent of the total post-transfer consumption of the poorest beneficiaries. This is in part because benefits are not indexed to inflation, which has meant an erosion of real benefits. Moreover, the expansion in disability benefits was coupled with a contraction in overall NE spending, which may also partly explain the decline in benefits: in 2012, the average individual disability benefit was three times the NE household benefit. Sadly, the NE program lifts out of poverty only 1 percent of the pre-transfer poor.

Spending on disability assistance has increased due both to a larger number of beneficiaries and to generous indexation of benefits. Between 2007 and 2013 the number of beneficiaries increased by 50 percent, from 108,000 to 165,000. Furthermore, the disability assistance benefit is almost triple the generosity of NE transfers, and accounts for 46 percent of total post-transfer consumption of the poorest beneficiaries. Benefits indexation has outpaced inflation by 100 percent because it is indexed to minimum wages plus ad hoc adjustments. To contain the rise in disability spending and reverse the shift of resources away from NE, the government is now indexing disability assistance to inflation.

However, disability benefits do not necessarily favor the most severely disabled. Only 3.8 percent of the poorest quintile receive disability assistance benefits, though 15 percent of all Albanians report some kind of disability, 5 percent report serious to severe disability, and 1 percent report severe functional disability. Yet survey data indicate that 11 percent of all disability benefits go to beneficiaries who report no functional disability at all, and another 18 percent to those with only mild disabilities. This discrepancy is reflected in the program design, where determination of benefit levels does not take into account the severity of disability or functional impairments. Clearly, there is room to improve the quality of spending. An initial diagnostic shows that disability legislation is scattered, medical eligibility criteria are outdated, and the system for assessing disability cases is open to conflicts of interests (often doctors assessing disability cases are also on the reviewing commission).

Effective steps to improve social assistance equity and efficiency and prioritize the poor and truly disabled in Albania would be to (see Table ES.1 for a full set of recommendations):

- Better target the very poor and the truly disabled by:
  - moving quickly to apply the Unified Scoring Formula-- i.e. an eligibility criteria with objective weights and variables that are empirically associated with poverty-- for the NE program in pilot areas and nationwide;
  - continuing to index disability benefits to inflation over time and avoiding ad hoc adjustments to benefits; and
  - moving from a purely medical approach to disability eligibility to a more comprehensive functional approach and recertify beneficiaries.
- Rebalance social assistance spending in favor of NE by curbing spending on disability benefits;
- Revise disability eligibility to move from a purely medical approach to a more comprehensive functional abilities approach, and recertify beneficiaries; and
- Modernize the administration of benefits and the mechanisms to reduce error and fraud (e.g., by using MIS systems for both programs).

Over the medium to long term, the government should also consolidate social assistance by channeling various subsidies (e.g., energy subsidies to protect the poor from tariff increases) through the NE program; and link social assistance to human capital and activation measures.

Public Administration Reform

A cross-cutting theme critical for both service delivery and progress toward EU integration is reform of public administration. The EU *acquis* requires a professional, impartial, and reliable public administration system operating according to the rule of law. However, Albania lacks an effective merit principle in civil service recruitment, public servants are not held accountable, decision-making is concentrated at the top of institutions, and human resources management and service delivery are not well linked. The government adopted Public Administration Reform (PAR) Strategy 2009–13 as part of the National Strategy for Development and Integration to begin to address these problems. A new civil

service law was to anchor all the other reforms foreseen in the PAR Strategy but the new law was adopted only in May 2013, delaying all other PAR activities.

Albania's public sector is neither large nor growing. INSTAT, Albania's statistical agency, in 2013 estimated the total number of public employees, including those in the health sector and state-owned enterprises, at about 165,000, about 5.8 percent of the population. As a comparison, in Serbia public workers constitute nearly 10 percent of the population. The civil service—which excludes employees in education, health, judiciary and the armed forces—is a far smaller share, only 5.8 percent of public sector employment. All ministries combined employ 2,019 people, of which 1,575 are civil servants; 1,000–1,200 civil servants are employed in independent institutions; and about 2,500 in local governments.[3] The wage bill-to-GDP ratio, 5–6 percent, is one of the lowest in Eastern Europe, and the share of the wage bill in total current spending has varied from 30 percent in 2006 to 26 percent in 2013. Civil service salaries are low compared to other countries in the Western Balkans. Those of Bosnia and Herzegovina and Serbia are much higher, especially for high-level positions. Albania's lower-level salaries are more comparable to salaries elsewhere in the region.

A professional and depoliticized civil service is still a work in progress. According to an EC analysis as of 2012, the Albanian civil service still suffers from politicization and a lack of merit recruitment, promotion, and dismissal of civil servants. Despite the provisions of the new civil service law, recruitment still seems politicized and the public still has little trust in its fairness (SIGMA 2012). For example, there is evidence that public employees were actively involved in the electoral campaign.

The civil service law adopted in May 2013 bodes well for future progress. Approval of the law was an EU requirement in Albania's negotiations for candidate status. The main changes the law brings are (1) extending the scope of the civil service to employees of agencies under ministries and local government institutions (thus raising the total number of civil servants from about 5,000 to about 16,600); (2) creating a batch recruitment process for entry-level civil servants; (3) creating a career- based civil service, with entry based on competition but promotion based on the procedure for current civil servants; (4) the creation of a cadre of high-level civil servants that will include all upper management positions; and (5) flexible procedures for internal mobility to both quickly respond to emerging needs and enhance the career development of civil servants.

However, there are a number of difficulties with the law: (1) Only top management vacancies will be open to candidates outside the civil service. This seems not only contrary to current trends elsewhere in the EU but may also prevent the civil service from tapping into private sector experience. (2) The law seems to discourage staff from returning after an absence of more than two years; after two years returning civil servants must take an entry exam and start at a lower level than before. (3) The law seems to grant the Albanian School of Public Administration (ASPA) a virtual monopoly over preparing candidates for the pool of senior civil servants by making ASPA training courses compulsory even for candidates who have already earned a master's or a PhD elsewhere. Thus qualified candidates would spend unnecessary time being trained, at considerable expense to the state. (4) Batch recruitment requires effective human resource planning and infrastructure (i.e., databases, test questions, effective logistics and organization to run the competitions), which the Department of Public Administration (DoPA) and subordinate institutions and local governments presently lack. (5) The new job classification methodology means that salaries for similar positions vary depending on whether the position is in a ministry or a subordinate institution. For some institutions that require specific professional qualifications, this "hierarchy principle" may have to be combined with other principles in order to systematically grade positions based on job content rather than a single pay spine.

[3] The new civil service law proposes to extend the scope of civil service, but the civil service is expected to grow only to 16,600, 19.2 percent of the public administration.

Salary reforms since 1999 have moved Albania's pay and salary system closer to other European systems. The 1999 civil service law introduced a new salary structure for civil service positions that was put in place fully by 2002. The government has since moved further along the path to promote European pay principles of transparency, internal equity, predictability, and responsibility incentives.

A transparent civil service salary structure leaves little leeway for discretion in determining individual salaries. The structure has four components: basic salary, seniority supplement, qualification or special working condition supplement, and position supplement. The only variable part is the seniority supplement, which depends on number of years of service. In 2006–07 civil service salary principles were gradually extended to all education, health care and subordinate institutions, including most of the employees in the executive branch. In 2006, the parliament also approved a law to regulate salaries for high state officials by linking them to the president's salary, which is the highest in the public sector. This law delegates to the Council of Ministers the power to approve salary levels for independent public institutions that are linked to civil service salaries. The new salary system, which is almost free of discretionary opportunities, was a specific response to problems in 2000–01, namely distortions and excessive use of supplements amounting to double or triple the basic salary. Because the new system is predictable, it broadly complies with European pay principles, but it has limitations in that it gives the hierarchical principle priority in salary determination and there are no incentives for public employees in the form of bonuses or horizontal progression. As a result the principle of internal equity ("equal pay for equal jobs") cannot be considered fully implemented.

It appears that the public sector pays more to individuals who have only secondary education or less and the private sector pays more to highly educated employees who are skilled, e.g., in computer sciences, engineering, foreign languages, mathematics, and sciences. The private sector also pays senior managers more. The public sector is still very attractive in Albania because of its perceived job security and salary predictability; the average number of candidates per vacancy has grown in recent years. Still, the attractiveness of civil service, especially for highly qualified senior positions, could be enhanced through further decompression of salary levels, adopting a performance bonus system, and reconsidering application of the hierarchical principle for positions in subordinated organizations that require specialized skills.

Finally, recent attempts at reorganizing and downsizing the civil service have been costly and disruptive; the functions they perform should be carefully reviewed before institutions are downsized. Reorganizations have been used to replace civil servants with more loyal staff. In the last major reorganization in 2005–06, the number of employees was reduced by 24 percent, but the numbers then crept up steadily and by 2013 were 15 percent higher than in 2006. The current reorganization has on average cut 12 percent of the ministry civil service staff; and it has become difficult for some important ministries that have seen drastic reductions to discharge their duties. Yet there are no budgetary savings. In fact, personnel costs will be higher, since surplus civil servants remain on the wait-list for up to a year, with ministries required to pay full salary and benefits while at the same time hiring new staff.

A number of steps can be taken to improve service delivery as well as accelerate progress toward EU integration (see Table ES.1 for a full set of recommendations):

- Refine and further develop the PAR strategy, with a focus on improving service delivery to the citizens; delegation of more decision making, accountability and performance management; fostering professionalism as the core principle in civil service; and matching training and recruitment to skills requirements;
- Implement the new civil service law: Approval of the new civil service law is a good first step but more needs to be done to ensure its successful implementation:

- Strengthen the capacity of the Department of Public Administration –particularly in terms of human resources, training and knowledge--so that it can more effectively regulate and oversee the provision of public services;
- Improve with DoPA's leadership professional HR management practices in line ministries and local government;
- Prepare for the new recruitment procedures and increase planning capacities in civil service institutions as a prerequisite for batch recruitments; organize one or two pilot recruitments in autumn and move to large-scale recruitments only in 2015.

- Enhance the attractiveness of the public sector: Review public service pay and grading systems to ensure that the skills needed can be recruited and retained, especially for managerial positions; and reconsider use of hierarchy as the only principle in determining salary levels. Progressively decompress the salary structure and increase pay differentials for managers and highly skilled in civil service;
- Carry out, in future, a careful functional review of the public sector before reorganization or downsizing.

Table ES.1. Policy Recommendations Summarized

Area	Short-term Measures	Medium-term Measures
Education	• *Expand access to and quality of preprimary education* by redeploying the savings from declining student numbers in higher grades. • *Improve the management and governance of the education sector* through improvedsector planning and coordination across different levels of government capacity building and a clear monitoring framework • *Promote transparency and equity by introducing per capita financing* (PCF) to fund pre-university education. • *Improve the quality of education* through strengthening the regulation and implementation of the 2010 law on tertiary education; and improving the generation and dissemination of quality datato build evidence and inform policy making.	• *Consider increasing public spending on education,* as fiscal space opens (after 2016), to about 4.0 percent of GDP, to bring Albania closer to the Eastern European average of 4.6 percent of GDP.
Health	• *Improve pharmaceutical procurement and payment systems* by promoting competition and transparency, reducing the margin/ mark-ups (e.g. through expanded competitive procurement for generics), and incentivizing dispensing of lower cost medicines.	• *Make HII a more strategic purchaser* by moving away from line-item and historic budget financing toward output- and performance-based purchasing of primary and hospital services including strengthened capacity for contracting with and monitoring performance of health

Area	Short-term Measures	Medium-term Measures
	• *Rationalize and streamline the hospital sector* along the lines of the Master Plan from 2010. • *Reduce the costs and copayment rates for medicines and medical supplies* through procurement and payment reforms (above), reducing or eliminating copayments for priority low-cost generic medicines) and through a more comprehensive outpatient drug benefit scheme.	providers. • *Consider shifting to output-based purchasing of hospital care*, supported by comprehensive health information systems, extended provider autonomy, and quality assurance measures. • *HII could consider revising the allocation criteria for and extending performance-based payments to primary care***:** Enhance the overall allocation formula through stronger links to patient load (e.g., risk adjusted capitation) and extend the current quarterly bonuses for achievement to a broader set of performance indicators and/or levels of bonuses. • *Use information technology more effectively***:** MoH, HII, facility managers, and physicians will need modern IT systems to regularly monitor the quality and efficiency of care; and regional hospitals will need modern IT systems for patient management, efficient referrals, effective systems for provider payments and quality management. • *Expand insurance coverage of the uninsured, starting with the poorest,* based on available fiscal space. • *Carry out impact analysis and consider sequencing of the proposed move toward Universal Health Care*: Identify opportunities (e.g. tobacco taxes) to raise more revenues; estimate the costs of transition toward Universal Health Coverage; and strengthen administrative systems for monitoring of insurance coverage. • *Consider increasing public spending on health***,** as fiscal space opens (after 2016), to about 4 percent of GDP to bring Albania closer to the regional norm, and gradually shift a greater percentage of resources to primary care.

Area	Short-term Measures	Medium-term Measures
Social Assistance	• *Better target the very poor and the truly disabled* by moving quickly to apply the Unified Scoring Formula-- i.e. an eligibility criteria with objective weights and variables that are empirically associated with poverty-- for the NE program; indexing disability benefits to inflation over time and avoiding ad hoc adjustments to benefits; and, for disability assistance, moving from a purely medical eligibility approach to a more comprehensive functional approach and recertifying beneficiaries. • *Rebalance social assistance spending toward NE and contain disability expenditures* through temporarily freezing new applications; recertifying beneficiaries for certain subcategories to clean out errors and abuse; providing adequate social insurance benefits for those injured at work and eliminating this category from the disability assistance program; and/or temporarily reducing benefit amounts. • *Modernize benefits administration* by implementing the NE Management Information System (MIS) first in pilot areas and then nationwide; planning for a Disability Assistance MIS.	• *Consider targeting the disability benefits to the poor who are disabled and enhance equity*. Consider using the same targeting mechanism for the NE program (the Unified Scoring formula) to identify the most vulnerable among disabled individuals. • *Strengthen the system for preventing, detecting, and remedying error and fraud in social assistance programs* through automated information systems, risk-based inspections, and strengthened sanctions for error and fraud. • *Eliminate fragmentation of social assistance mechanisms*--channel subsidies to protect the vulnerable from energy tariff increases through exisitng social assistance program. • *Move the vulnerable into productive employment* via introducing an education bonus for children of NE beneficiary families to invest in human capital; and by linking social assistance to employment support services.
Public Administration	• *Refine and further develop the PAR strategy***,** with a focus on improving service delivery; delegation of responsibility; fostering professionalism in civil service; and matching training and recriuitment to skills requirements. • *Support an effecitve implementation of the new civil service law* through strengthening the human resource capacity of the Department of Public Administration; improving professional HR management practices in line ministries and local	• *Review ASPA's role in capacity building programs for high-level civil servants, in* relationship to RESPA's role to ensure a proper balance between the need to increase capacities and cost efficiency. • *Decompress the salary structure and increase pay differentials for managers*; and consider applying the "hierarchy principle" along with other principles, i.e., equal pay for equal jobs, while determining salaries for subordinate institutions and management positions.

Area	Short-term Measures	Medium-term Measures
	government; and organizing pilot recruitments in civil service institutions before moving to a large-scale batch recruitment in 2015. • *Review the public service pay and grading systems* to ensure that the skills needed can be recruited and retained, especially for managerial positions	• *Consider the use of horizontal career mobility or reward for achievement of results*. Monetary incentives could be attractive given the relatively low salaries but the application of performance based pay/bonus should be preceded by imporved performance appraisal procedures to make it more objective. • *Carry out a careful functional analysis, for future civil service downsizing/ reorganization*, before undertaking downsizing.

CHAPTER 1. INTRODUCTION AND CONTEXT

A. BACKGROUND

1.1. **After a decade of rapid expansion, with the global financial crisis Albania's economy entered a phase of slow growth and increasing unemployment.** Not only has growth been substantially lower since the global financial crisis—from an average of 6 percent annually in the pre-crisis period to less than 3 percent annually post-crisis--but Albania is expected to recover slowly over the medium term because of a slow recovery in eurozone economies. The unemployment rate has increased from around 13 percent in 2007 to 16 percent in 2013. Although Albania needs productivity-enhancing public investment in key sectors, insufficient revenue and high public debt constrain the extent to which fiscal policy can support growth.

1.2. **The first phase of the Albania Public Finance Review (PFR), published in March 2013, examined the sustainability of Albania's debt and proposed policy options to help achieve fiscal consolidation over the medium term.** The baseline scenario of no structural reforms indicated that without fiscal consolidation, Albania's public debt and interest payments and principal debt ratios would grow over the medium term. The PFR also discussed options for structural reforms that can anchor long-term fiscal sustainability in three areas—energy, pension reform, and tax policy and administration—and analyzed their fiscal impact over the medium term.

1.3. **Because the causes of Albania's deficit are largely structural, over time reforms in tax policy and administration, pension, and energy could significantly reduce it.** The first phase of the PFR concluded that a change in tax policy and improvements in tax administration that would increase revenues by 3 percentage points of GDP over the medium term would bring the public debt-to-GDP ratio down below 70 percent by 2016 and to 62 percent by 2020. With regard to pensions, the PFR report highlighted that while the government considers competing models for reinforcing the contributory system or shifting to a poverty-oriented pension system, such short-run measures as temporarily freezing pensions (recent increases have taken them above the legislated inflation rate) and gradually raising rural contribution rates to the same levels as urban should be adopted to support fiscal consolidation. For energy, the report noted, reducing distribution losses through better metering of large customers, clamping down on illicit use of electricity, and improving collection rates gradually to the 95 percent rate for the region could help cut sector fiscal risks by more than half from the business-as-usual 1.5 percent of GDP. Restoring Albania's energy sector to full financial viability would also require investing in new generation and diversifying the generation mix; adjusting tariffs to reflect true energy costs; and opening up the Albanian electricity market to regional competition.

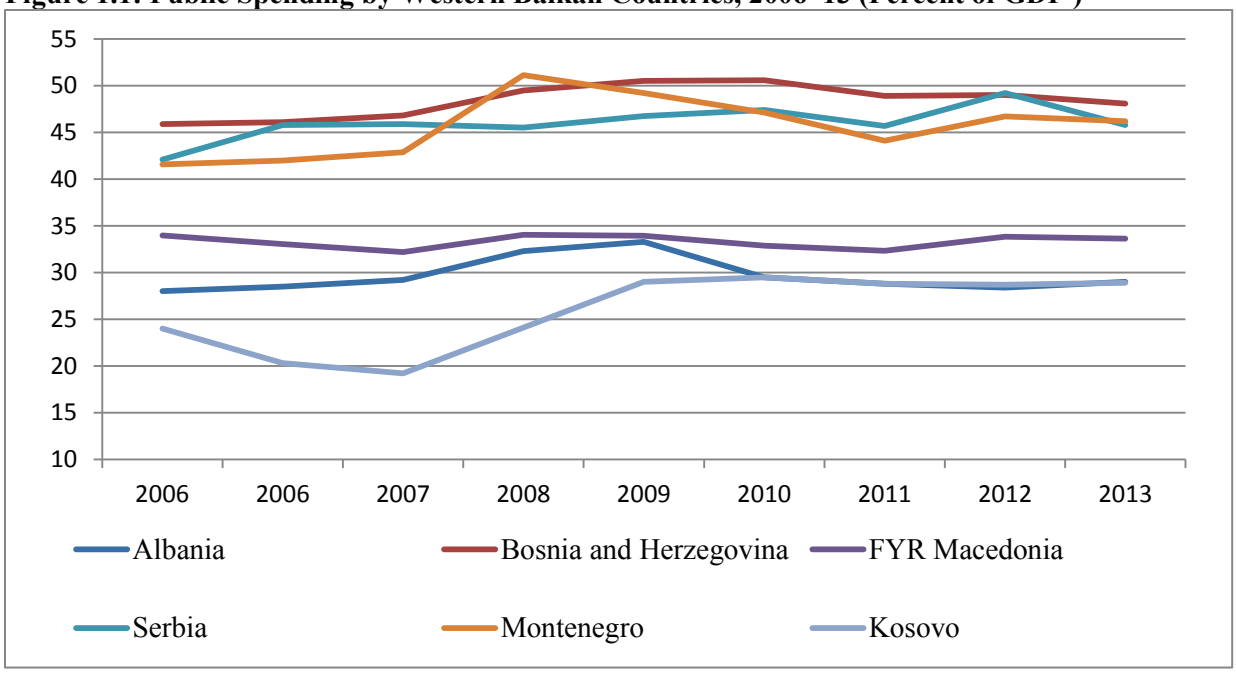
1.4. **Beyond urging fiscal consolidation measures, to support growth the first PFR phase also emphasized the need to rebalance capital spending toward maintenance, particularly in transport.** For the last 10–15 years, in the transport sector Albania has been emphasizing expansion of the national road network, to the neglect of maintenance. Average actual spending on maintenance for 2008–12 was about €12 million; however, it is estimated that Albania would need to invest €40– 45 million to keep its primary and secondary roads in good shape. Thus, the road maintenance allocation would have to triple. While the additional spending on maintenance could be funded within the current roads allocation, a rebalancing away from investment in new roads toward maintenance and rehabilitation will be critical for preserving the road network and supporting sustainable growth over the medium term.

B. WHY THE FOCUS ON SPENDING EFFICIENCY AND QUALITY?

1.5. **Even as Albania consolidates its fiscal position over the medium term, its human capital must be significantly improved**—to produce a more educated, skilled, and healthy labor force—if it is to become more competitive within the region, attract foreign direct investment, and move toward income convergence with Western Europe. While many factors beyond public spending determine the quality of human capital, the level, quality, and efficiency of current public spending is critical to that effort. In light of the 2014-16 fiscal consolidation program already in place, Albania's principal avenue to enhancing investments in human capital in the short to medium term would be through efficiency gains. Over the medium to long term, as fiscal space opens, additional budgetary allocation to the social sector may be possible and desirable, particularly in light of Albania's current less-than-regional average investment in both health and education.

1.6. **As a percent of GDP, government spending in Albania has been relatively small in comparison to neighboring countries (Figure 1.1).** In 2013 the ratio of total spending to GDP stood at 29 percent, lower than every other country in the region except Kosovo, and for the medium term the government is considering making further consolidation a priority. All else being equal, its smaller public spending suggests that Albania has less room for efficiency gains.

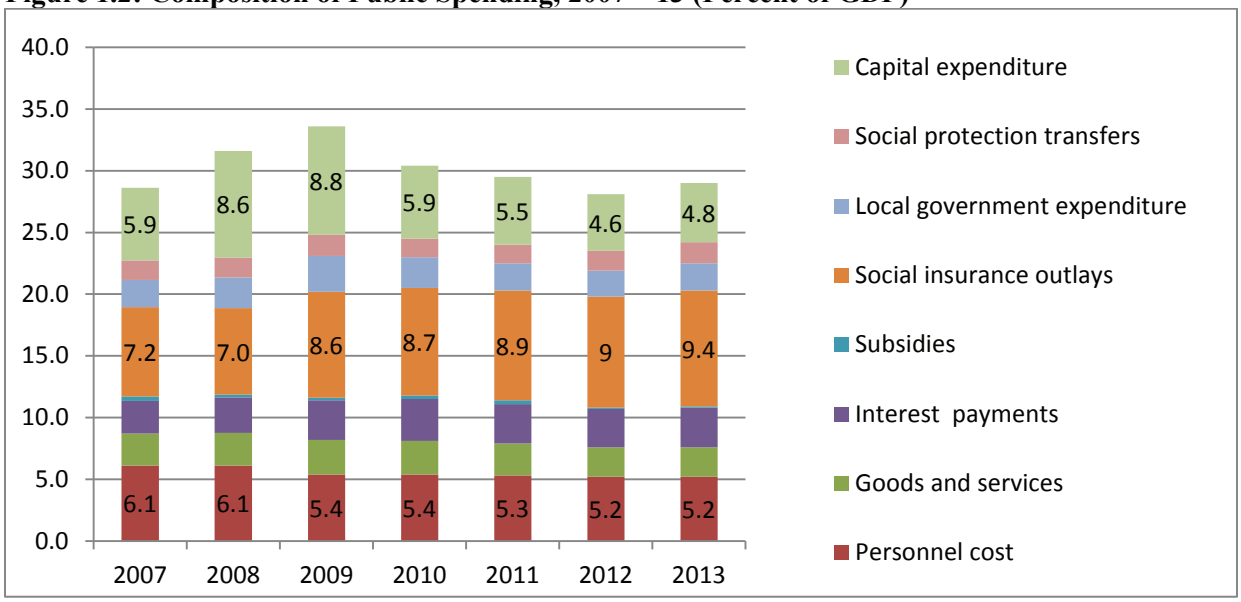
Figure 1.1: Public Spending by Western Balkan Countries, 2006–13 (Percent of GDP)



Source: Ministry of Finance.

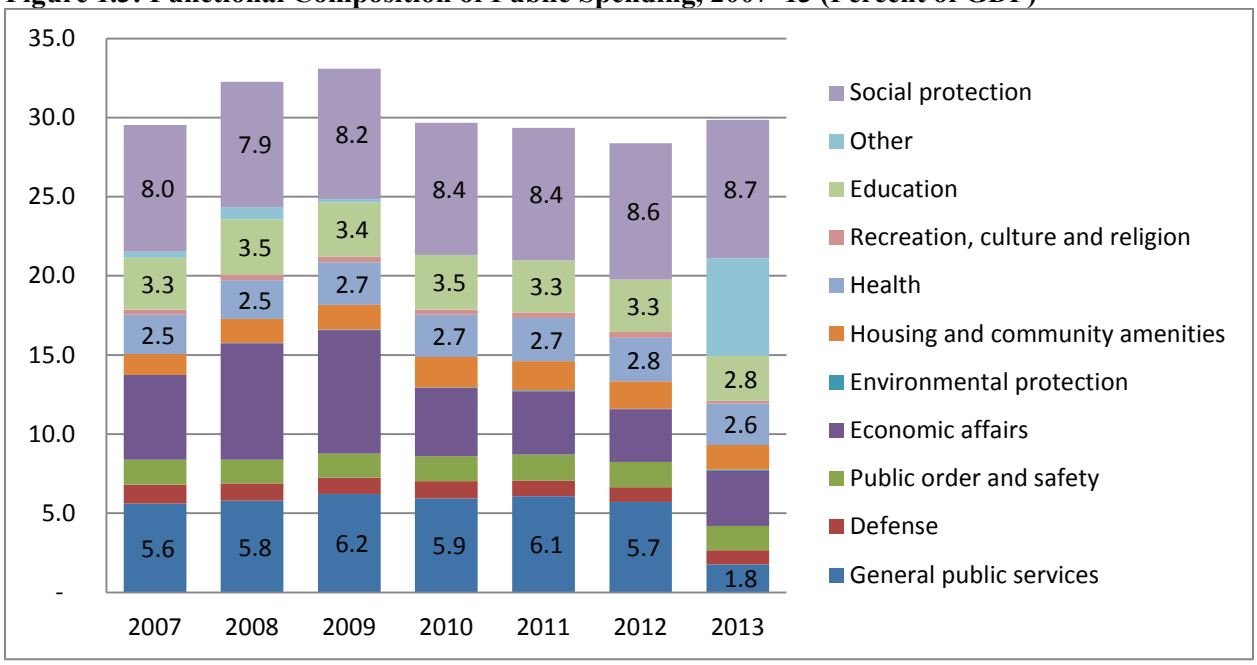
1.7. **Still, closer examination of the economic and functional composition of public spending suggests ways to improve its efficiency and quality.** From an economic perspective, public investments jumped considerably between 2008 and 2009 but have since gradually subsided; both personnel costs and operations and maintenance have slowly declined; interest payments, social assistance, and local government spending has generally held steady; and only social protection transfers have increased (Figure 1.2). Similarly, spending on general public services, economic affairs, and education have been declining; spending on defense, public order and safety, housing and community amenities, health, and social protection has held steady, and spending on social protection has increased (Figure 1.3).

Figure 1.2: Composition of Public Spending, 2007 – 13 (Percent of GDP)



Source: Ministry of Finance.

Figure 1.3: Functional Composition of Public Spending, 2007–13 (Percent of GDP)



Source: Ministry of Finance.

1.8. **At about 2.8 percent of GDP Albania spends only about half of what other countries in the region allocate to education.** Despite major gains over the last decade, Albanians have fewer years of schooling than their neighbors and are significantly below the EU average. The country also has a considerable gap in educational outcomes compared to other countries in the region, as shown by its low ranking in the 2009 PISA results. The quality of education is also considered inadequate to market needs. In the 2008 Business Environment and Enterprise Performance Survey (BEEPS), more than half of the firms in Albania reported lack of skilled labor as an impediment to doing business. In the 2009

Investment Climate Survey (ICS), 51 percent of large firms, 41 percent of exporters, and 48 percent of foreign-owned firms reported lack of skills as a major obstacle. Over 35 percent of firms that acquired new technology cited workforce education as a major problem. These surveys suggest that the quality of education needs to be better aligned with the needs of the labor market. Yet public spending on education, already lower than the regional average, has dropped as a percentage of GDP in recent years. While a higher allocation to education may be warranted, improving the efficiency of public spending on education is just as critical.

1.9. **At only 2.6 percent of GDP, Albania's public spending on health care is among the lowest in Europe.** This has kept out-of-pocket spending on health care relatively high (LSMS 2008). Hospital expenditures continue to dominate public sector spending on health (57 percent) while primary health care is underutilized—its share has shrunk to 27 percent of total health spending. Albania has a master plan for rationalizing hospital care and drafting is underway for a master plan for primary healthcare. Progress has also been made in channeling all public resources for health care through one agency, the Health Insurance Institute (HII), which is now in charge of pooling funds, allocating them, and purchasing health services on behalf of the entire population. Nevertheless, the reimbursement policy for prescription drugs does not seem to have reduced costs, and pharmaceutical expenditures are still high. A fresh review of the structure and efficiency of healthcare delivery in Albania could identify measures for rationalizing health care services and enhancing their quality despite current budget constraints.

1.10. **With respect to social assistance, while overall spending at about 1.6 percent of GDP is comparable to that of other countries in the region, its composition has gradually shifted away from benefits targeted to the poor.** Two cash transfer programs account for the majority of this spending: disability assistance benefits and the *Ndihma Ekonomike* (NE) program, which is the main poverty-targeted benefit. Over time the relative balance in spending on these two programs has shifted significantly to disability benefits. It would now be timely to examine whether and how the current social assistance system can be made more efficient by finding ways to better balance spending on the two programs, better target them, and make the current system more efficient.

1.11. **As a cross-cutting theme related to both service delivery and progress toward EU integration, the reform of public administration has emerged as critically important for Albania**. The civil service suffers from several weaknesses, especially in respect to the application of the merit principle to recruitment, allocation of temporary contracts, and rules on promotion, mobility, and dismissal of civil servants. Several salary raises have focused more on equity than on enhancing performance. This has led to compression of the pay system, which has created disincentives for attracting high-quality staff. Politicization has also interfered with the functioning of the civil service, particularly with regard to appointments.

1.12. **The EU *acquis* requires a professional, impartial, and reliable public administration system, operating according to the rule of law.** With limited human capital Albania is likely to have difficulties in meeting the *acquis* criteria. A roadmap is needed for restructuring public administration and redeploying human and financial resources so that Albania can build the necessary capacities to negotiate, transpose, and implement the *acquis*. The tasks needed have to be fully inscribed within the current strategic and legal context of civil service and public administration reform in Albania and the budget constraints on the government. To map out the way forward, review of the status of public administration reforms is essential, not only to improve service delivery but also to accelerate Albania's progress toward integration into the EU.

C. OBJECTIVES OF THIS REPORT

1.13. **This second phase of the PFR assesses the quality of public spending on education, health, and social assistance**, in order to recommend measures to help heighten the quality and efficiency of public spending. Specifically, the report undertakes a comparative review of how Albania compares with other countries in education, health, and social assistance spending and outcomes; and, identifies scope for improving efficiency and quality of public spending on education, health and social assistance.

1.14. **As a cross-cutting theme critical for service delivery and EU integration, the report will also analyze the current status of Albania's public administration reforms**, compare its situation with similar accession countries, and identify critical institutional reforms that will help improve service delivery and advance Albania's progress over the medium term toward EU integration.

D. HOW THE REPORT IS ORGANIZED

1.15. **The rest of the report is organized as follows:**

- Chapter 2 examines the quality of public spending on education. It first summarizes recent reforms, demographic trends, and enrollment statistics; proceeds to the efficiency assessment; and concludes with policy recommendations for raising the education budget; improving distribution of financial allocations; increasing the autonomy, flexibility, and accountability of schools; reallocating investments across subsectors cost effectively; and ensuring quality in tertiary education.

- Chapter 3 examines spending on health. It reviews the structure and efficiency of healthcare delivery in Albania, and proposes measures to rationalize services and enhance quality.

- Chapter 4 reviews the performance of social assistance programs—how to make the current system more efficient by, e.g., better balancing spending between the NE and the disability assistance programs and improve targeting. (The first PFR phase dealt with pension reforms.)

- Chapter 5 analyzes the status of public administration reforms and identifies critical institutional reforms to improve service delivery and advance Albania's progress toward EU integration.

- Chapter 6 provides an update to the fiscal sustainability analysis, conducted as part of the first phase of the PFR, in light of the spending policy recommendations in this report.

CHAPTER 2. EDUCATION

A. INTRODUCTION

2.1. **Albania has in recent years initiated a range of education reforms that have substantially improved access**. The Law on Pre-University Education 2012 and the Law on University Education 2007 (updated in 2010) are the linchpins for reform and enhanced access to and quality of education. The reforms have produced impressive improvements; for instance, in primary and lower secondary schools, gross enrollment rates are now comparable to those in OECD countries. Meanwhile, significant infrastructure investments have led to less crowded classrooms and elimination of triple-shift schools, Albania has recently implemented curriculum reform, improved teacher qualification and remuneration, and reviewed the national student assessment system. In higher education, reforms have been directed to improving governance and management. To better respond to local needs, regional universities have introduced short-cycle, sub-degree programs. Most impressively, except in upper secondary, gender parity has been achieved, and girls even outnumber boys in higher education.

2.2. This chapter discusses access to education and enrollment by level of education (section B), the quality of learning and student outcomes (section C), current institutional arrangements and education sector management (section D) and public spending on education (section E). Section F contains policy recommendations drawn from the previous sections that take into consideration the narrow fiscal space Albania has for additional spending: some recommendations do not need substantial resources and can be implemented quickly. Those that require additional funds can be considered for the medium term.

B. BETTER ACCESS FOR ALL

2.3. **The institutional structure of the education system in Albania is aligned with international practices**. It consists of (1) preschool for children 3–6, which is not compulsory; (2) compulsory basic education for children aged 6–15, which has two cycles—lower cycle, grades 1–5, and upper cycle, grades 6–9; (3) general upper secondary education lasting three years and two levels of vocational education lasting three and five years, with all graduates eligible to take the exam for admission into higher education; (4) higher education, which offers short-cycle professional studies lasting two years; and (5) three-year bachelor programs, two-year master's programs, and doctorate programs that last three or more years. Compulsory education is finished at the end of grade 9. At the end of grade 12, pupils sit for the state Matura exam, the results of which are used as both an exit exam from upper secondary and an entrance exam for university admission. All levels of education are offered by both public and private institutions.

2.4. **Albania has expanded access to preprimary and upper secondary education while keeping enrollments high in primary and lower secondary.** Most recent gross enrollment rates (GERs) compare favorably with comparator countries and OECD averages. Primary enrollment has been nearly universal since the late 1990s and lower secondary enrollment has been above 90 percent for the last decade. Preprimary net enrollment has seen an expansion, from 47.4 percent in 2009 to 73 percent in 2013[4]. Similarly, upper secondary enrollment shot up from 76 percent in 2009 to 92 percent in 2013. While preprimary and upper secondary enrollment rates are still lower than the OECD average, progress has been notable and rates are higher than in some neighboring countries (Table 2.1)

[4] 2009 data are from TransMonEE 2013 Database, UNICEF Regional Office for CEE/CIS (released in June 2013). Data for 2013 are from INSTAT.

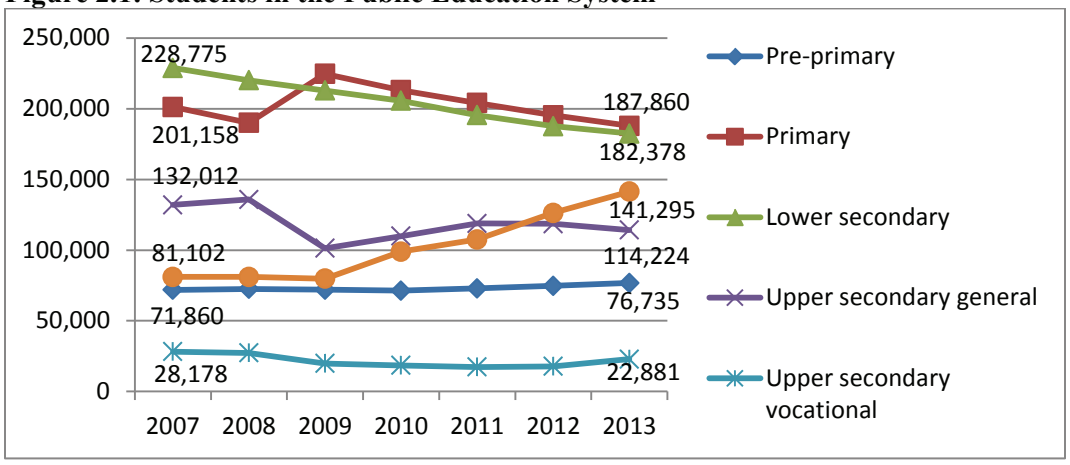
Table 2.1: Gross Enrollment Rates, 2011

	Pre- primary	Primary	Lower Secondary	Upper Secondary	Tertiary
Albania	**79**	**103**	**102**	**92**	**60**
OECD average	83	104	n/a	99	68
Slovenia	91	98	96	100	85
FYR Macedonia	26	90*	90*	76	41
Croatia	64	94	104	92	59
Serbia	53	95	98	86	50
Czech- Republic	103	102	103	91	65
Slovakia	90	101	100	93	55
Poland	73	99	96	97	73
Kosovo	71	98	96	91	
Bulgaria	85	101	84	101	60
Montenegro	57	101	93	89	56*

Source: INSTAT, OECD (Education at a Glance), and Unesco Institute for Statistics (UIS), Kosovo, Public Financing Review, 2014.
Note: Albania's figures are for school year 2011/2012 and from INSTAT; some data for FYR Macedonia are from 2010.

2.5. **The pre-university student population fell by 10 percent between 2007 and 2013,** though the public education system alone served 725,000 students from preprimary to tertiary in 2012/2013, nearly a quarter of the national population (Figure 2.1). However, the total number of public pre-university students fell by 12 percent between 2007 and 2013, from 662,000 to 584,000 students, despite improvements in GERs for preprimary and upper secondary and continuing high enrollment for primary and lower secondary.[5] The most consistent growth was in the number of students in tertiary public institutions, from 81,000 to 141,000 during the same period. In 2010, about 32 percent of Albania's population was 19 years old or younger. This figure is expected to go down to 24 percent by 2025.[6]

Figure 2.1: Students in the Public Education System



Source: Education Management Information System (EMIS), Ministry of Education and Sports.

[5] Enrollment data prior to 2011 are based on population estimates of the 2001 Census. INSTAT maintains that gross enrollment rates (GER) and new enrollment rates (NER) for years before 2011 are not comparable with later numbers. In 2008 UNESCO estimated preprimary GER to be 49 percent, for primary 105 percent and for secondary 76 percent.
[6] United Nations, Department of Economic and Social Affairs (UN DESA), Population Division.

2.6. **The share of students enrolled in private basic and upper secondary education has risen in recent years.** In basic education (primary and lower secondary) the private school share rose from 4.1 percent of all students in 2007 to 5.4 percent in 2013. Though there is more private education in nearly all regions, the municipalities of Tirana and Shkodër stand out with more than 10 percent of enrollees going to private schools. In upper secondary education, nationally the share of private school students went up from 7.5 to 11.2 percent. In Durrës, Fier, and Shkodër districts, more than 15 percent of upper secondary students are in private schools.

2.7. **Enrollment in higher education has more than doubled over the last seven years,** from 86,000 in 2007 to 174,000 in 2013**.** While the number of students in public institutions expanded by 74 percent, to 141,000 in 2013, at 475 percent the expansion of private higher education was much more dramatic, from less than 6,000 students to 33,000, as a result of which the share of students in private colleges and universities soared from 6.6 to 19.0 percent. Of 88,000 new places opened between 2007 and 2013, more than 30 percent were created by the private sector. Currently, higher education in Albania comprises 15 public and 44 private universities, all of which are subject to initial accreditation by the Public Agency for Accreditation of Higher Education (PAAHE).[7] However, given the rapid expansion in the numbers of both students and institutions, the minimal evidence on the quality of higher education raises concerns.[8]

2.8. **Albania has reached full gender parity in preprimary and basic education, but more males than females attend upper secondary while more females are in higher education.** In the last two years for which data are available, GERs have been almost identical and almost universal for boys and girls in preprimary, primary, and lower secondary. However, enrollments in upper secondary and tertiary are neither universal nor gender-balanced, although there have been improvements. Between 2011 and 2012 GERs for females in grades 10–12 increased from 86 to 90 percent and for males from 97 to 101 percent. In tertiary education, male enrollments (58 percent) significantly lagged behind females (77 percent) in 2012/13.

2.9. **While access to basic education by income group is relatively equitable, there are significant gaps in access to preprimary, upper secondary, and higher education.**[9] For preprimary education, net enrollment for the wealthiest quintile group is twice as high as those in the poorest quintile; and this gap is fourfold for higher education.

[7] PAAHE is an independent body responsible for external evaluation of programs and public and private institutions of higher education in Albania before they open and throughout their existence. Institutions of higher education are responsible for establishing internal quality assurance units, with a student representative and an external expert among the members. They periodically evaluate education, research, and artistic activities, general performance and efficiency, and the institution's administrative and financial activity. The unit has operational autonomy and access to all institutional data.

[8] Higher Education and Research Committee, Raporti i pare per reformimin e arsimit te larte dhe kerkimit shkencor, Tirane, Janar- Prill 2014. Available at: http://www.kalksh.org/wp-content/uploads/2014/04/Raporti-i-Pare-i-KALKSH-Janar-Prill-2014.pdf

[9] INSTAT and LSMS find different net enrollment rates; only the LSMS data allow analysis by income group. Although this is a common issue when comparing national survey and household survey data, the gap in the preprimary NER is particularly large, suggesting that the INSTAT data for preprimary may need to be reconsidered. Such data discrepancies notwithstanding, the substantial gaps in enrollment between income groups do illustrate that access to education in Albania is inequitable.

Table 2.2: Net Enrollment Rates by Income Group (Percent)

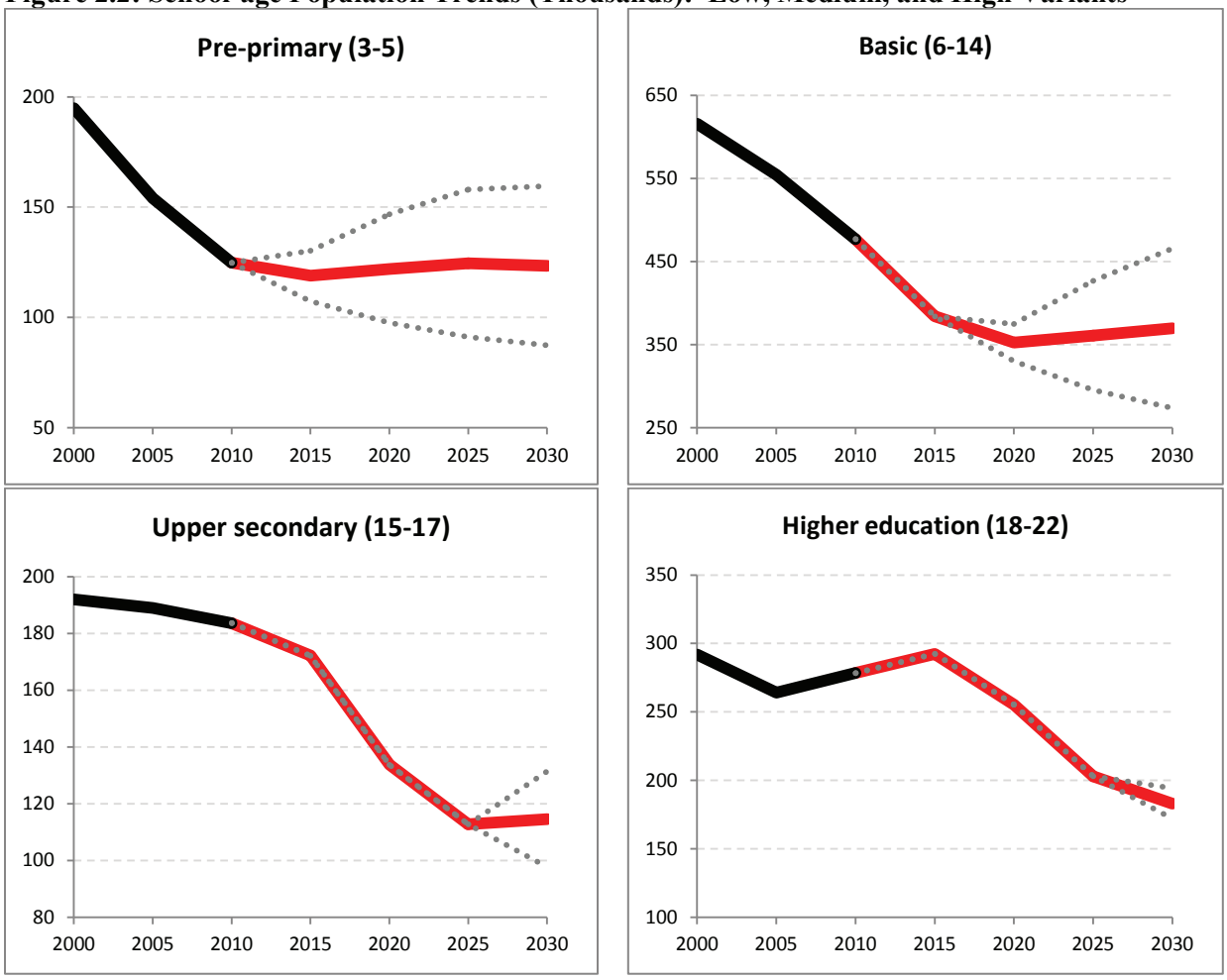
	Pre-primary			Basic			Upper secondary			Higher education	
Quintile	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**
1 (poorest)	20.5	27.1	23.4	84.8	85.2	85.0	53.7	58.6	56.5	9.0	14.5
2	35.9	41.3	38.3	88.8	90.5	89.7	66.3	74.1	70.2	17.5	29.1
3	32.5	33.8	33.2	88.1	94.3	91.4	68.7	82.2	75.1	23.6	34.6
4	38.3	36.7	37.5	92.3	86.1	89.2	77.0	81.1	79.0	30.5	45.2
5 (richest)	42.1	59.9	48.4	94.0	93.8	93.9	86.9	88.0	87.4	44.0	62.9
Total	31.1	35.7	33.2	88.7	89.4	89.1	69.8	74.9	72.3	24.6	37.1

Source: Living Standards Measurement Survey (2012).

2.10. **It is projected that the school-age population in Albania will continue to decline for the next 15 years, which may free up scarce public resources**. Figure 2.2 shows the population projections of the United Nations for the age group for each education level. The red line is the median; the gray dotted lines show low and high scenarios. The preprimary population is likely to stabilize at current levels, but the population in basic education, upper secondary, and higher education will drop significantly. The medium, low, and high scenarios coincide for a number of years because the estimates are based on births that have already happened. The number of children at pre-university ages is projected to reach and hold at about 600,000. If expected GERs are taken into account (see Table 2.3),[10] it becomes evident that relative to 2013 expansion is highly likely in preprimary, and basic and upper secondary education are likely to contract. Declining absolute enrollment will provide fiscal space for higher per capita expenditures. In addition to demographic trends, expansion of private pre-university and higher education is also likely to free up public resources. However, as discussed below, an increase in spending per capita is necessary to bolster education performance.

[10] This assumes that preprimary education will be expanded to 95 percent and upper secondary to 100 percent coverage, and that grade-age distortion will be reduced.

Figure 2.2: School-age Population Trends (Thousands): Low, Medium, and High Variants



Source: World Bank calculations based on UN DESA Population Projections, 2010.

Table 2.3: Current and Projected Enrollment, Public and Private

	Pre-primary	Basic	Upper secondary	Higher education
Expected gross enrollment rates (2025)	95%	100%	100%	65%
Number of pupils (2013)	81,865	390,837	154,425	174,421
Expected number of pupils (2025)	118,370	361,000	112,800	131,950
New places needed	36,505	–29,837	–41,625	–42,471

Source: World Bank Staff calculations based on current UN DESA Population Projections.

2.11. **A gap between the GER and the net enrollment rate (NER) suggests substantial distortions between age and appropriate grade**. Although dropout rates for Albania are not reliable, the most probable scenario is that the majority of students that enter preprimary stay in the system but eventually fall behind the appropriate grade for their age group. By upper secondary, the gap is about 25 percent, meaning that about a quarter of upper secondary students are older than the official age group (Table 2.4). This suggests that the education system has poor internal efficiency.

Table 2.4: Albania GER and NER, 2012- 2013

	Gross Enrollment Rate						Net Enrollment Rate					
	2012			2013			2012			2013		
	Total	*Female*	*Male*	*Total*	*Female*	*Male*	*Total*	*Female*	*Male*	*Total*	*Female*	*Male*
Preprimary	78.7	79.1	78.3	82.7	83.2	82.3	73.1	73.6	72.7	76.3	77.1	75.6
Primary	102.9	101.9	103.7	106.2	105.3	107	94.4	94.2	94.6	91.9	92.6	91.3
Lower secondary	101.7	100.4	103	104.2	102.7	105.5	89.9	90	89.9	88.8	89.9	87.7
Upper secondary	91.8	86.4	97	95.9	89.9	101.7	69.9	80.4	59.9	70.6	70.5	70.8
Tertiary	60.4	68.7	52.5	67.7	77.4	58.4	-	-	-	-	-	-

Source: INSTAT.

2.12. **The internal efficiency of an education system can be analyzed in various ways.** The most widely used and accepted approach is to define internal efficiency as the ability of an education system to educate the greatest number of students in the shortest period of time, and with the least use of financial and human resources. The typical indicators used to analyze internal efficiency are rates of (i) repetition, (ii) dropout, and (iii) survival or completion. In Albania, however, indicators that require population based data are either unavailable or tend to be unreliable. Despite such constraints, the gap between gross and net enrollment rates, as discussed above, signal internal inefficiencies because it highlights the smaller share of students that belong to the official age group corresponding to a given level of education. Given the data limitations, internal efficiency of the education is analyzed using measures of learning outcomes (proxy for education quality) and student-teacher ratios (proxy for efficiency of resource utilization).

C. LEARNING OUTCOMES HAVE IMPROVED BUT STILL LAG BEHIND REGIONAL PEERS

2.13. **There have been steady improvements in Albania's PISA performance.**[11] Mathematics performance improved between 2009 and 2012, though the changes in reading and science scores were not statistically significant.[12] However, significant improvements in reading and science were observed when comparing recent performance on PISA to the first PISA round in 2000 (see in Annex 1 for more details). Thus the general trend is an increase in reading and science results between 2000 and 2009, especially large for reading, and then a spike in math performance between 2009 and 2012.

[11] In 2000, 2009, and 2012 Albania participated in the OECD Programme for International Student Assessment (PISA), a survey that measures the skills and competences of 15 year-olds in reading, mathematics and science.

[12] In 2012, Albania's scores were 394 in reading and mathematics and 397 in science, up from 385 in reading, 377 in mathematics, and 391 in science in 2009. On average, changes below 10 points are not statistically significant.

2.14. **The poor quality of PISA household data does not allow for analysis to understand what is driving changes in student performance.**[13] Between 2000–12 upper secondary enrollment rose substantially, which suggests that despite the low level of spending Albania managed to improve or at least maintain quality while expanding access.[14] Expanding access to the most vulnerable children while improving average learning outcomes is a considerable challenge. Even after the substantial gains in access, OECD estimates that if all 15- year-olds in Albania attended school, Albania's mean PISA score could fall by as much as 13 points.[15] Albanian children from less wealthy families are more likely to not be in school (Table 2.5), and tend not to perform well. As the experience of other countries shows, getting them to perform well once they are in school tends to be the Achilles heel of expanding access to education, and Albania is no exception.

Table 2.5: Net Enrollment Rates by Income Group (Percent)

	Pre-primary			Basic			Upper Secondary			Higher Education	
Quintile	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female
1 (poorest)	20.5	27.1	23.4	84.8	85.2	85.0	53.7	58.6	56.5	9.0	14.5
2	35.9	41.3	38.3	88.8	90.5	89.7	66.3	74.1	70.2	17.5	29.1
3	32.5	33.8	33.2	88.1	94.3	91.4	68.7	82.2	75.1	23.6	34.6
4	38.3	36.7	37.5	92.3	86.1	89.2	77.0	81.1	79.0	30.5	45.2
5 (richest)	42.1	59.9	48.4	94.0	93.8	93.9	86.9	88.0	87.4	44.0	62.9
Total	31.1	35.7	33.2	88.7	89.4	89.1	69.8	74.9	72.3	24.6	37.1

Source: Living Standards Measurement Survey (2012).

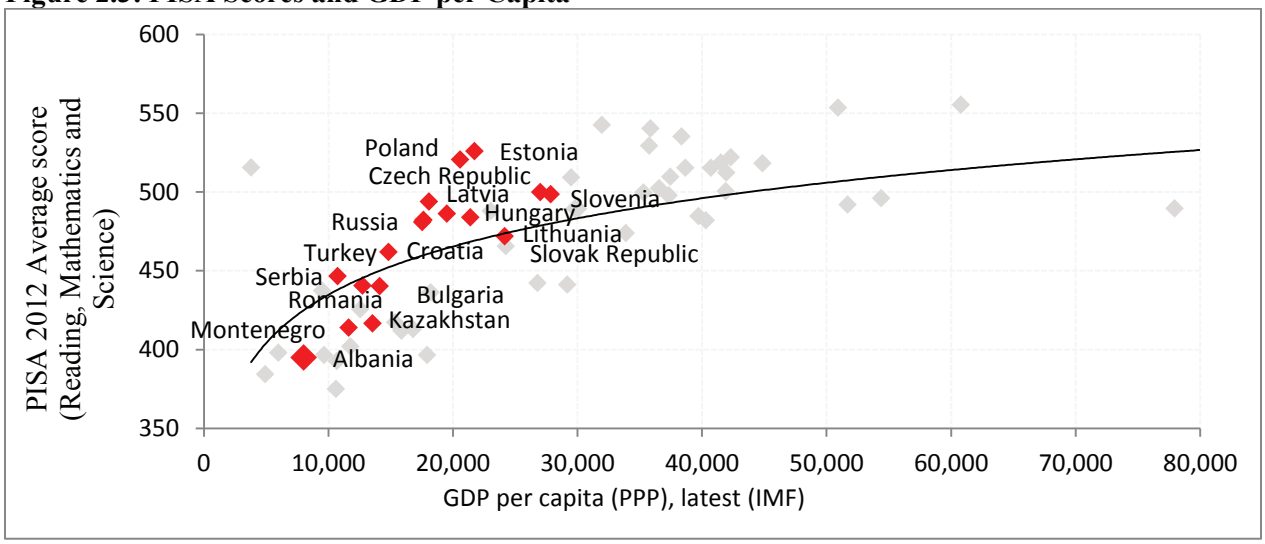
2.15. **Despite improvements, Albania's PISA results compare unfavorably with those of its neighbors and are well below OECD averages, especially in math.** As Figure 2.3 shows, in terms of average reading, mathematics, and science scores in 2012, Albania is still scoring below what would be expected for a country with its income level and public spending on education. More than half of its 15-year-olds score below level 2 in PISA (low achievers), which is considered to be the functional reading and math literacy threshold. Though having fallen since 2009, when it was about 60 percent, the share is still much higher than in comparator countries; in OECD countries only about 20 percent are low achievers. Only 0.4–1.2 percent of Albanian test-takers were high achievers (levels 5 and 6). Finally, students from rural areas performed significantly less well than those from urban areas. Also, girls perform as well as boys in math and outperform them in reading.

[13] According to the OECD (2014), Albania is the only country where part of the household data is not reliable enough to analyze determinants of learning outcomes. Considering the significant financial and human resources spent on participating in PISA, this is a missed opportunity to understand trends in performance. In anticipation of PISA 2015, which will be administered in the spring, it is critical that Albania builds up its data collection and quality assurance procedures. See OECD (2014): OECD. 2014. "PISA 2012 Results: What Students Know and Can Do". Paris: OECD. Retrieved April 10, 2014 from http://www.oecd.org/pisa/keyfindings/pisa-2012-results-volume-I.pdf

[14] In PISA 2012, 58 percent of test-takers were in general upper secondary (grade 10) as opposed to 80 percent in 2000. Although lower secondary enrollment rates have been relatively high, upper secondary enrollment improved significantly over this period (from 40 to 70 percent). Hence, substantially fewer 15-year-olds were not captured by the PISA sample in 2012.

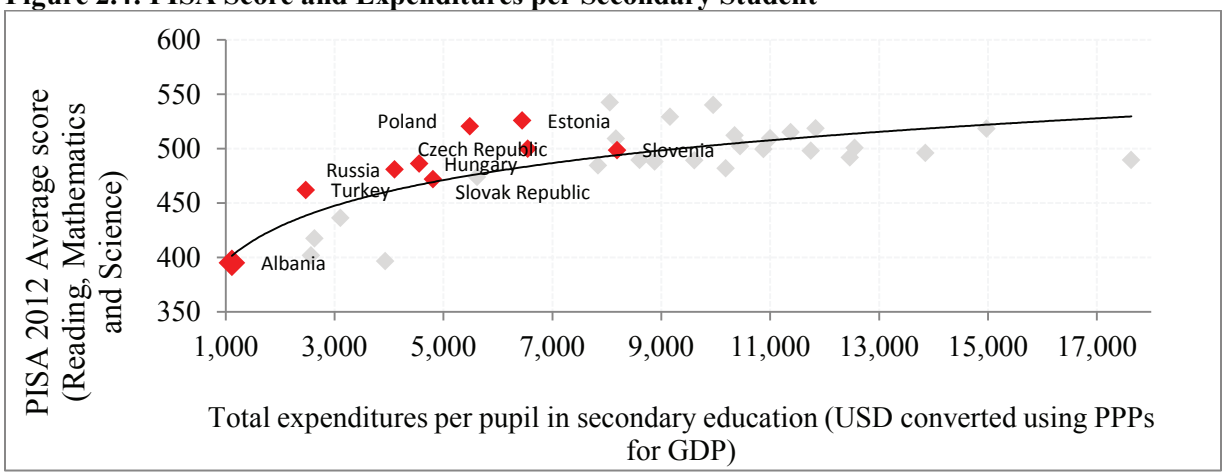
[15] OECD (2013b), Table II, 2.12, p. 211.

Figure 2.3: PISA Scores and GDP per Capita



Source: IMF, PISA, and World Bank calculations.

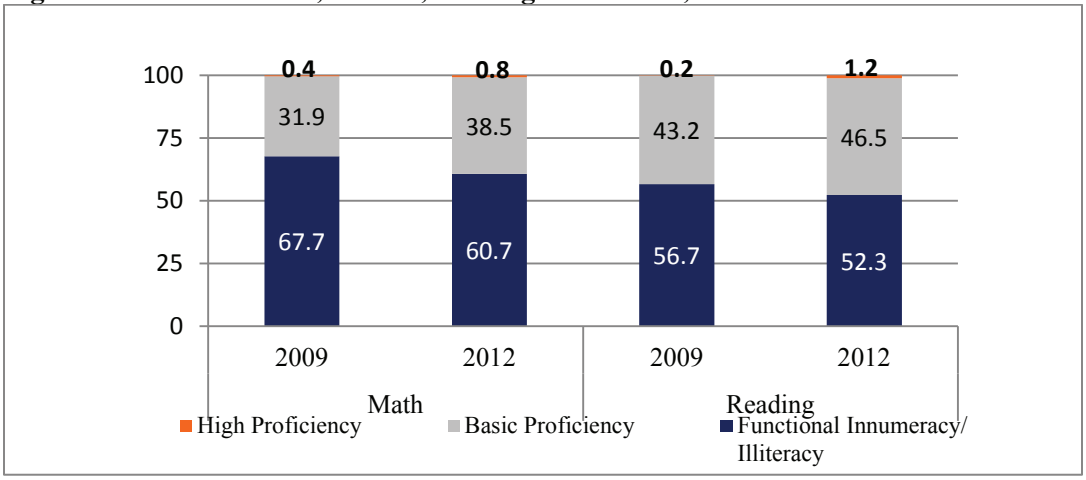
Figure 2.4: PISA Score and Expenditures per Secondary Student



Source: IMF, PISA, and World Bank calculations.

2.16. **Albania's education system gets poor learning outcomes and has low public spending (Figure 2.5 and Table 2.6).** Hence, it is difficult to determine whether Albania's system is efficient given that both inputs and outputs are low. Figure 2.4 shows Albania on the curve that best fits international data on outcomes and public spending per pupil. Albania appears among the lowest spending countries in the sample. While the efficiency discussion in terms of public spending and learning outcomes is not clear it is evident that the system has not been effective at providing students with the necessary basic competencies, as shown above.

Figure 2.5: Share of Low, Middle, and High Achievers, PISA 2009 and 2012



Source: PISA 2012.
Note: Low achievers (functional illiterate and innumerate) score below level 2, middle achievers in levels 2–4. and high achievers in levels 5 and 6.

D. IMPROVING THE INSTITUTIONAL AND FUNDING ARRANGEMENTS

2.17. **Education is governed by the Ministry of Education and Sports (MoES) and regional and local institutions that implement parliamentary policies.** The MoES is the main governmental body responsible for implementing educational policies and managing the education system. Several subordinate public institutions also operate in the education sector: (1) The Institute of Development of Education drafts and publishes curricula and standards for pre-university education and management of teacher training. (2) The State Inspectorate of Education creates and supports the training and certification of pre-university teachers. (3) The National Examinations Agency prepares and administers tests and other evaluation instruments for students and publishes the results. In addition, the PAAHE evaluates the quality of universities, accredits academic programs, and supports university self-evaluations.

2.18. **The pre-university institutional framework is complex, with multiple lines of authority.** At the central level, MoES administration and management staff delegate some responsibility to Regional Education Departments (REDs). The 13 REDs covering 12 regions and Tirana implement pre-university education policies within their territories, inspect both public and private schools, assess the quality of services, and organize teacher certification in cooperation with specialized institutions. Education Offices (EO), located in 24 districts, manage human resources (HR) in their districts, collect statistical information, supervise classroom and extracurricular activities, and manage the financing of some items, such as teaching materials. REDs and EOs are responsible for management of conditional, unconditional (not earmarked), and investment grants (see below). The MoES also oversees higher education, working with the Council of Higher Education and Science, which advises the Minister of Education and Sports, ensures implementation of higher education policies, and promotes quality higher education.

2.19. **The allocation of resources to pre-university institutions, which is similarly complex, lacks transparency.** All public pre-university schools in Albania are funded from the national budget. Teacher salaries are paid through budget transfers to REDs and EOs. In 2010, the MoES set standards for hours of teaching required and minimum class sizes for all pre-university levels; these are the basis for

determining required teacher positions and allocation of conditional grants.[16] The REDs and EOs administer resources for non-salary expenses. For other spending categories, municipalities and communes receive two types of transfers: (1) the unconditional grant, which covers school utilities and recurring costs (water, electricity, sewage, heating, bussing, etc.), maintenance, and cleaning and (2) the investment grant, for capital investment in facilities.

- The MoES has set formal standards guiding allocation of unconditional grants, e.g., what portion should be applied to school operations and maintenance. However, as these funds are not tied and there is no mechanism for monitoring their use, municipalities and communes use these transfers at their discretion.

- MoES allocates the investment grant to municipalities and communes through a competitive process. Local authorities submit proposals for use of these funds. If the proposals are approved, funds are transferred to the local authorities in charge of procurement and implementation. In theory, investment grants should be available equally to all local government units, although the requirement to compete based on proposals means in practice that local authorities with more capacity secure more of these resources than those with less (Figure 1, Annex 2).

- The MoES also administers the transportation allowance budget for students and teachers in remote areas, scholarship funds, and textbook funds.[17]

2.20. **Having better data available would improve education sector governance.** The current education management information system (EMIS) does not provide timely and disaggregated data. To be able to monitor and report on vital education statistics and learning outcomes and for timely analysis to inform policies and other decisions, the EMIS should be complemented with data from all levels of education and data on student characteristics and performance,. The shortage of information means that there is not enough evidence to hold teachers, schools, REDs, and EOs accountable for their work. In a decentralizing system, good data are critical to promote autonomy and accountability. Moreover, if school- and student-level data are unavailable or unreliable, it is not possible for the central level to make evidence-based policy.

2.21. **The Law on Pre-University Education approved in 2012 envisages changes in how education is organized.** The law allows for schools to have more autonomy with respect to financial management, delivery of quality education, streamlining of procedures, education system management and financing (with a shift to per student financing[18]), and improved efficiency by enforcing monitoring indicators. It envisages modernizing teacher education and qualifications and continued career development. It also proposes setting up an education quality fund for which schools may apply when they meet criteria for excellence. So far, however, the implementation of the law has stalled, though there has been notable progress in reform of general secondary education curricula and teacher training and qualifications. Schools generally do not yet have more financial autonomy; only vocational schools have

[16] The MoES adheres to the criteria set out in Education Norms - Instruction number 21 (23 July 2010), which prescribes conditions that should be met, including the number of students per pre-university class. The MoES and the REDs and EOs ensure compliance in implementation.

[17] Transportation allowances are provided to teachers travelling more than 5km to rural schools and students who travel over 2km to attend school outside their village or town. The scholarship fund covers dorm fees and other expenses and is targeted to students in secondary and higher education from families of lower socioeconomic background (e.g., beneficiaries of social assistance, minorities, or those who are disabled). Similarly, textbooks funds are targeted to pre-university students from the most vulnerable groups.

[18] Law on Pre-University Education, No 69/2012

some degree of freedom over their financial management. Even though they have very limited room for discretion, school directors are still held responsible for the quality of education in their schools, reporting to the EO or to the RED. Also, school boards composed of parents, students, teachers, and local government and community representatives are responsible for approving long-term school development plans and participating in selection of school directors.

2.22. **The Law on Higher Education anticipates changes in the financing of higher education in order to increase competition and the quality of both public and private providers, but as yet none of its reforms have been implemented**. As with pre-university education, the laws guiding higher education have recently been revised.[19] The reforms were directed to improving the quality, accountability, financing, and relevance of higher education. Though the new financing scheme has been completed, lack of funds in 2013 prevented its application. Public higher education thus continues to be financed primarily based on input criteria, such as the number of students, number of full- and part-time teaching staff, institutional sources of revenue, and specific teaching expenses. The government sets the tuition fees charged by higher education institutions. Public universities are autonomous and the Senate of each university decides on the allocation of resources based on the university's priorities, especially those related to staff, students, curricula (teaching and examining), governance, finance, and administration. Institutions can carry forward unused funding from one year to the next and thus are encouraged to prepare multi-year budgets; they are also encouraged to seek private funding and have discretion over use of those revenues.[20]

E. PUBLIC SPENDING ON EDUCATION IS LOW

2.23. **General government spending on education is not only low.** In 2013, public spending on education was 3.06 percent of the GDP and 10.2 percent of total public spending (see Table 2.6)—far below the Europe and Central Asia (ECA) average of 4.6 percent of GDP and also such Western Balkans countries as Kosovo (4.2 percent), FYR Macedonia (3.5 percent), Croatia (4.4 percent), and Serbia (4.7 percent). Yet due to fiscal constraints, by 2016 Albania's public spending on education is to expected to remain at the same level.

2.24. **Thus, spending by level of education is low**: Preprimary, primary, and lower secondary education accounted for 61 percent of total public spending on education; upper secondary for 21 percent; and tertiary for only 18 percent. Salaries make up 70 to and 75 percent of the education budget; goods, services, and utilities account for approximately 18 percent (see Annex 1). These levels compare unfavorably to neighboring countries.

[19] Law on Higher Education, No 9741/2007, amended by new law No. 10307/2010.
[20] http://eacea.ec.europa.eu/tempus../participating_countries/overview/albania_tempus_country_fiche_final.pdf.

Table 2.6: Public Spending on Education by Education Level, (LEK billions and Share of GDP)

	2011		2012		2013	
	LEK	Share of GDP (%)	LEK	Share of GDP (%)	LEK	Share of GDP (%)
Total	***37,204,028***	***2.86***	***38,905,135***	***2.89***	***38,014,000***	***3.06***
Planning, management, etc. administration	760,245	0.06	769,574	0.06	669,000	0.05
Basic education (including preprimary)	22,908,335	1.76	23,768,860	1.77	23,599,900	1.7
General upper secondary	5,137,503	0.39	5,158,339	0.38	5,493,500	0.4
Vocational and technical upper secondary	1,926,613	0.15	2,537,423	0.19	2,274,200	0.16
Higher education and science	6,471,332	0.50	6,670,939	0.50	5,833,100	0.75

Source: Ministry of Education and Sports.

Comparisons with Other Countries

2.25. **Public spending on education is particularly low considering the composition of Albania's population.** About one-third of Albanians are 19 or younger. Table 2.7 shows that, Albania compares unfavorably with most other countries with similar shares of school-age population. Even poorer countries like Morocco and Vietnam invest more of their income on education.

Table 2.7: School-age Population and Public Spending on Education

		Share of population below 19 years old (%)	Public expenditures on education as share of GDP (%)	Public expenditures on education as share of total Government expenditures (%)	GDP per capita (PPP)
Europe and Central Asia	Albania	32.5	2.9	9.5	9,403
	Kazakhstan	33.5	3.1		13,667
	Azerbaijan	32.7	2.4	7.2	10,125
	Armenia	29.1	3.1	13.7	8,417
	FYR Macedonia	25.0			11,834
	Serbia	23.7	4.4	10.6	11,801
	Croatia	21.0	4.9	9.9	20,964
OECD	Mexico	39.7	5.3	19.4	16,734
	Chile	30.8	4.1	19.4	22,363
	New Zealand	27.8	7.3	18.7	32,219
	Ireland	27.5	6.5	9.8	43,683
	United States	26.9	5.6	12.7	51,749
	Peru	39.8	2.6	18.1	10,765
	Morocco	38.3	5.4		5,220
Other countries	Colombia	38.2	4.4	15.8	10,436
	Brazil	33.9	5.8	18.1	11,716
	Vietnam	33.6	6.8	20.9	3,787

Source: World Development Indicators, UN DESA Population Projections and UNESCO Institute for Statistics.
Note: Population figure are 2010 estimates. Expenditures are 2010 or latest available and GDP per capita is from 2012.

2.26. **Public spending per student is among the lowest in Europe even taking into account Albania's income level.** In 2012, the unit cost of basic education (grades 1–9)—the cost per student per year—was 12 percent of Albania's per capita GDP. The OECD average is 23 percent for primary and 26 percent for lower secondary education. For upper secondary (general and vocational), Albania's average spending per capita was 13 percent, while the OECD and the EU averaged about 27 percent.[21] Lastly, public spending (including science) per student in tertiary education was 12 percent of per capita GDP—far below the OECD and EU average of about 40 percent.

2.27. **Vocational education costs three times as much per student per year than general education.** About one in six upper secondary students attend vocational education; the unit cost is 33 percent of per capita GDP per year, compared to 10.1 percent for general education. Given the lack of systematic data or studies on relative returns to vocational education in the labor market, it is hard to assess whether such a relatively expensive education pays off. Based on international experience, however, relative to general education the unit cost in Albania is very high. [22] Vocational education receives about 6 percent of the education budget but enrolls only 3 percent of the students.

Spending by Region

2.28. **Data on education spending by region show large variations and inequities despite the government's recent attempt to make financing more equitable (Table 2.8)**. In 2010, the government revised several norms in an attempt to improve the regional distribution of resources: minimum class size by level of education and by urban, rural, or remote area; criteria for creating multigrade classes in rural and remote areas; and hours required for full-time equivalent teacher positions by level of education and other special provisions. However, the allocation is still far from equitable: for example, while Gjirokastër spends more than 150 percent of the national average per student, Durrës and Tiranë Bashki spend as little as 80 percent of the average.

Table 2.8: Per Student Spending by District, Relative to the Albanian Average

	Basic and Lower Secondary					Plus Upper Secondary	
District	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Berat	1.04	1.07	1.10	1.12	1.15	1.11	1.11
Diber	0.97	0.96	0.99	1.00	0.99	1.01	1.04
Durrës	0.81	0.84	0.81	0.80	0.78	0.78	0.78
Elbasan	1.02	1.05	1.06	1.08	1.09	1.06	1.07
Fier	0.97	0.99	1.01	1.00	1.02	1.02	1.03
Gjirokastër	1.48	1.51	1.52	1.61	1.58	1.53	1.55
Korçë	1.05	1.11	1.12	1.14	1.15	1.12	1.12
Kukës	1.05	1.00	1.01	1.02	1.03	0.97	1.01
Lezhë	1.02	1.00	1.02	1.00	0.98	0.99	1.02
Shkodër	1.07	1.10	1.10	1.12	1.14	1.10	1.14
Tiranë Bashki	0.95	0.89	0.83	0.82	0.80	0.93	0.88
Qarku Tirane	0.94	0.89	0.88	0.87	0.87	0.84	0.82
Vlorë	1.10	1.08	1.14	1.11	1.11	1.10	1.09
Total	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

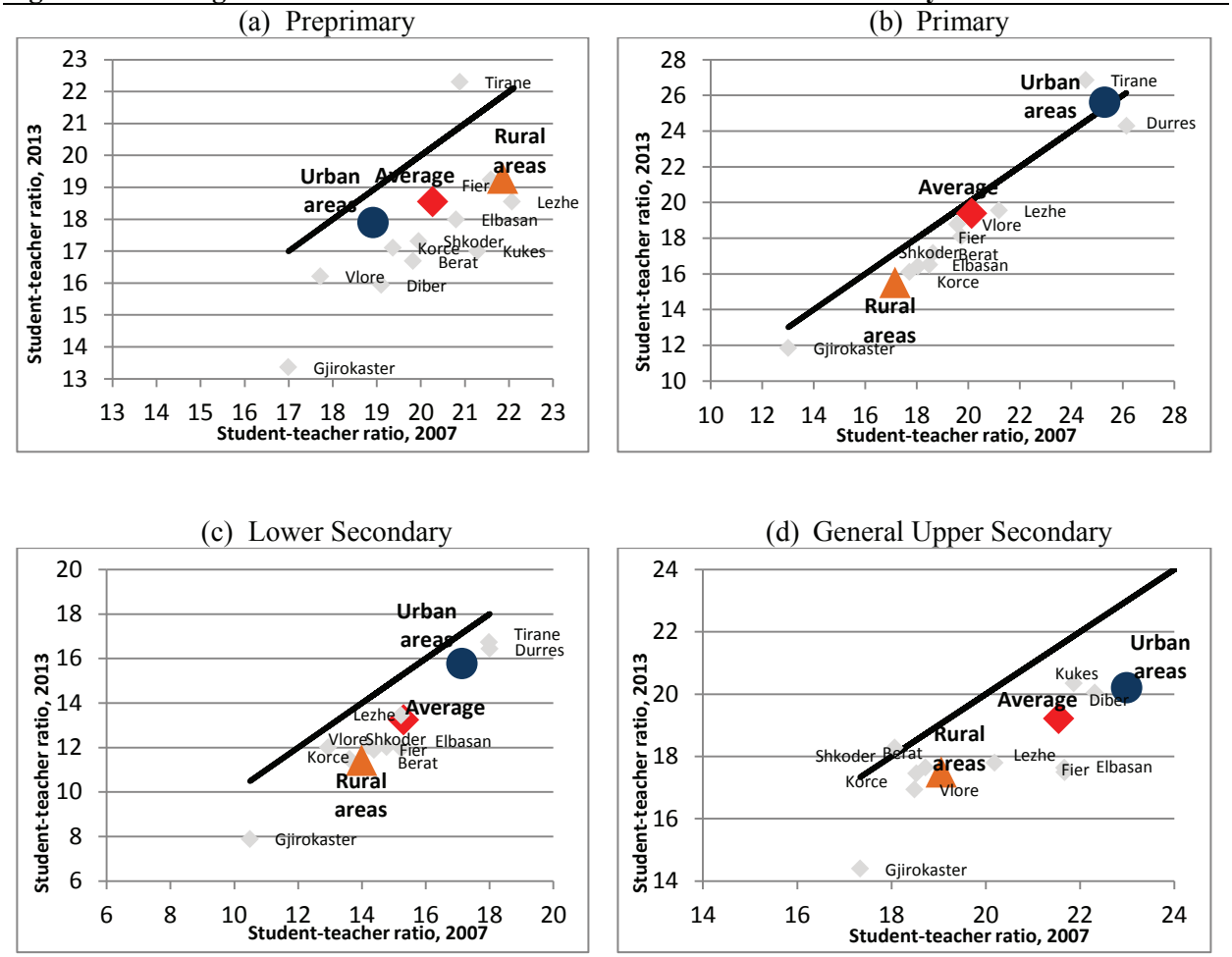
Source: Ministry of Education and Sports, WB Staff calculations.

[21] See OECD (2013), Table B1.4 (p.177).

[22] Tsang (1997) found that the unit cost of vocational education is 150 percent higher than general education on average for Africa, Asia and Latin America, and 64 percent higher for the USA.

2.29. **Student-teacher ratios (STR) have not fallen at the same pace as the decline in student population, indicating an adjustment in the number of teachers.** Figure 2.6 shows the STR trends at the prefecture level, with the break down by urban-rural and the country average. As seen in the Figure, there is a downward trend between 2007 and 2013, though they were still higher than the OECD average (see Annex 1). The higher than expected STRs suggest a reduction in the number of teachers in the period (Table 2.9). However, the lack of disaggregated data on the number of teachers limits further analysis. Moreover, average class sizes also fell by between 2 and 10 percent between 2007 and 2013, most likely as a result of the declining student population[23]. As in most other countries, average classes in upper secondary are larger than those in primary and lower secondary[24]. Empirical evidence of the impact of class size on student learning is mixed and the effects tend to be small, unless classes are very small. Moreover, the impact seems to be stronger if introduced at an early stage, with disproportionate effect on pupils from disadvantaged families (Whitehurst and Chingos 2011).

Figure 2.6: Changes in Student-Teacher Ratios in between 2007 and 2013 by Education Level



Source: INSTAT.

Note: Black line is 45 degrees line. All prefectures below the line saw their STR go down between 2007 and 2013. Grey dots are prefectures averages (includes both rural and urban areas within a given prefecture). "Rural areas" refers to average of rural areas (across all prefectures). "Urban areas" refers to average of urban areas (across all prefectures). "Average" is the average across all prefectures (in both urban and rural areas).

[23] STRs and class size in Albania are higher than in the OECD (see Annex 1 for details).

[24] It is important to note, though, that research on education has failed to find convincing evidence of the effects of class size on student learning.

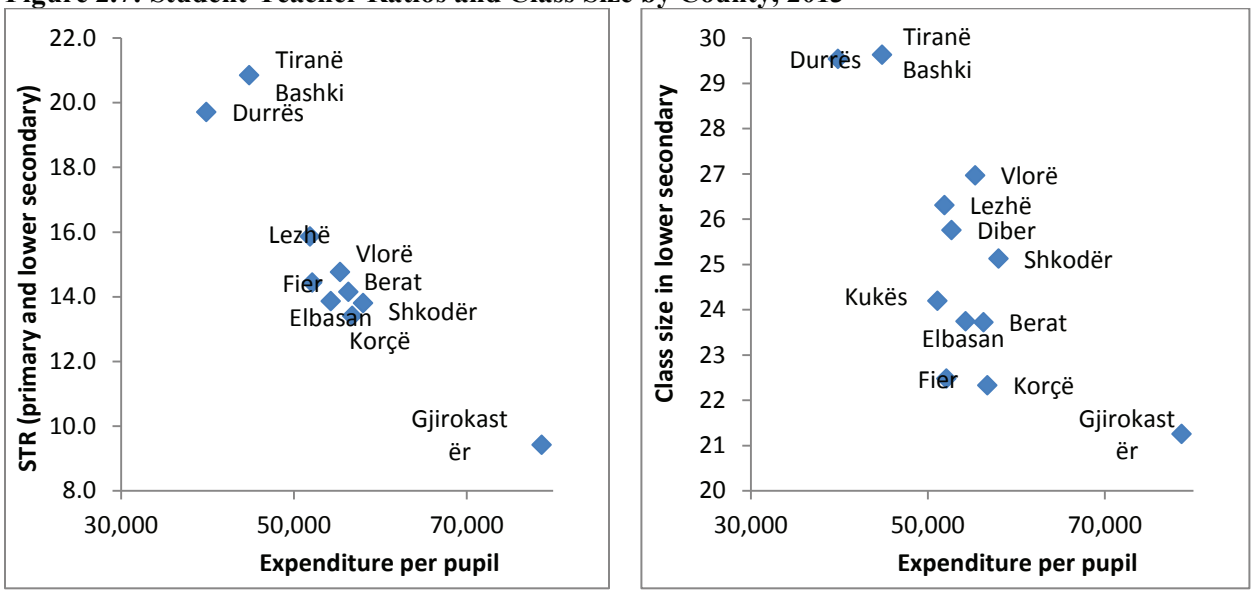
Table 2.9: Student-Teacher Ratios and Implied Reduction in the Number of Teachers, 2007-2013

	Decline in student population, 2007-2013 (%)	Student-teacher ratio, 2007	Student-teacher ratio, 2013	Expected STR for 2013 given student population decline	Implied decline in the number of teachers, 2007-2013 (%)
Primary	9.5	20.1	19.4	18.2	6.0
Lower secondary	17.5	15.3	13.2	12.6	4.8
Upper secondary	13.0	21.5	19.2	18.7	2.4

Source: WB Staff calculations based on INSTAT data.
Note: Expected STR for 2013 is calculated based on the assumption that number of teachers remains constant. Implied decline in number of teachers is given by $decline = 1 - (Students_{2013}/Students_{2007}) * STR_{2007}/STR_{2013}$.

2.30. **The averages hide regional variations that suggest that across the country equity can be improved, especially between rural and urban areas.** Some districts report lower STRs than the national average, with Gjirokaster a stand-out, as shown in Figure 2.7 (Annex 1 provides more details on regional trends in STRs and class sizes). While STRs are strongly correlated with the expenditure per pupil in each prefecture, there is wide variation in STRs and expenditure per pupil across prefectures, suggesting efficiency disparities of the regions. Apart from the number of teachers, the organization of the school network also has an impact on how efficient education spending is. The school mapping conducted in 2010 indicates that Albania still has a network of many small schools with few students in each that could be targeted for efficiency gains. Although the school mapping data are not officially certified, they are the only source of school-level data currently available. Once EMIS is fully launched and data are disaggregated at the school level, further analysis of efficiency gains will be possible. Since the number of pupils in basic and upper secondary education is expected to decline substantially, it would be vital to prepare for changes in demand for human and physical resources in the education sector.

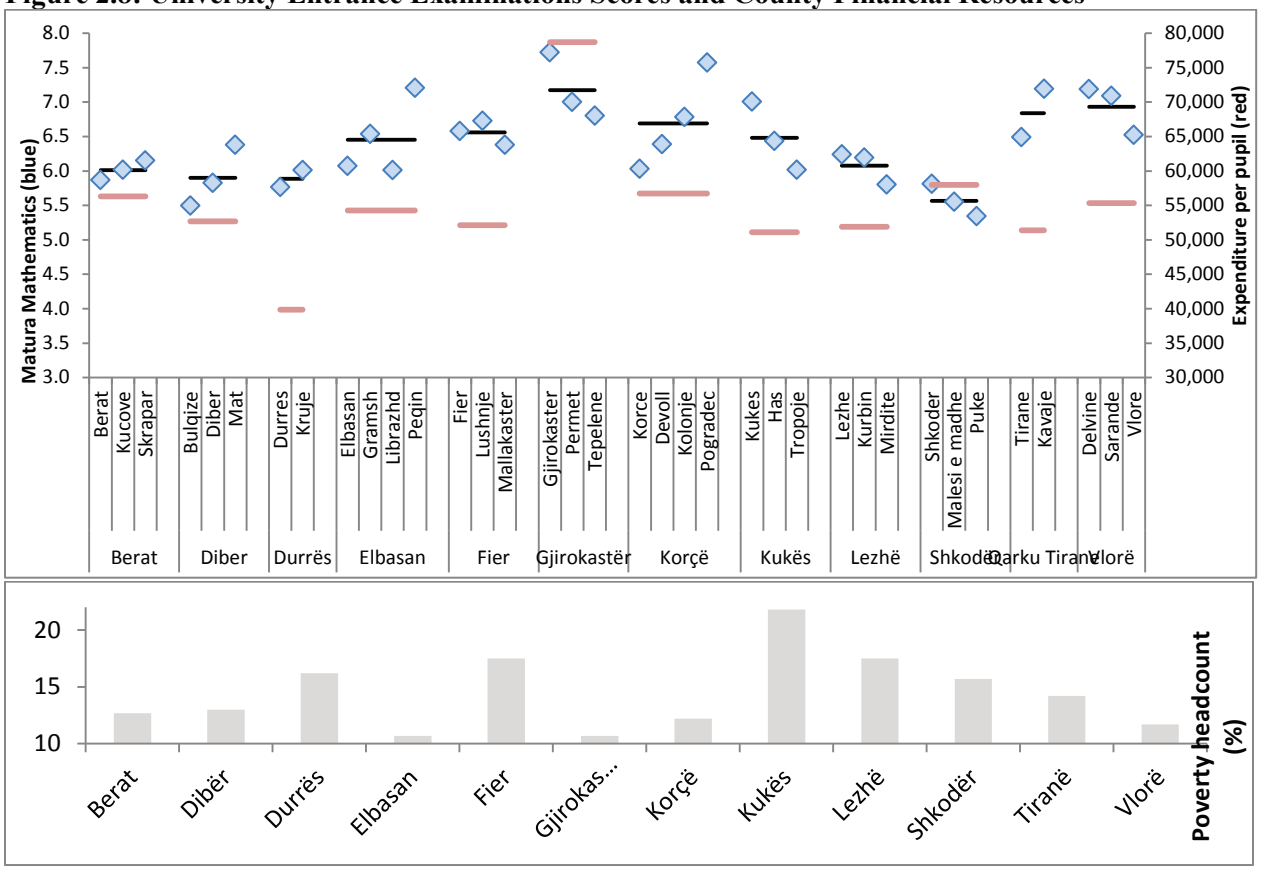
Figure 2.7: Student-Teacher Ratios and Class Size by County, 2013



Source: Ministry of Education and Sports and INSTAT.

2.31. **Results from *Matura*, the university entrance exam, suggest that financial resources alone do not explain learning outcomes.** Figure 2.8 illustrates the relationship between financial resources and learning outcomes (as measured by 2013 *Matura* mathematics scores) by district. While the flat blue line is an unweighted average score for the county (average of the blue dots), the flat red line measures expenditures per pupil in each county (right-hand side axis). The figure shows that some counties seem to be more efficient than others in using their resources to produce good learning outcomes. For instance, Qarku Tirane, Vlorë, Elbasan, and Fier spend approximately the country's average and get relatively good results, while other districts spend as much and do not get good learning outcomes. Gjirokastër, despite having good scores, spends extremely high amounts by Albanian standards and is thus less efficient than other counties. It is important to stress that this analysis is based on correlation, and thus causality between expenditures and scores cannot be claimed.[25] The figure also suggests that the financing mechanism does not target poorer prefectures (as measured by the share of population in poverty). For instance, Gjirokastër has low poverty incidence and the highest expenditure per pupil, whereas Kukës is poorer and gets a low per capita allocation.

Figure 2.8: University Entrance Examinations Scores and County Financial Resources



Source: INSTAT, National Examinations Agency, and Ministry of Education and Sports.
Note: Matura results are from 2013; poverty headcount comes from INSTAT's analysis of the LSMS 2012 and measures the share of the population below Albania's poverty line.

[25] For instance, it may be that Gjirokastër's results would have been much lower had it not spent this amount of resources on education.

2.32. **The current financing mechanism does not create incentives for schools and local governments to rationalize spending and reduce variation among schools, municipalities, and communes.** While the current central government formula for determining recurrent cost-allocations to local governments is said to be funding "per student," regional variations do not seem to be based on equity considerations (Table 2.8).

Teacher Salaries

2.33. **Salaries make up 70–75 percent of public spending on education.** Since 2005, the government has raised teacher salaries every year, with the objective of increasing teaching quality and lowering incentives for teachers to elicit private payment for education services. By 2012, their average monthly salaries had more than doubled from 2005 (Table 2.10). The reform is aimed at preventing teachers from moving to alternative professions—retention—and attracting new qualified teachers into the profession. Teacher salaries are comparable to other public sector salaries.

2.34. **The Government has sought to strengthen teacher career system, including requirements for entering the teaching profession, however the system needs to do a better job of motivating good teachers.** The new Law on Pre-University Education specifies that all new entrants must obtain a Master degree to be considered for the teaching profession. In addition, all new entrants must undergo an induction period and pass the state exam to qualify for a teachers' position.[26] Teachers can also obtain or upgrade their qualifications while teaching.[27] However, although teacher evaluations are done regularly, they are still not linked to performance so the impact of higher teacher salaries on classroom behavior or learning outcomes is unclear. Also, the system does not provide sufficient and relevant in-service teacher training that would provide the teachers with skills to teach the new curriculum. Going forward, it would be important to align teacher training with the curriculum reforms and ensure broader coverage.

Table 2.10:Teacher and Average Public Salaries

	Monthly Salary (Leks)								**% increase**
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	
Average monthly wage in public sector	26,808	28,822	33,750	36,537	40,874	43,625	46,665	50,092	187%
Preprimary teacher	20,262	22,606	27,239	34,633	42,667	45,350	47,454	48,700	240%
Basic education teacher	22,988	25,542	31,600	38,763	43,533	46,850	50,454	51,700	225%
Upper secondary teacher	25,302	28,071	35,024	42,308	48,167	51,100	53,454	54,700	216%

Source: MoES and INSTAT.

[26] Directive No.1 dated 5 February 2013 on the Criteria and Procedures of Teacher Qualifications.

[27] European Commission, Teacher Education and Training in the Western Balkans, Albania, 2013: Teachers can be promoted to: (i) 'qualified teachers' after at least 5 years of experience; (ii) 'specialized teachers' after at least 10 years of practice (but min. 5 years after becoming 'qualified teachers'); and (iii) 'Master teachers' after at least 20 years of experience (but minimum 10 years after becoming 'specialized teachers'). Promotion is connected to pay increases.

F. POLICY RECOMMENDATIONS

Expand Access to Preprimary Education

2.35. **One priority is the expansion of access to and quality of preprimary education; the cost can be offset by savings from declining student numbers in higher grades (short-term).** By 2015, Albania's preprimary population is likely to stabilize at current levels but the numbers of students in basic, upper secondary, and higher education will drop significantly. Assuming there will be a 95 percent enrollment rate for preprimary and universal enrollment in basic and upper secondary by 2025, fewer basic and upper secondary education places will be needed relative to 2013. On the other hand, Albania's investments in preprimary and primary education are far behind international benchmarks, especially given studies that confirm robust returns to investment in children's early years compared to equivalent investments later in life (World Bank 2013). Preprimary education will therefore need to be expanded by approximately 36,000 places. Based on current unit costs, creating the 36,000 places preprimary education will need in 2025 would cost about 5 percent of the education budget. Using the same criteria to quantify savings, about 9 percent of the education budget can be saved from the decline in numbers of basic and upper secondary students, which can redeployed to finance the expansion in preprimary.[28] Furthermore, since preprimary classes are mainly housed within primary schools, the places freed by basic education could be used to expand access to preprimary. In particular, the school mapping data collected by the Council of Europe Development Bank project (ALB-IPF-TA-10) should be better utilized. Rural to urban migration and expansion of private education should also be taken into account. For these interventions to produce improvements in quality of preprimary education, continued teacher training and capacity building is needed.

Improve Governance, Efficiency and Equity

2.36. **Improve management and governance in the education sector (short-term).** Sector planning and coordination across different levels of government could be improved to increase transparency and accountability in the use of resources and also enhance policy making and education delivery. Current financing mechanisms and accountability arrangements for pre-university education do not create incentives for schools and local governments to rationalize spending. Limited capacity and lack of a clear monitoring framework exacerbate sector inefficiency.

2.37. **To bring more transparency and equity to education financing, Albania could consider introducing per capita financing (PCF) to fund pre-university education (short-term).** Currently, expenditures per pupil vary substantially by region; and it does not seem that regions with poorer results or a higher incidence of poverty receive more funding. Furthermore, schools depend on the REDs and local governments for financing major inputs and meeting maintenance needs, which impairs their ability to sustain a high-quality teaching environment. The introduction of a well-designed PCF mechanism could not only improve transparency around what regions receive and how that relates to student population, but also efficiency and accountability. It could also help provide additional funding to the disadvantaged and hard-to-reach populations.

2.38. **As PCF is phased in, in the medium term both school autonomy and accountability should be heightened (short-term).** Currently, schools have only minimal financial autonomy. The PISA 2012 school questionnaire shows that only 20 percent of principals reported formulating their school budgets and less than 10 percent said they had autonomy over teacher hiring, firing, and salaries. Albania should

[28] These figures come from dividing expenditures in each education subsector by the current number of students and multiplying them by the numbers in the last row of Table 2.9. These estimates do not consider the public-private balance.

consider giving schools more autonomy on both HR and financial management; butthis shift will needto be accompanied by investment in building capacity at the local level and greater accountability for results.. While this shift is unlikely to have significant budgetary implications, it will require a cultural shift whereby schools, REDs, and EOs will have to perform new roles. In a more decentralized setting, for example, REDs and EOs should act as advisors to schools.

2.39. **Cost-effectiveness of sub-sector investments could be examined as a basis for reallocating funds.** Vocational education students cost the government three times as much per year as general education students, but there is no evidence that there is a concomitant return on the investment in terms of greater learning.[29] Given the tight fiscal space, investment decisions should be driven by benefits that can accrue to both individual children and to society as a whole. For example, preprimary investments can be leveraged to produce positive effects on female labor participation, reach marginalized populations, and reduce the intergenerational transfer of poverty (Naudeau et al., 2011).

Consider Increasing Education Spending over the Medium Term

2.40. In the short term, given the lack of fiscal space and the fiscal consolidation plan in place for the period 2014-16, Albania should carry out reforms to make the sector more efficient and do more with the same level of budgetary resources. In the medium to long term, particularly after 2016, Albania should consider increasing public spending on education. Albania's small budget envelope for the education sector should be raised gradually from about 3 percent of GDP to 4.0 percent of GDP, closer to the Eastern European average of 4.6 percent of GDP. While there is agreement that more public spending will not guarantee better education quality, Albania ranks at the bottom with respect to both learning outcomes and public spending on education as a share of per capita GDP. Even after exploiting all efficiency gains, there is likely an additional need for budgetary resources to increase the quality of education and learning outcomes over the long term. The additional public spending could be channeled to several areas in which Albania still needs investment, such as: (i) teachers' professional development; (ii) learning materials and school supplies; (iii) quality of school facilities; and, (iv) more time on tasks and activities in schools. While the cost of basic investment in pre-primary education can to some extent be offset by the savings from the declining student population, it also requires well prepared educators, learning materials and school supplies for which additional resources are needed.

Improve Quality of Education

2.41. **The government could ensure that tertiary education is not expanded at the expense of quality (short-term).** The government should strengthen the regulation guiding the expansion of higher education—largely through the implementation of the 2010 law on tertiary education-- both to assure quality and to guarantee alignment with population trends. In the last decade, Albania has seen much higher enrollments in tertiary education, both public and private, in line with the government's commitment to providing access to all who wish to continue beyond secondary education. Now it is necessary to direct attention to quality—with a view to ensuring that standards articulated in the 2010 Tertiary Education Law, itself aligned with the Bologna Process and overall principles of Europe 2020 Strategy--are complied with. It also means that financing has to keep pace with the increase in the number of students, so quality is not jeopardized.

2.42. **Quality data must be generated and disseminated to the wider public to build evidence and inform policy making (short-term)**. Currently, there is little evidence on which policies might improve

[29] In PISA 2012 depending on the subject students from vocational upper secondary performed about 3 to 20 points below student's in general upper secondary. It is difficult to determine whether this is due to the quality of vocational education since students are not channeled to each track randomly.

student learning in basic education. Unfortunately, the unreliable household data from PISA does not allow for analysis of determinants of learning outcomes, and causal links have not yet been established between various policy reforms and student achievement. To avoid making policy decisions in the dark, Albania should immediately finalize the design of the EMIS and, once it is in place, use the data in making decisions. This will also help strengthen school accountability. Albania should also seek evidence on policy reforms that have improved student learning in other countries, such as investments in preprimary education, improving teacher and principal effectiveness, and increasing school autonomy and accountability.

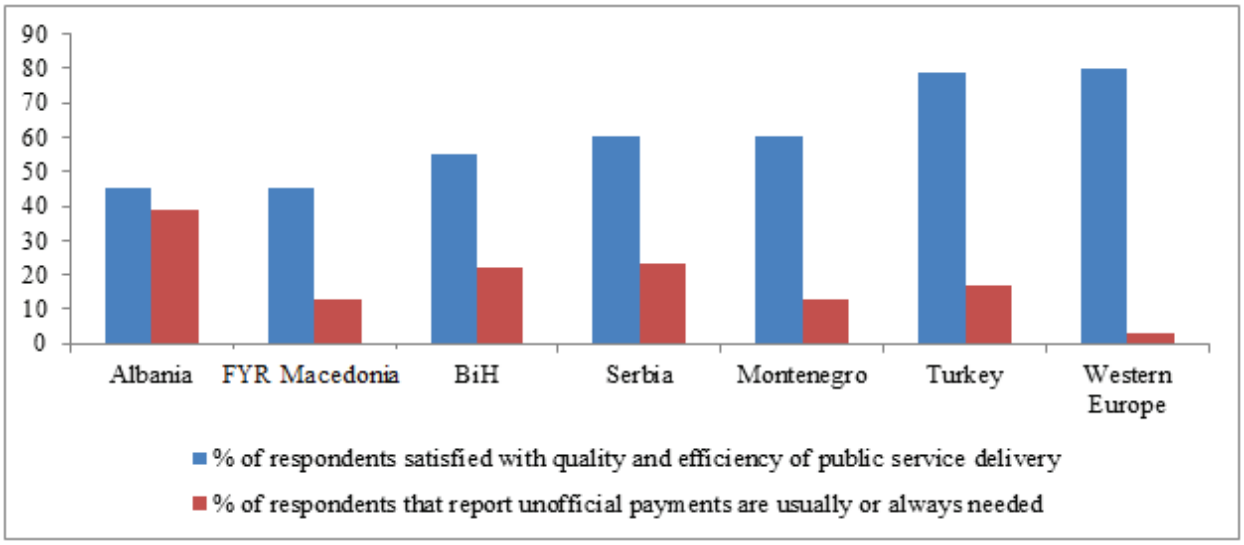
CHAPTER 3. HEALTH

A. OVERVIEW

3.1. **Albanians consider the health sector to be a priority area for public investment.** The second round of the 2010 World Bank–EBRD *Life in Transition Survey* (LITS II) asked households to identify their top priorities for government investment. The health sector came in second at 33.3 percent of respondents, after only education (40 percent). Health was ranked higher than (among others) pensions, housing, or public infrastructure.

3.2. **Albanians are not generally satisfied with the quality and efficiency of public health services.** Only 45 percent of them are satisfied—the lowest share among countries in the region (**Figure 3.1**). Bosnia and Herzegovina, Serbia, and Montenegro all achieve at least 55 percent satisfaction. The same survey sheds light on possible reasons (apart from quality and efficiency) for the dissatisfaction of Albanians: 39 percent of respondents reported that informal payments are usually needed to obtain services in the public system. This is not only by far the highest share in the region, it is also about twice the share of respondents from the same survey who said they need to make informal payments to access general public services in Albania.

Figure 3.1: Satisfaction with Public Services and Incidence of Informal Payments, Selected Countries, 2010



Source: World Bank-EBRD Life in Transition Survey II.

3.3. **Hospital care in Albania is predominantly public, but private outpatient services and pharmacies are widely used.** Hospital expenditures amount to about 55 percent of the entire health budget, significantly higher than the OECD average of less than 40 percent. The University Hospital Center Mother Theresa (QSUT) is the main tertiary health care facility in Albania, and it alone receives about 28 percent[30] of the health budget. Within secondary care, the 24 district hospitals are supposed to

[30] This number is based on information obtained in discussions with MoH staff, who cited about €58 million as the current budget for QSUT. Despite several requests, no written information on the actual budget of QSUT was made available.

deal with less severe cases that cannot be handled through primary care and the 11 regional hospitals should take more complex cases. In practice, patients frequently bypass primary and secondary referral facilities, due to perceived poor quality. There are also more than 400 public primary care facilities. Private provision of primary and outpatient care is widespread, including private services offered by dual-practice public providers. However, private secondary or tertiary care is limited. About 70 percent of Albanians regularly use the public health system.[31]

3.4. **The government has proposed to move toward universal health care coverage financed through general revenues, but the sequencing and fiscal implications of this transition need to be carefully considered.** The proposed reform includes two main elements: (i) a gradual transition from the current hybrid model of financing public service provision through both payroll insurance premiums and general revenues, to a model financed purely by general revenues; and (ii) expanding the breadth and depth of health coverage for the entire population. In addition, universal health coverage has multiple dimensions, including the percentage of the population covered by insurance; the proportion of costs covered; and the number of services covered (see Box 3.1 and Annex 3). The new government has proposed to increase the share of general revenue financing; and has a longer-term goal of entirely eliminating the payroll tax and shifting to total general revenue financing. One reason is that payroll taxes may have a negative impact on labor and capital formation.[32] Also, financing universal health coverage through general revenues makes inherent sense, since it is meant to ensure that all people obtain the health services they need independently of their employment status. This change will however require creating fiscal space by spending more efficiently and mobilizing more general revenue. The cost implications of establishing universal health coverage are currently not known but need to be considered in designing the future benefit package. The analysis in this chapter suggests that the first priorities should be deepening protection from OOP for basic services and medicines, and expanding insurance coverage for the poorest.

Box 3.1:What does Universal Health Coverage mean?

The goal of universal health coverage is to ensure that all people obtain the health services they need without suffering financial hardship when paying for them. This requires:

- A strong, efficient, well-run health system
  In turn, achieving system efficiency implies that i) citizens are informed and encouraged to stay healthy and prevent illness and that ii) health conditions are detected early.

- A health financing system that guarantees affordability;
- Access to essential medicines and technologies;
- A sufficient capacity of well-trained, motivated health workers.

In assessing current coverage levels and devising strategies to increase coverage, Albania needs to answer three questions:

i) Who is covered?
ii) Which services are covered (and at what level of quality)?
iii) How much financial protection do citizens have when accessing services?

Source: WHO: "What is universal health coverage?"

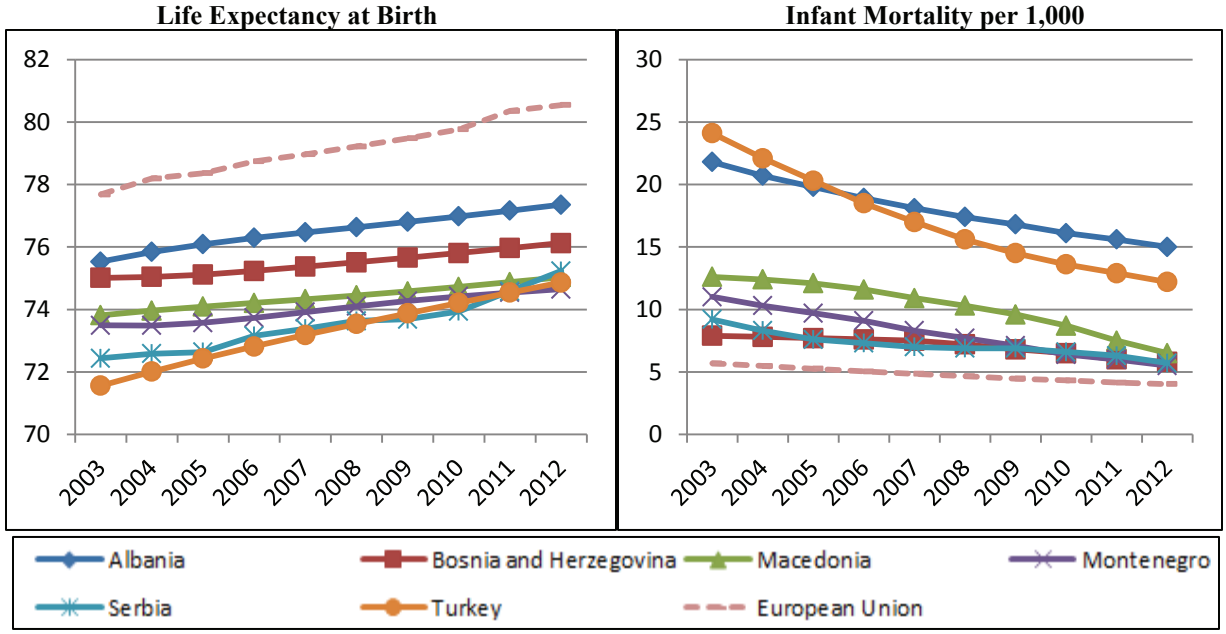
[31] World Bank-EBRD Life in Transition Survey II.
[32] Adam Wag staff, 2009. "Social Health Insurance vs. Tax-Financed Health Systems—Evidence from the OECD 2009."

3.5. This chapter reviews Albania's health outcomes, and analyzes the efficiency and equity of current public spending on health. It proposes policy recommendations that would help increase the efficiency and quality of spending over the medium term.

B. HEALTH OUTCOMES ARE STRONG

3.6. **Albanians are relatively healthy by regional standards, but the country needs to address the changing burden of disease and rising population health risks.** By 2012 life expectancy at birth had reached 77.4 years (80 for women and 74 for men)—higher than in Serbia (75.0) and FYR Macedonia (75.2) years) and only 3–4 years behind high-income Greece and Italy. While the Mediterranean diet has been posited as a major explanation for Albania's relatively good adult health, eating habits are changing; the Global Burden of Disease Profile 2010 cites dietary habits as the main risk factor in Albania, before hypertension and smoking. In general, non-communicable diseases (NCDs) dominate the burden of disease: ischemic heart disease, stroke, lower respiratory infections, and lung cancer are the primary causes of premature death.

Figure 3.2: Life Expectancy at Birth and Infant Mortality per 1,000 Live Births, Selected Countries



Source: World Development Indicators.

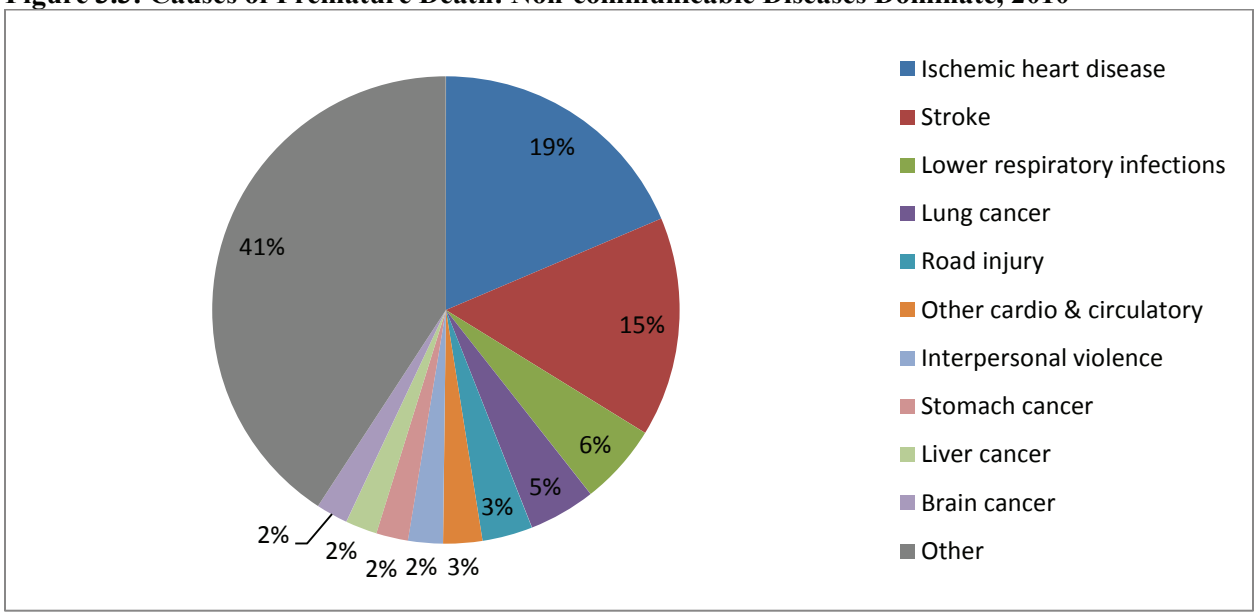
3.7. **Though they are decreasing, maternal and child mortality rates are still cause for concern**. The infant mortality rate decreased from 18.1 per 1,000 in 2007 to 15 in 2012,[33] and the maternal mortality rate from 31 per 1,000 to 27 from 2005 to 2010. Nevertheless, both mortality rates are still very high in comparison to the EU averages of 4.1 per 1,000 for infants and 5.8 for mothers in 2011; they also substantially exceed rates in neighboring countries (Figure 3.2). Neonatal mortality is a particularly important indicator of quality of health care, and in Albania it especially needs to be improved.

3.8. **Elevated smoking rates, worsening dietary habits, and hypertension constitute the major risk factors for health outcomes in Albania (Figure 3.3).** The 2007 and 2009 Albanian Adult Tobacco Surveys found that the percentage of men smoking daily increased from 58.8 percent to 60.7 percent and of women from 11.5 to 17.4 percent. For the total population, the increase was from 34.9 to 38.7 percent.

[33] UN Millennium Development Goal Indicators.

Even before they went up, smoking rates were high and a cause for concern due to their long-term impact on health. The contribution of diabetes to Albania's burden of disease[34] increased by almost 90 percent between 1990 and 2010. Similarly, in a pattern typical of many developing countries, hypertension has become a major risk factor as Albania's income level has risen. By the end of 2014, the MoH will have organized a nationwide free check-up of all persons aged 40-65 in order to test them for the most common risk factors (e.g. hypertension, diabetes, etc.). This measure reflects the acknowledgement of the changing burden of disease and can be seen as a first step in increasing the responsiveness of the system to the new epidemiological profile. The initiative is also in line with the concept of an efficient health system that i) informs and encourages citizens (how) to stay healthy and ii) achieves that illnesses and health conditions are detected early and prevented. It will, however, be crucial that proper follow-up is offered to those diagnosed with any major health problem.

Figure 3.3: Causes of Premature Death: Non-communicable Diseases Dominate, 2010



Source: Global Burden of Disease Profile 2010.

C. PUBLIC HEALTH SPENDING IS LOW

3.9. **Health financing policy frameworks can be assessed on three major dimensions: revenue mobilization, pooling, and purchasing.** Revenue mobilization refers to how the necessary funds are collected (e.g., level and method of taxation, reliance on out-of-pocket spending). It also matters how those resources are pooled (e.g., a single common insurance pool, multiple MoH or other agency pools). Purchasing refers to the method by which providers are paid (salary, capitation, fee-for-service, diagnosis-related groups, etc.).

3.10. **Public health spending in Albania held steady between 2009 and 2012, though at a low 2.6–2.8 percent of GDP (see Table 3.1).** Public health spending in relation to GDP was maintained even during the financial crisis and the subsequent budget contraction. From 2006 to 2011 actual spending was 6 to 12 percent lower than planned. Full budget execution was achieved only in 2012. Low public health spending as a percentage of GDP in part reflects the small size of government in Albania, measured both in terms of public revenues (about 25 percent of GDP) and expenditures (about 27 percent).

[34] As measured in terms of disability-adjusted life years.

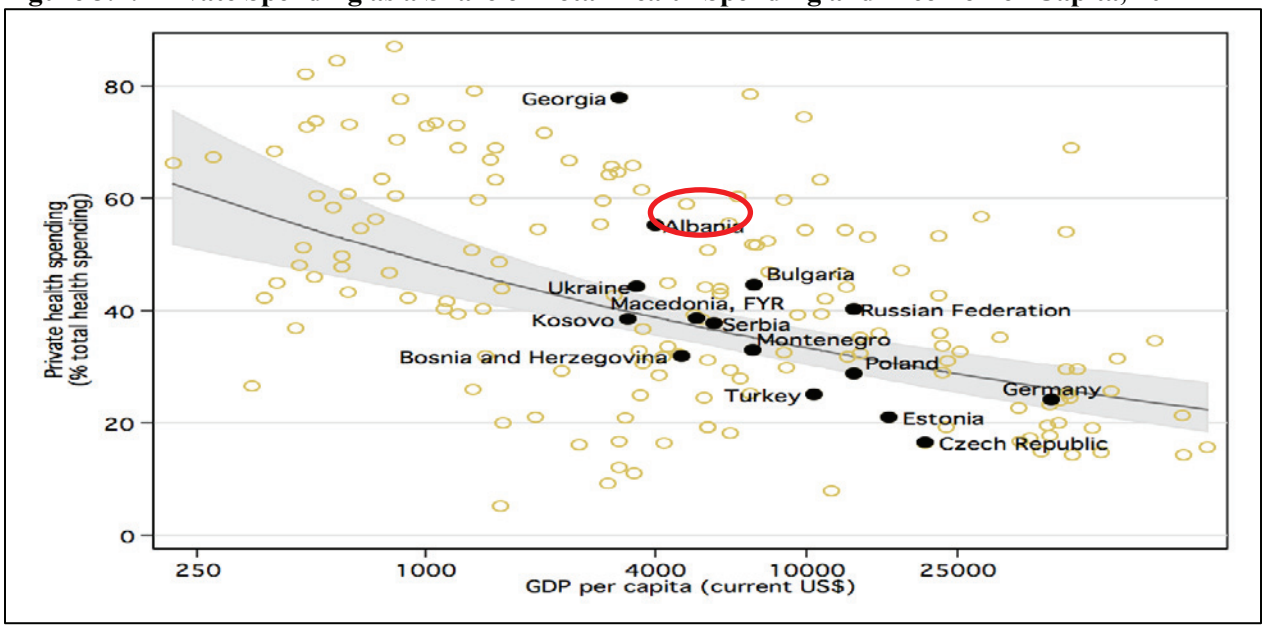
Table 3.1: Government Health Spending
(ALL millions unless otherwise indicated, expressed in ALL 2009)

	2009 actual	2010 actual	2011 actual	2012 actual	2013 (plan)	2014 (draft)
Health insurance revenues	5,467	6,193	6,284	6,031	6,823	7,515
Ministry of Health transfers	25,006	25,096	26,298	26,861	26,582	26,439
Total	30,738	31,539	34,601	33,174	33,485	33,955
Total as % of GDP	2.68%	2.67%	2.78%	2.66%	2.61%	2.79%
Total as % of budget	8.09%	9.03%	9.06%	9.63%	9.13%	8.55%
Health budget execution rate %	92.8	88.7	94.4	100.8	n/a	n/a

Source: MoF Albania.

3.11. **About half of Albania's total health private and public spending, which amounts to some 5 percent of GDP, is financed from private sources and is almost exclusively out-of-pocket (OOP).**[35] This is in part due to the low government health spending, but while in low- and middle-income countries general private financing (and in particular OOP) shares of health expenditure are higher, the level of OOP financing in Albania of about 50 percent is high even in comparison to countries with similar GDP per capita (see Figure 3.2). Such high rates of OOP spending have negative implications for equity and effiency. OOP financing is inefficient because it not pooled, fragments health financing, and provides little leverage to enhance service quality and efficiency through strategic purchasing. High rates of OOP are inequitable because they contribute to catastrophic health spending and increased poverty (see below).

Figure 3.4: Private Spending as a Share of Total Health Spending and Income Per Capita, 2011



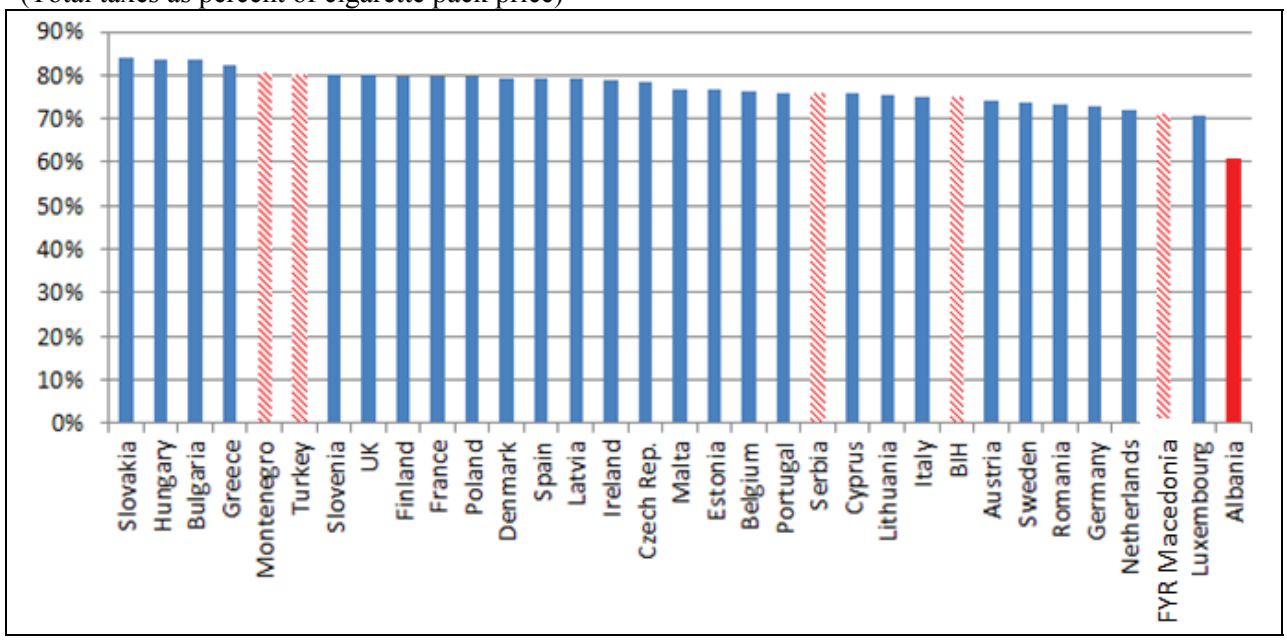
Note: x-axis log scale.

[35] Based on information from the MoF and the LSMS 2012, private spending constituted 45 percent of total health spending, which was about 5 percent of GDP in 2012. WHO stated that private spending accounted for 52 percent of total health spending, which amounted to 6 percent of GDP in the same year (WHO Global Health Expenditure Database).

3.12. **Higher tobacco taxes constitute a potential source of revenue for health and would at the same time help to reduce smoking rates.** As smoking has increased, the Albanian government has begun to embrace tobacco control policies. In 2000 it adopted National Tobacco Control Provisions, among them a ban on tobacco advertising on television, radio, print media, and billboards; public information campaigns on the dangers of tobacco use; health warnings and disclosure of tobacco product ingredients; and restrictions on smoking in public places, such as educational and healthcare facilities, government buildings, and public transport. The government also signed in 2004 and ratified in 2006 the Framework Convention for Tobacco Control.

3.13. **In Albania taxes account for 60 percent of retail cigarette prices (Figure 3.5), lower than in most Balkan and Western European countries, where the share is 75–80 percent.** The WHO Report on the Global Tobacco Epidemic (2013) concluded that raising taxes to increase tobacco prices is the most effective way to reduce tobacco use and encourage smokers to quit. In high-income countries a 10 percent rise in the retail price of cigarettes is estimated to reduce consumption by about 4 percent and in low- and middle-income countries by up to 8 percent, and the smoking prevalence decreases by about half those rates.[36] While these figures suggest possible revenues from higher tobacco taxation in Albania, more precise and country-specific analysis of the feasibility and the size of a higher tax rate should follow.

Figure 3.5: Cigarette Taxation in Albania and other European Countries, 2012
(Total taxes as percent of cigarette pack price)



Source: WHO Report on the Global Tobacco Epidemic, 2013.

3.14. **The flow and pooling of Albania's public health funds have been consolidated in recent years.** Until the mid-2000s, funding and revenue collection were fragmented, with accountabilities unclear, low levels of collection, and multiple funding streams for different service levels. Consolidation began in 2007 when the Albanian Health Insurance Institute (HII) became the single payer for most primary care. In 2010, HII became the primary payer for hospital services accompanied by an increased budget transfer from MOH to HII. At present the vast majority of public funds are pooled at the national level. There is minor additional spending by local governments but consolidated data are not available.

[36] MPOWER study: A policy package to reverse the tobacco epidemic. Geneva, WHO, 2008.

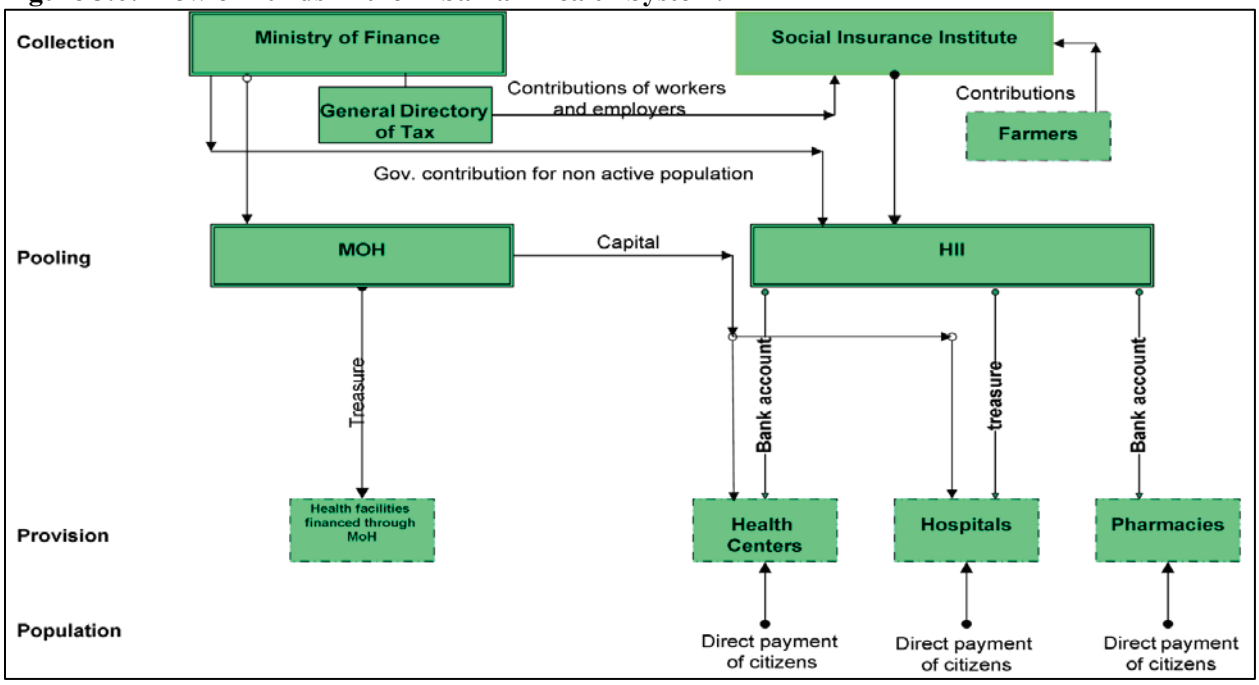
3.15. **The Health Insurance Institute (HII) receives less than a quarter of financing from payroll taxes and the balance from general revenues.** HII receives 22 percent of its revenue from a payroll tax of 3.4 percent (divided equally between employer and employee) and 77 percent through a budget transfer from the Ministry of Health (MoH) financed by general revenues. The MoF General Tax Directorate collects payroll contributions, but the low levels of formal sector employment limits the revenue earned through payroll taxes. The MoH retains responsibility for funding capital spending by hospitals and primary care centers.

3.16. **The public health insurance program covers about 60 percent[37] of Albanians, but only half of the poor.** Insurance coverage has expanded together with the strengthening of the HII's single-payer role. A decade ago, only about 30 percent of the population was insured (contributions were raised only as a payroll tax on the economically active). Now, the HII is mainly funded by a budget transfer, which finances coverage for the dependent population (77 percent)[38] allowing HII to finance hospitals as well as PHC. The HII administrative database does not currently allow estimates of the total population coverage. Household survey data suggest that 60 percent of the total population were covered in 2012, but only 52 percent of the poorest quintile. While all recipients of poverty-targeted social assistance should also receive free health insurance, shortcomings in the current targeting approach contribute to exclusion errors for the poor (see Chapter 4). Other recipients of free health insurance are not necessarily poor (e.g., pensioners, disabled, students).

3.17. **The health budget structure (now mainly administered by the HII) has been static in recent years; hospital care consumes the largest share**. About 55 percent of the budget is spent on hospital-based services, about half of which goes to the University Hospital Center Mother Theresa Tirana (QSUT).[39] Primary care accounts for 30 percent of spending and 8.5 percent goes to public health services. Roughly 90 percent of the budget is allocated for recurrent spending, the other 10 percent is for capital spending. Figure 3.6 illustrates the flow of funds and the roles of the different entities in the Albanian health system.

[37] Albania LSMS 2012. Administrative data on the percentage of insures are not reliable: the official government database counts as many as 4 million, but according to the last census, the total population is about 2.8 million. This difference is due to Albanians living abroad who are still registered in Albania.
[38] Data from HII, 2012. The dependent population consist of children, recipients of social assistance or disability benefits, unemployed jobseekers, war veterans, students under 25 years of age, and pensioners.
[39] This number is based on information from MoH staff.

Figure 3.6: Flow of Funds in the Albanian Health System.



Source: USAID, Albania Health Insurance Institute Review: Challenges and Opportunities—Technical Report.

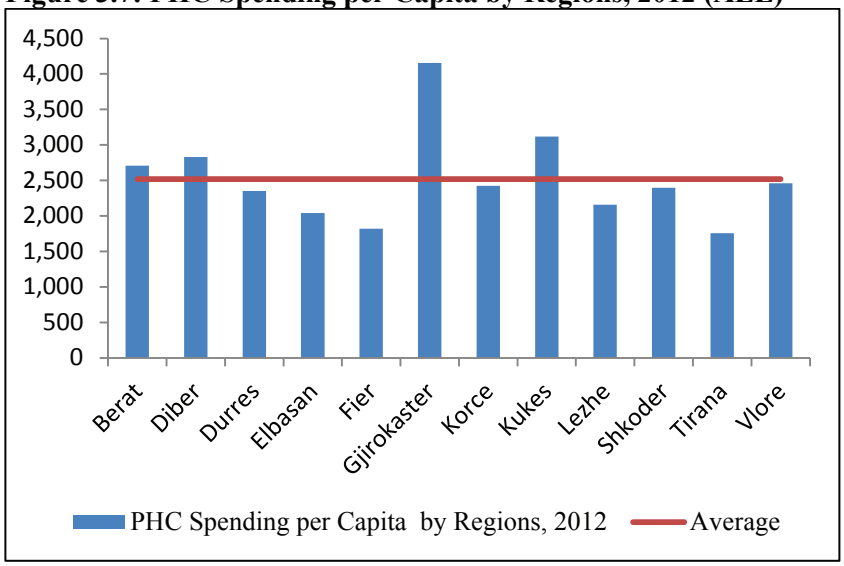
3.18. **The HII is making a gradual transition from simply being a payer to a strategic purchaser of health services.** Currently, HII financing for primary care includes some incentives for performance, but financing for hospitals is still based on line item budgets. A shift to a strategic purchasing role will require developing payment and monitoring systems *that rewards performance based on specific service delivery, quality, and performance indicators.* The shift to output-based payment could help enhance both health outcomes and efficiency. However, the transition from historical budget financing of hospitals to payments based on diagnostic-related groups (DRGs) in particular will take several years and needs to be accompanied by a comprehensive health information system, extended provider autonomy, capacity building for managers, and enhanced quality assurance.

3.19. **Hospital autonomy remains limited, and accountability mechanisms are weak.** Though the regional hospital in Durres has been selected as a pilot site for more provider autonomy, the autonomy granted is still limited. While the hospital is allowed to roll over unused funds from one fiscal year to the next, hospital management essentially has no more discretion over HR than other hospitals. A comprehensive approach is needed to strengthen both hospital autonomy and accountability (including strengthening capacity and oversight of hospitals boards), build capacity of facility managers, and prioritize recruitment on strong managers as hospital directors.

3.20. **Short-term preconditions for the payment reforms are the interoperability of information systems and consistent data collection.** Establishment of a data dictionary—i.e. a centralized repository of information about data such as meaning, relationships to other data, origin, usage, and format--is an elementary but crucial measure that should underpin payment reforms. Similarly, introduction of the International Classification of Diseases-10 (ICD-10) to diagnose disease, and introduction of standard procedure codes, are another indispensable preparation for the eventual shift to DRG payments. Since the change from line budget financing to DRGs usually takes several years, a transition using global budgeting in combination with drafting of a business plan by each facility is a viable interim solution for hospitals before DRGs are introduced as payment methods.

3.21. **The current provider payment mechanism for primary health care (PHC) facilities is a hybrid model.** The HII has been funding PHC since 2007. As of 2011, PHC facilities receive 80 percent of their funding as a historical budget (e.g., the one from the previous year) plus a 10 percent performance payment disbursed depending on the volume of services and a 10 percent bonus once nine quality indicators are achieved. Salaries of doctors are capitation-based. While PHC payment mechanisms are more advanced than those for hospital care, PHC funds are unequally distributed across regions. Global PHC budgets were formed on historical data (Figure 3.7), which created the currently inequalities. While there has been significant relief from inequality, further work is still needed. Basing the financing of PHC facilities on risk-adjusted capitation with some element of activity-based financing would initiate the path toward output-based financing of PHC as well.

Figure 3.7: PHC Spending per Capita by Regions, 2012 (ALL)



Source: Health Insurance Institute.

D. INADEQUATE FINANCIAL PROTECTION FOR THE POPULATION

3.22. **Beyond health outcomes, the main objective of health systems is to protect households against the possibility of incurring high and unpredictable health care costs.** The uncertainty and potentially high cost associated with health expenditures (typically it is not possible for a person to know when he or she will become sick and how much it will cost) make them amenable to risk-pooling and prepayment arrangements to spread risks more broadly over people and over time.

3.23. **Out-of-pocket payments for health care are high in Albania, with serious implications for household budgets** (Table 3.2)**.** Private spending on health in Albania essentially takes place only through OOP spending. Health accounts on average for 8 percent[40] of total household spending, compared to 3 percent in Western Europe.[41] More important than the averages, though, is the wide variation. Over 19 percent of Albanian households spend more than 10 percent of their total household budgets on health, compared to less than 6 percent in EU-15 countries.[42] [43] About 7.3 percent of all households face health spending that exceeds 25 percent. These catastrophic payments are a common indicator of the need for financial protection, and they suggest that Albania is not doing well on this measure.

[40] LSMS, 2012.
[41] WHO.
[42] The EU-15 refers to: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.
[43] WHO.

Table 3.2: Poverty Impact of OOP Health Expenditures, 2008 and 2012[44]

		Gross of Health	Net of Health	Change	Change as a % of Gross Figure
2008	Poverty headcount	12.5%	16.9%	4.5%	36%
	Poverty gap	2.3%	4.5%	2.2%	96%
2012	Poverty headcount	14.3%	20.3%	6.0%	42%
	Poverty gap	2.9%	6.0%	3.0%	104%
	Incidence of Catastrophic Health Spending Episodes				
	Share of Household Consumption	**5%**	**10%**	**15%**	**25%**
2008		28.1%	19.2%	13.4%	7.3%
2012		25.9%	16.1%	10.7%	6.0%

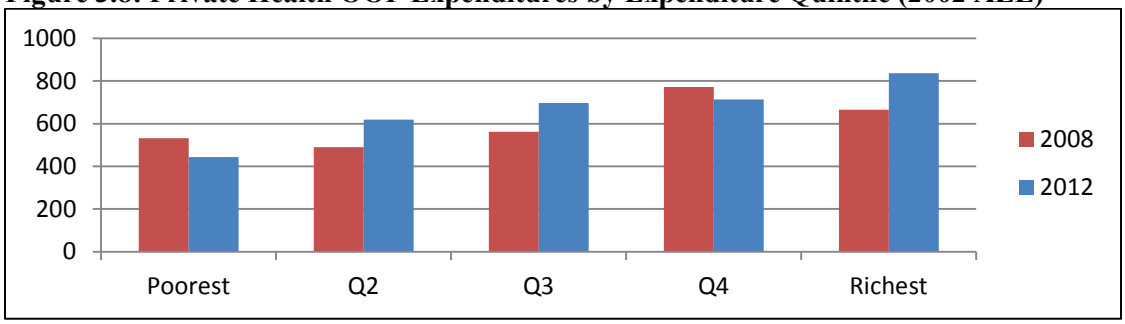
Source: LSMS 2012.and 2008.

3.24. **Many households fall into poverty because of heavy health costs.** Poor or near-poor households that incur significant health expenditures may have to forgo spending on food and other necessities. A standard measure of the impact of health spending is to estimate the percentage of households that are pushed into poverty by health spending. In 2008 the poverty headcount went up from 12.5 to 16.9 percent, an increase of more than one-third in the poverty rate. This already dire situation worsened in 2012: The poverty headcount increased from 14.3 to 20.3 percent when OOP health spending was subtracted from household consumption. This means that the poverty rate increased by as much as 42 percent as the consequence of health-related spending.

3.25. **Health OOP payments increased for higher expenditure quintiles except for Quintile 4 from 2008 to 2012, and decreased among the poorest** (Figure 3.8)**.** A possible consequence of the economic crisis, this suggests self-rationing by the poor rather than decreasing need for health care. The fact that in 2012 health-related OOP spending was increasing from poorer to higher expenditure quintiles supports the hypothesis that the poor self-ration their healthcare needs, given that globally the health status of the poor is generally worse than of the rich (D. Jamison, L. Summers et al., 2013).

[44] The poverty headcount represents the proportion of individuals living below the consumption poverty line and reflects the incidence of poverty. A complimentary measure to the poverty headcount ratio is the normalized poverty gap (as a percentage of the poverty line). The normalized poverty gap measures the depth of poverty. It is obtained by dividing the sum of the consumption gaps of the poor (that is, poverty line less consumption) for all the poor by the overall population and expressing it as a percentage of the poverty line.
The incidence of catastrophic health payment episodes measures the proportion of households whose OOP payments exceed a given percentage threshold of their total household expenditure. The term "catastrophic health expenditures" can be linked to different percentage thresholds. Considering lower percentage thresholds helps capturing less severe spending episodes and provides more complete picture of the health expenditure situation in a country.

Figure 3.8: Private Health OOP Expenditures by Expenditure Quintile (2002 ALL)



Source: LSMS 2012.

3.26. **Both the use of outpatient health care and coverage through health insurance are lower among the poor.** Self-reported health status seems to be worse among richer households, but this might be due to the recall period chosen in the LSMS[45]. Table 3.3 indicates that in general health care utilization decreased from 2008 to 2012 in terms of both outpatient care and hospitalizations. The share of richer households that seek care is higher than the share of poorer households. On the other hand, only 9.6 percent of Albanians from the poorest expenditure quintile report suffering from chronic illnesses compared to 16.3 percent from the richest one. This observation is in contrast with the global evidence that health outcomes among poorer households are worse than among richer households (D. Jamison, L. Summers et al., 2013).

Table 3.3: Self-reported Morbidity and Health Care Utilization by Economic Status (Percent)

2012

	Quintiles of per capita consumption				
	Poorest	**2**	**3**	**4**	**Richest**
Suffer chronic illness	9.66	10.11	10.53	14.10	16.33
Suffer sudden illness	6.31	7.24	6.56	6.58	5.90
Sought medical assistance/outpatient in the last month	7.82	8.48	9.54	10.25	10.87
Hospitalized in the last year	1.29	1.58	1.41	1.28	1.42
People with health insurance	52.39	55.55	59.01	64.57	66.87

2008

	Quintiles of per capita consumption				
	Poorest	**2**	**3**	**4**	**Richest**
Suffer chronic illness	12.77	13.36	11.65	15.81	15.54
Suffer sudden illness	4.11	5.47	4.10	5.74	4.91
Sought medical assistance/outpatient in the last month	9.21	10.84	10.40	12.98	11.68
Hospitalized in the last year	2.93	2.86	2.59	2.87	2.77
People with health insurance	26.52	38.75	37.23	47.27	54.27

Source: LSMS 2012.

[45] J. Das et al. (2011) show that the impact of differential recall periods in health-related surveys differs across income groups. The effects of different recall periods are more pronounced among the poor than the rich. The authors hypothesize that illnesses -- especially among the poor -- are no longer perceived as "extraordinary events" but have become part of "normal" life. The chosen recall period of 4 weeks in the Albania LSMS might therefore be (part of) the explanation for the difference on self-reported health status between richer and poorer quintiles.

3.27. **While health insurance coverage increased substantially from 2008 to 2012, only half of the poor are covered.** In 2008, the proportion of people from the poorest expenditure quintile that held insurance (26.5 percent) was only half the proportion in the richest quintile (54.2 percent), but this difference has considerably narrowed (Table 3.3). The insurance coverage is still higher among richer households (compare a coverage level of 52 percent among in the poorest quintile to 67 percent in the richest quintile), but the coverage level of the poorest quintile in 2012 is almost as high as that of the richest quintile in 2008.

3.28. **The costs for prescription drugs (across all types of healthcare providers) amount to more than 30 percent of total OOP Spending (Table 3.4). More than 30 percent of OOP spending occurs at public PHC facilities (taking into account the costs of drugs prescribed at PHC facilities).** Overall, almost 90 percent of expenditure occurs at public facilities. OOP expenditures from outpatient services at hospitals amount to around 28 percent of total OOP spending. These numbers suggest that a considerable proportion of outpatient care is being sought at hospitals instead of PHC facilities. Private practices (doctors and nurses) only account for about 12 percent of the total OOP. Considering the composition of OOP spending at each facility type (Table 3.5), show that drugs (even though prescribed) cause in particular more than 50 percent of OOP expenditure at PHC facilities. Informal payments and transportation cost combined are a relatively minor factor accounting for roughly 10 percent of OOP across the different facility types. The high occurrence of OOP expenditures at public facilities and due to prescription drugs suggests that the insurance scheme and in particular the drug benefit package might not be very effective. Comparing the uninsured with the insured can further shed light on this issue.

Table 3.4: Sources of OOP Spending by Healthcare Provider/Drugs, 2012

Source of Spending	% of Total OOP Spending
Public Ambulatory (PHC)	32.02%
Hospital (Outpatient)	28.38%
Private Doctor	9.78%
Private Nurse	2.31%
Popular Doctor	0.29%
Hospital (Inpatient)	9.97%
Dentist	6.72%
Non-prescription drugs	10.53%
Total	**100%**
Prescribed Drugs (across all providers, included in percentages above)	31.77%

Source: LSMS 2012.

Table 3.5: Composition of OOP Spending, 2012

Provider	Medicines	Inf. Payments	Transport	Other
Public Ambulatory (PHC)	54.83%	5.36%	4.71%	35.10%
Outpatient Hospital	32.71%	7.62%	6.18%	53.50%
Private Doctor	32.55%	3.81%	4.89%	58.74%
Private Nurse	34.36%	5.71%	5.81%	54.12%
Popular Doctor	37.93%	4.81%	8.13%	49.13%
Hospital (Inpatient)	6.49%	4.25%	3.26%	86.00%
Dentist	2.91%	1.64%	2.93%	92.52%

Source: LSMS 2012.

Table 3.6: Monthly Consumption and Health Spending among the (Un)insured, 2012
(Expressed in new ALL 2002.)

Variable	Insurance Status	
	Uninsured	Insured
Per capita household consumption	8,293.12	9,377.52
Non-prescription Drugs	43.85	86.32
Prescribed Drugs	140.85	254.84
Informal Payments	31.38	33.08
OOP Health Expenditures	468.22	785.19

Source: LSMS 2012.

3.29. **Insurance coverage does not seem to significantly decrease OOP for health.** OOP health expenditures are higher among the insured than among the non-insured (Table 3.6). While this might reflect the fact that insured people tend to be richer, this raises the question of the effectiveness of the current insurance scheme. Average per capita household consumption is about 13 percent higher among insured individuals. Likewise, the insured spend twice as much as the uninsured on non-prescription drugs, 80 percent more on prescribed drugs and almost 70 percent more on OOP health expenditures in general (Table 3.6). While these numbers should be treated with caution, they clearly raise concerns about the effectiveness of financial protection under the current system, and suggest that improving the effectiveness of coverage should be prioritized before making substantial public outlays to further increase coverage, particularly among the non-poor. The high rates of spending by insured patients for prescription drugs – even though these should be financed by insurance – highlights the importance of reforms to reduce prescription drug prices and revise copayment policies.

3.30. **A probit model of the health-poverty nexus from C. Bredenkamp, M. Mendola, and M. Gragnolati (2011) [46] finds that insurance status is negatively associated with poverty.** The model can however not establish a causal relationship of insurance status with poverty. The re-estimated model (using data from the LSMS 2012) confirms that health insurance is negatively associated with poverty. This may suggest that having health insurance protects households from poverty. However, the authors notethat the negative association could also be explained by the fact that poor people are more likely to be ill, less likely to seek health care, and less likely to be insured. The reverse causality between poverty and health-related variables does not allow for a clear inferential conclusion. As a consequence, it remains unclear how effective the current health insurance scheme is in terms of financial protection. The current

[46] C. Bredenkamp, M. Mendola, and M. Gragnolati (2011) use data from the 2005 round of the LSMS to estimate a probit model of the relationship between health and poverty outcomes. They estimate the likelihood of being poor as a function of the individual health status, medical care utilization and health insurance, controlling for other factors such as demographic characteristics, education, ethnicity, and region. They also find that the likelihood of poverty is i) higher among those who have experienced ill health and ii) that health care utilization is negatively associated with poverty.

coverage, copayment policies, and benefit package should be crucially examined in the move towards UHC.

3.31. **A combination of measures will be needed to reduce Albania's reliance on OOP payments and improve financial protection.** First, about 40 percent of OOP in Albania is spent on drugs. Clear drug lists based on WHO guidelines, treatment protocols, generic promotion, increased use of competitive bidding, price regulation, and reducing or eliminating copayments for low-cost generics drugs can help to reduce both OOP and unnecessary or wasteful pharmaceutical expenditures. Second, insurance coverage could be expanded, giving first priority to the poorest. Third, additional budget resources could be spent on improving the quality of care, strengthening the referral system, and expanding services currently included from the benefit package (e.g., improving outpatient drug benefits). Fourth, making providers more accountable (e.g., both by government oversight and through steps to empower patients with information about what they should pay) can help reduce informal payments, which represented 5 percent of OOP in Albania.

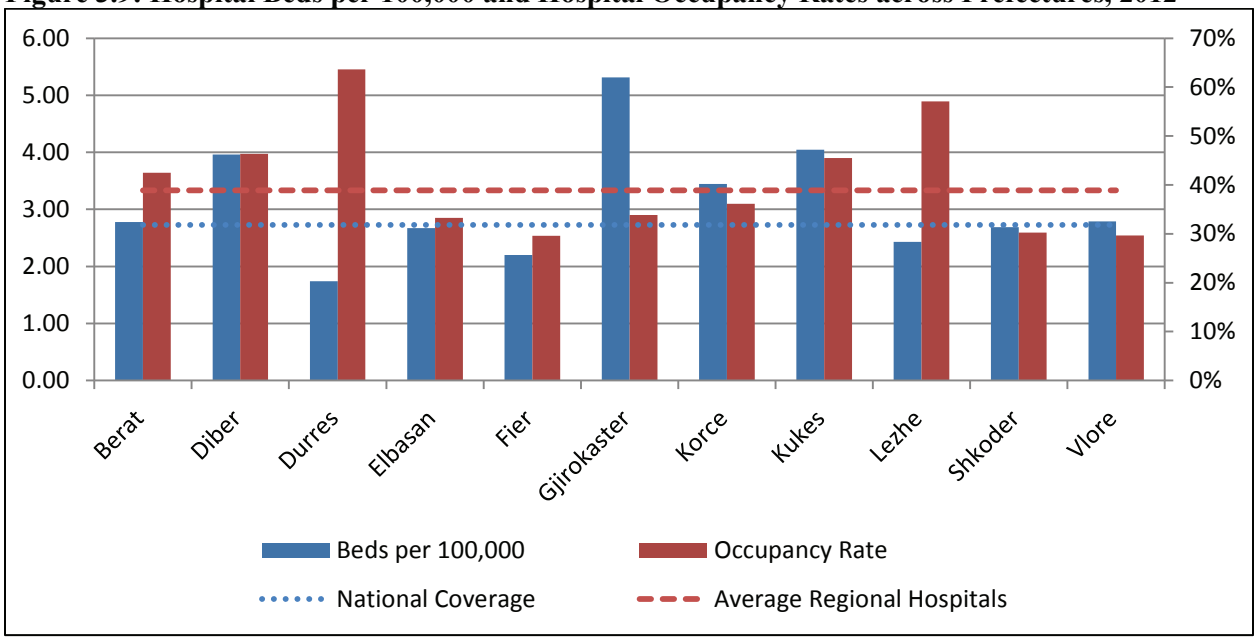
E. EFFICIENCY OF HEALTH SPENDING: ROOM FOR IMPROVEMENT

3.32. **Enhancing both the technical and the allocative efficiency of health spending will be of crucial importance to the success of the planned health financing reforms and the move toward UHC.** While the difficult fiscal environment amplifies the imperative to ensure that resources are spent well, sustainability of universal health coverage for the Albanian population hinges on a strong primary care system that fulfills its gatekeeping function. Likewise, the change in Albania's burden of disease to NCDs also implies that resources should be shifted to build up the primary health care system. Currently, most resources are deployed to hospitals, which suggests room for efficiency gains through the rationalization of both secondary and tertiary care. While hospital reforms will take time, streamlining pharmaceutical procurement in the short and medium term can lead to efficiency gains and reduce OOP for insured and uninsured patients.

3.33. **The hospital sector absorbs about 55 percent of the public health budget. Bed capacity is not excessive, but utilization rates are low**. The Albanian 2012 average of 272 hospital beds per 100,000 inhabitants is low compared to the EU average of 540 beds per 100,000 but comparable to Turkey's 251.7 beds per 100,000.[47] There is considerable variation in the number of beds in different prefectures (Figure 3.9). Gjirokaster, for instance, has about 2.5 times more beds than Durres. At the same time, facility utilization as measured by bed occupancy rates is low, which hints at substantial inefficiencies.

[47] WHO HFA-DB.

Figure 3.9: Hospital Beds per 100,000 and Hospital Occupancy Rates across Prefectures, 2012

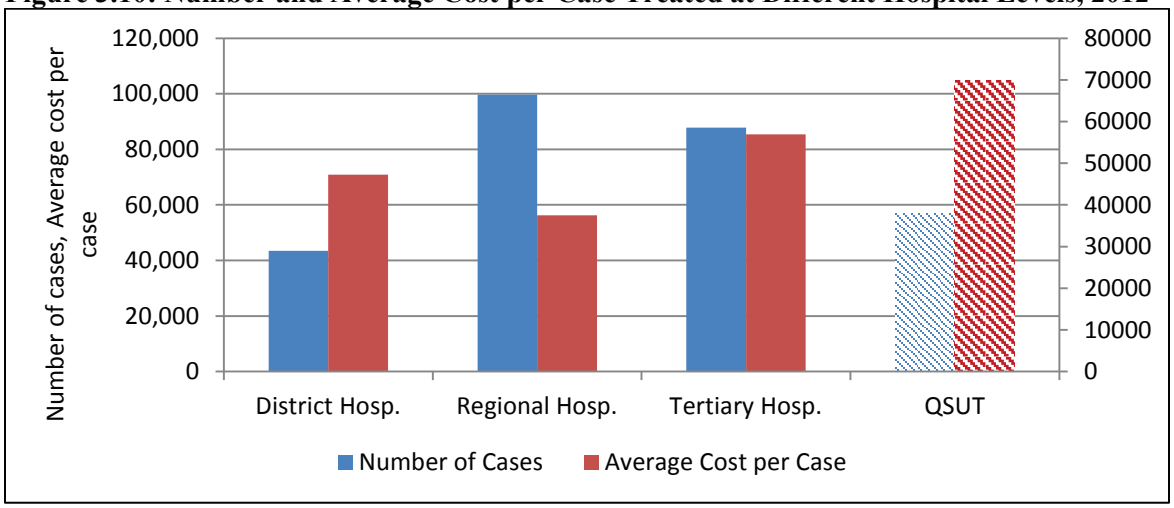


Source: Health Insurance Institute, 2012.

3.34. **Both regional and district hospitals, but especially the latter, are inefficient given the current hospital sector configuration.** While in 2012 average bed occupancy in regional hospitals was itself low at 38 percent, the 28 percent rate for district hospitals was even lower. The rather low average lengths of stay (4.6 days in regional and 4.9 in district hospitals) are a sign not of high efficiency but of the lack of complexity of interventions performed—more complicated cases are handled at the tertiary level. It is indicative in 2012 the average cost per case treated was higher at district hospitals at ALL 47,271 than the ALL 37,504 average at regional hospitals even though interventions at regional hospitals are more complex.

3.35. **The number of cases treated in the different hospital types suggests that patients bypass primary and secondary care facilities to seek care at high-cost tertiary hospitals** (Figure 3.10). In 2012 more than twice as many cases were handled at tertiary facilities (87,832) than at district hospitals (43,433). Regional hospitals account for 99,718 cases and are therefore the subgroup with the most cases. However, the fact that the cost per case at tertiary facilities is the highest (ALL 56,902) and that only the most complicated cases need treatment at this level underscores the presence of severe allocative inefficiencies.

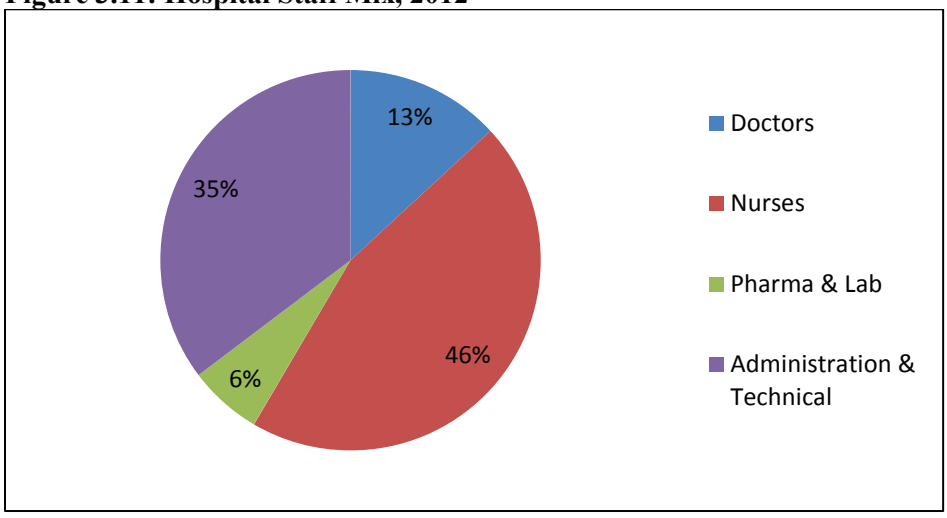
Figure 3.10: Number and Average Cost per Case Treated at Different Hospital Levels, 2012



Source: Health Insurance Institute, 2012.

3.36. **Hospitals employ a high share of non-medical staff (35 percent), whereas doctors only account for 13 percent of staff (Figure 3.11). Granting hospital management more discretion over HR would allow aligning the staff mix to hospitals' needs.** Nationwide, the average of technical and administrative staff is 35 percent. In hardly any hospital this share is below 30 percent, but in some hospitals it almost reaches 50 percent. Both the variation in the ratio between medical and non-medical staff across hospitals as well as the high absolute numbers of non-medical staff suggest potential for efficiency gains from an optimized staff mix featuring more medical staff While health care facility managers can lay off staff for disciplinary reasons or in extreme cases of underperformance, they cannot hire or lay off 'strategically' in order to influence the ratio of staff between different categories (e.g. doctors vs. administrative staff).[48] In district hospitals, the share of doctors in total staff is as low as 10 percent. The low share of doctors in the hospital staff mix is also reflected in the low density of doctors (total number per 100,000 population) in Albania (see Figure 3.12).

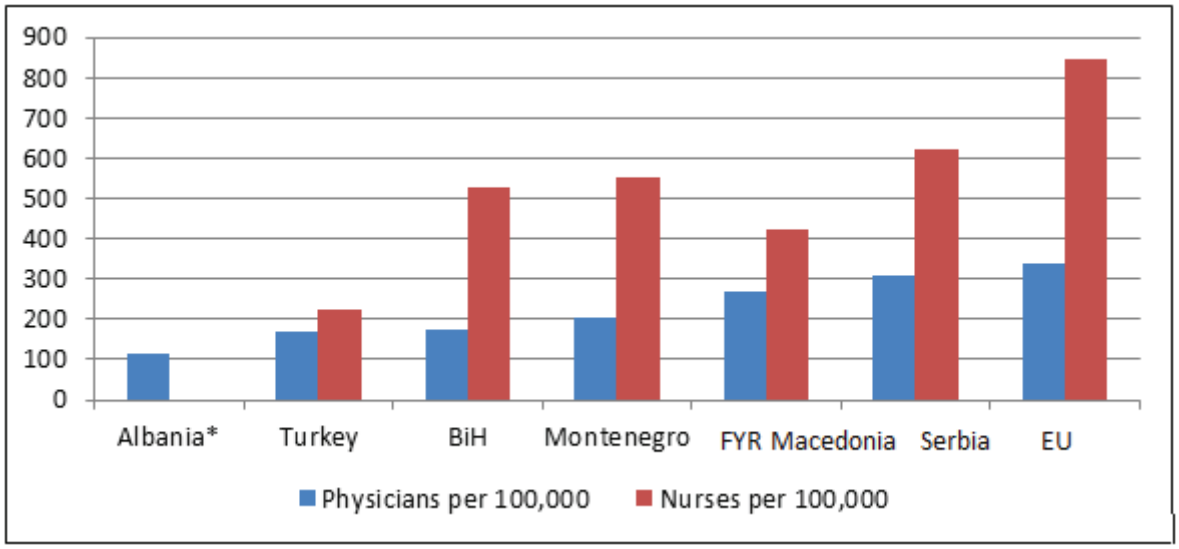
Figure 3.11: Hospital Staff Mix, 2012



Source: Health Insurance Institute, 2012.

[48] In particular, in conversations during a field trip to Albania, several hospital directors signaled that they would hire more medical staff instead of technical and administrative staff, if they were given the discretion to do so.

Figure 3.12: Healthcare Personnel to Population Ratios, 2010



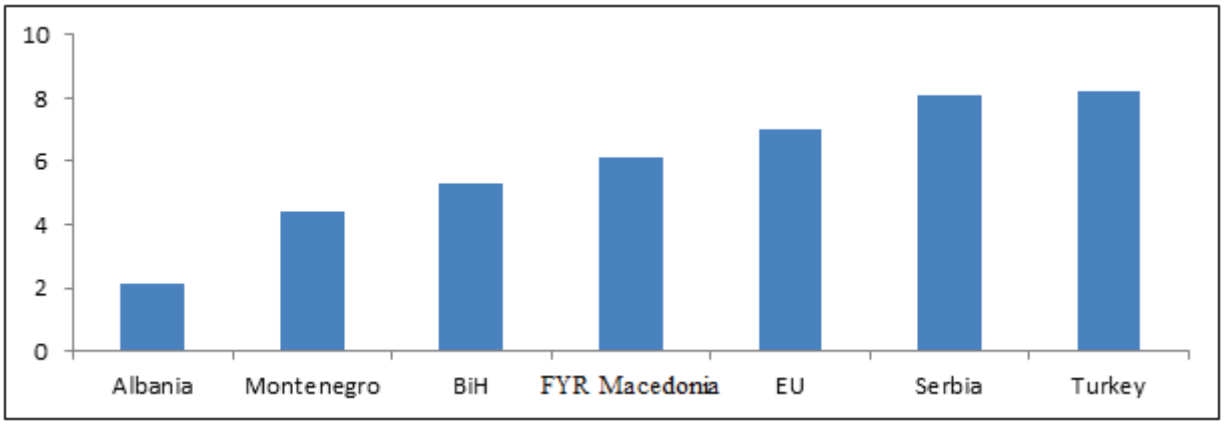
Source: WHO HFA-DB.
*No data on nurses available for Albania.

3.37. **The Hospital Master Plan from 2010 recommended converting essentially all district hospitals to outpatient clinical and diagnostic centers with limited bed capacities but upgraded polyclinic and outpatient capacities**. District hospitals would act as outlying centers for regional hospitals where acute clinical and specialist care would be concentrated. Such a concentration would allow for more rational and focused service provision, make diagnostic equipment more readily available, and ensure that medical specialists are exposed to sufficiently high patient turnover. Given that physical access to health care is not a major issue, the adverse effects of rationalization measures are likely to be limited. Nationwide, about 2 percent of Albanians cite limited geographical access as the reason why they have delayed or previously not sought health care; within rural areas this share is about 3.5 percent.[49]

3.38. **Given the dominance of NCDs in the burden of disease and the plans to move to UHC, public expenditures should be shifted to PHC for higher allocative efficiency and to ensure health system sustainability.** Albania has by far the lowest average for yearly outpatient visits per person in the region (see Figure 3.13). Table 3.7 suggests that public PHC clinics are still the first point of reference for Albanians seeking care. Health care utilization is low even among those with a sudden illness or injury—less than 60 percent of those with a sudden illness visit any type of health facility. Public clinics are the first choice across all respondent categories (roughly three times more respondents go to a clinic than to a hospital for outpatient services). It is also noteworthy that there is little difference in health care–seeking behavior between citizens with or without health insurance.

[49] LSMS 2012.

Figure 3.13: Outpatient Contacts per Person per Year, 2011



Source: WHO HFA-DB.
Note: Data for Serbia and Montenegro are from 2010.

Table 3.7: Health Care Utilization in Albania

	All Respondents	**Respond-ents with Health Insurance**	**Those with a Chronic Illness**	**Insureds with a Chronic Illness**	**Those a Recent Illness or Injury**	**Insureds with a Recent Illness or Injury**
Public clinic	6.38	8.16	28.54	29.86	35.77	38.60
Hospital outpatient service	2.61	3.13	11.45	10.46	12.17	13.80
Private doctor	0.80	0.95	3.37	3.00	2.86	3.21
Hospital Inpatient Service (**Last 12 months**)	1.40	1.86	5.58	5.85	2.20	2.62

Source: LSMS 2012.

3.39. **Spending on pharmaceuticals and medical supplies in Albania offers significant room for efficiency gains because purchasing and reimbursement policies are inefficient.** Although the range of drugs for which prices are negotiated rather than simply set by importers and producers was recently extended (previously only prices for some expensive drugs were negotiated), margins are still high. While the most EU countries have a wholesale margin between 4 and 8 percent of the retail price, most drugs on the reimbursement list in Albania have a markup of 10 percent and non-reimbursed drugs have a margin of 14 percent. The perception that a small country like Albania has little bargaining power and is a price taker is changing. According to the HII, the expansion of price negotiations has already generated cost savings of about € 4 million. The savings have been used to extend the list of reimbursable medicines. Hospitals undertake some competitive bidding for hospital drugs, but the process is fragmented. Price negotiations are based on individual brands, even for off-patent drugs, and there is not yet competitive bidding for generic drugs based on the International Nonproprietary Names (INN).

3.40. **Despite the measures taken on price negotiations, the pharmaceutical sector in Albania is poorly regulated.** One problem concerns reimbursement policies. Import prices for certain medicines as stated on customs invoices are significantly lower than the prices importers submit to the MoH for reimbursement. This procedure suggests that distributors get significant discounts in order to crowd out competitors on volume. Another problem relates to prescription practices. Although doctors are legally obliged to use generic drug names in prescriptions, the rule is not enforced. When doctors state a specific

brand, it means higher than necessary co-payments for patients who opt for an expensive drug recommended by a doctor or pharmacist. This partly explains continued high OOP by insured patients for prescription drugs, and may explain why insurance provides limited risk protection (e.g., if pharmacists dispense more expensive drugs to those with insurance). There is no clear evidence whether the low use of generics is due to vested financial interests of doctors or lack of knowledge. A team of pharmaceutical experts from the Bank learned in interviews with representatives from the pharmaceutical industry that some companies incur considerable promotional expenses to incentivize doctors to prescribe specific brands instead of generics. This suggests that lack of knowledge and lobbying from the pharmaceutical industry explain the low use of generics, but vested financial interests cannot be excluded to be part of the reason, either.

3.41. **More accountability and transparency in prescribing and contracting for medications would mean more value for money.** Digitizing the pharmaceutical supply chain and drug reimbursement system will allow for much better data analysis and identification of possible fraud. An e-prescription system supported by track-and-trace technology[50] would enhance the data available on prescription and consumption patterns and curb abuse, overuse, or distribution of illicit products, such as counterfeit drugs.

3.42. **Over the years the drug reimbursement budget has risen steadily to €60 million in 2013.** According to the HII, 90 percent of it was spent on individuals in exempt categories, who receive 100 percent reimbursement. Exempt are infants, the disabled, pensioners, war veterans, and TB, cancer, thalassemia as well as kidney disease patients. This suggests Albania may be underspending for low-cost generic drugs that could significantly reduce the burden of disease, for example, for patients with hypertension. Albania does not yet have a strong evidence-based system in place – such as Health Technology Assessment -- to determine which drugs should be included on the reimbursement list (particularly for expensive, patented drugs).

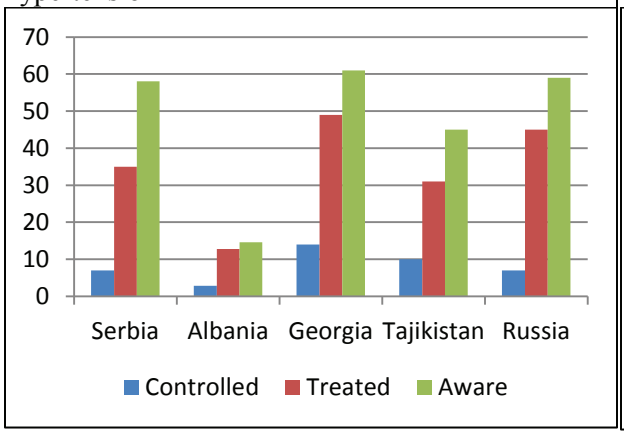
3.43. **Pharmaceutical procurement – together with weak accountability of hospitals to MoH and MoF - contributed to the accumulation of arrears in the health sector.** Arrears amounted to ALL 4.5 billion (about 15 percent of the total health sector budget) in 2013, 98 percent of them owed by hospitals (76 percent was attributable to the University Hospital Center Mother Theresa). Bills for medicine, medical equipment, and utilities often remain unpaid because of inappropriate drug lists, inefficient purchasing, reimbursement policies as well as weak internal accountability and expenditure management of hospitals. The MoF has started clearing arrears in other sectors and expects to reach the health sector in 2014.

3.44. **The quality of medical care is a major issue in Albania, particularly in relation to management of NCDs.** One aspect of good quality of care is timely detection and appropriate treatment. This does not seem to occur regularly in Albania. For instance, among those aged 15–49 surveyed in the 2009 Demographic and Health Survey, 80 percent of women and 90 percent of men with hypertension were not aware of their status, and less than 3 percent had had treatment to control their blood pressure. Hypertension control rates and awareness rates in Serbia, Russia, Georgia, and Tajikistan are more than twice as high. A survey on quality of care in the ECA region also found that the average score for Albanian doctors was about 50 percent, indicating that they would do only half of what they should do when faced with hypothetical patient vignettes for cardiovascular disease and neonatal services. This was lower than in Armenia, Georgia, or Russia.

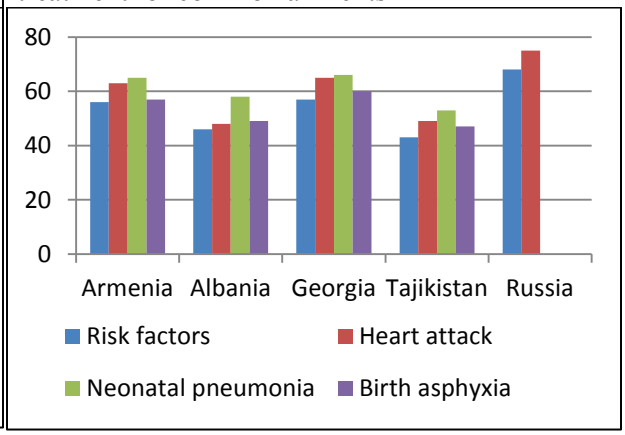
[50] "Track and trace" is the ability to locate pharmaceuticals and medical supplies in the supply chain (track) and the ability to tell where a particular item has been – its path (trace). A system with such a technology can prevent abuse, leakage, over- and undersupply, misrouting and generally the waste of drugs.

Figure 3.14: Quality of Care Questionable

Significant gaps in awareness and treatment of hypertension



Half of doctors recommended incorrect diagnosis or treatment for common aliments



Source: "Albania—Demographic and Health Survey 2008-2009", "The Quality of Care in ECA: Findings from a Five-Country Study." World Bank, Washington, DC, "Findings from a Household Survey on Health in Six ECA Countries." World Bank, Washington, DC.

F. POLICY RECOMMENDATIONS

3.45. **Albania has considerably improved its health outcomes in recent years.** Life expectancy at birth has increased; and infant and maternal mortality rates have declined. Future health improvements in Albania will likely come from better medical care for those with cardiovascular disease, diabetes, and reduction of other risk factors as well as tobacco cessation, improved diet and exercise. The planned free nationwide check-up for Albanians aged 40–65 is a good first step toward creating a health care system more responsive to the new epidemiological profile--encouraging early screening, diagnosis, and management of cardiovascular disease and other conditions.

3.46. **Several key findings emerge from the health expenditure analysis in this chapter**: First, Albania's public spending on health, at 2.6 percent of GDP, remains low and substantially below regional average. Second, even with the current level of spending there is considerable room to improve the efficiency and quality of public spending on health. Third, financial protection against impoverishing out-of-pocket spending is low and can be enhanced. Finally, while the government should consider increasing the health sector budget over the medium term, particularly after 2016, as fiscal space opens and public debt is brought under control, the scope for improving investments in health in the interim period remains principally through increasing efficiency and improving the value-for-money of current health spending. The key policy recommendations are as follows:

Improve Efficiency and Quality of Current Spending

3.47. Improving the pharmaceutical procurement and payment policies (which is feasible within a rather short time frame) , rationalizing the hospital sector, shifting to output-based purchasing of primary and hospital care, making the HII a more strategic buyer of health care, and using information technology more effectively (all of which are complex reforms and will take several years to fully materialize) are among the key ways to increase the efficiency and quality of current public spending on health.

- **Improve pharmaceutical procurement and payment systems (short-term):** Reforms to the methods for procuring and paying for pharmaceuticals and medical supplies that promote competition and transparency, reduce the margin/ mark-ups (for example through expanded

competitive procurement for generics and enhanced price negotiations for patented drugs by HII), and incentivize dispensing of lower cost medicines could generate substantial efficiency gains in the short- and medium-term, and reduce out of pocket expenditures by both insured and uninsured patients.

- **Rationalize the hospital sector (medium-term):** The hospital sector could be streamlined along the lines of the Master Plan from 2010. Resources freed up should be reinvested in a network of outpatient facilities that can function as an effective gatekeeper for higher-level care facilities. While initial hospital investments will be needed to implement the hospital Master Plan, the medium term goal should be strengthen the referral system and shift a greater percentage of resources to primary care. Revised regulations to enhance autonomy and accountability of hospitals will need to be linked to payment reforms and strengthened capacity for hospital managers.

- **Make HII a more strategic purchaser (medium-term):** The flow and pooling of Albania's health funds have been consolidated in recent years, and at present the majority of public funds are pooled at the national level. While the reforms have addressed some of the fragmentation in the system, the HII needs to build up its capacity to become a strategic purchaser of health services. This entails moving away from line-item and historic budget financing, toward output- and performance-based purchasing of primary and hospital services, including strengthened capacity for contracting with and monitoring performance of health providers.

- **Consider shifting to output-based purchasing of hospital care (medium-term)**: This will require information systems that work together, consistent data collection and systematic reporting. For hospitals, the transition from line-budget financing of hospitals to DRGs will take several years, so a transition using global budgeting supported by a business plan for each facility may be a viable short-term solution. The medium-term transition will need to be supported by comprehensive health information systems, extended provider autonomy, and quality assurance measures. This shift can ultimately improve both system-wide efficiency and ultimate health outcomes—if it is accompanied by reforms that build up the accountability, management, and autonomy of service providers.

- **HII could consider revising allocation criteria and extending performance-based payments for primary care (medium-term):** While primary care payments include an element of performance, the overall allocation formula enhanced through stronger links to patient load (e.g., risk adjusted capitation) and improve performance criteria. The effectiveness of the pay-for-performance system (quarterly bonuses based on achievement) should be evaluated, and the system expanded as appropriate, perhaps by setting a broader set of performance indicators or increasing the levels of bonuses on current indicators to further motivate providers to improve quality.

- **Use information technology more effectively (medium-term):** Continued—and accelerated—use of information technology is central to building a more efficient and higher-quality health sector that can fully support the major systemic reforms. Understanding "micro" variations in the outcomes produced by different providers and services is a key to greater efficiency. Current IT systems do not allow MoH, HII, or facility managers and physicians to regularly monitor the quality and efficiency of care. For the most part, regional hospitals are without the modern, complete, information systems that are essential to patient management, efficient referrals, effective systems for provider payments and quality management, and better linkages between payments and quality.

Improve Financial Protection for Individuals and Households

3.48. Financial protection against high out-of-pocket payments, which is a central function of a health system, is clearly deficient in Albania. The high rates of OOP are due primarily to high levels of expenditures on drugs (for both insured and uninsured patients); incomplete insurance coverage (only 60 percent of total population and half of the poor) and high expenditures for outpatient services in public and private sector (due in part to poor quality and bypassing of primary care and first level referral hospitals), and continued pervasive informal payments to public providers.

- **Reduce the costs and copayment rates for medicines and medical supplies (short-term):** Procurement and payment reforms could both drive down the costs of medicines and significantly reduce copayment rates for the insured (e,g., by reducing or eliminating copayments for priority low-cost generic medicines). The government could subsequently consider further deepening financial protection through a more comprehensive outpatient drug benefit scheme;

- **Expand insurance coverage, starting with the poorest (medium-term).** Government should next consider options to expand insurance coverage, with first priority for the poorest. This should be linked with efforts to improve targeting of social assistance schemes for the poor (see Chapter 4). Further expansion of coverage for uninsured should be undertaken based on available fiscal space.

- **Enhance service quality, strengthen referral system, and reduce informal payments (medium-term).** A combination of reforms in financing, quality assurance systems, capacity building, and increased accountability (including greater "vertical" accountability to HII and MOH, and stronger "downward" accountability to citizens and patients).

Carry Out Impact Analysis and consider sequencing of the Proposed Move Toward Universal Health Care

3.49. The government has made a public commitment to move toward Universal Health Care (UHC) financed through general revenues. UHC has multiple dimensions, and is best thought of as a "journey" rather than a "destination." While there is no one "right" way to finance health care, a shift toward general revenue financing may make sense, particularly in a country with a large informal sector. The fiscal implications, both on the revenue and expenditure side, of the proposed shift to a general revenue-funded universal health care are significant, however, so a careful analysis should precede implementation. Government should also carefully consider the sequencing of implementation, prioritizing those reforms that are likely to have the largest impact on the population within available fiscal space.

- **To generate fiscal space for UHC, the analysis in the report suggests first prioritizing reforms to increase efficiency of existing expenditures (medium-term).** Next government could plan to increase outlays for health as fiscal situation improved, with particular priority for primary care. Finally, consider options to shift toward general revenue financing.

- **Identify opportunities to raise more revenues (medium-term):** On the revenue side, payroll insurance premiums, which still account for almost 25 percent of health sector revenues, need to be replaced by mobilizing more general revenues. One possible option would be a higher excise tax on tobacco products, which should also help to reduce smoking rates. Government will need to assess as part of their overall revenue policies whether the current earmarked payroll tax would be replaced by a general income tax, and what opportunities for raising

(general) revenue should be identified to finance the move toward the proposed universal health care.

- **Estimate the costs and strengthen monitoring of transition toward Universal Health Coverage (medium-term).:** The analysis in this report argues for first focusing on reducing costs and OOP expenditures for insured and uninsured patients; next seeking to extend insurance coverage, starting with poor; and finally considering options to extend the benefit package. The proposed reform also implies that insurance coverage gradually will be extended to over one-third of the population who are not currently covered. The latter has cost and fiscal sustainability implications, which should be assessed together with options to deepen coverage (e.g, reducing copayments, or enhancing the outpatient drug benefit package). The effectiveness of the current insurance scheme needs to be analyzed so as to ensure the right mix of financial protection for the people with the cost/fiscal sustainability of the new scheme.

- **Strengthen administrative systems for monitoring of insurance coverage (medium-term)**. Insurance enrollment could be linked to the national identity card system rather than the civil registry. This is technically possible with the current electronic identity cards, and would facilitate monitoring of enrollment and insurance beneficiaries.

Consider Increasing Public Spending on Health (Medium Term)

3.50. **At 2.6 percent of GDP, Albania's spending on health is among the lowest in the region,** though that in part reflects the country's low level of public spending generally. The average health spending for other countries in the region is around 4.5 percent of GDP. Given the fiscal constraints at the national level, and the current fiscal consolidation program through 2014-16, there is no room to increase public spending on health. However, as the fiscal space opens – and after implementing priority reforms to increase efficiency of spending -- the government should consider increasing the public health spending from the current 2.6 percent to about 4 percent and gradually shift a greater percentage of resources to primary care to better fund primary health care and the transition to a universal health care system. This will bring Albania closer to what other countries in the region invest in health care.

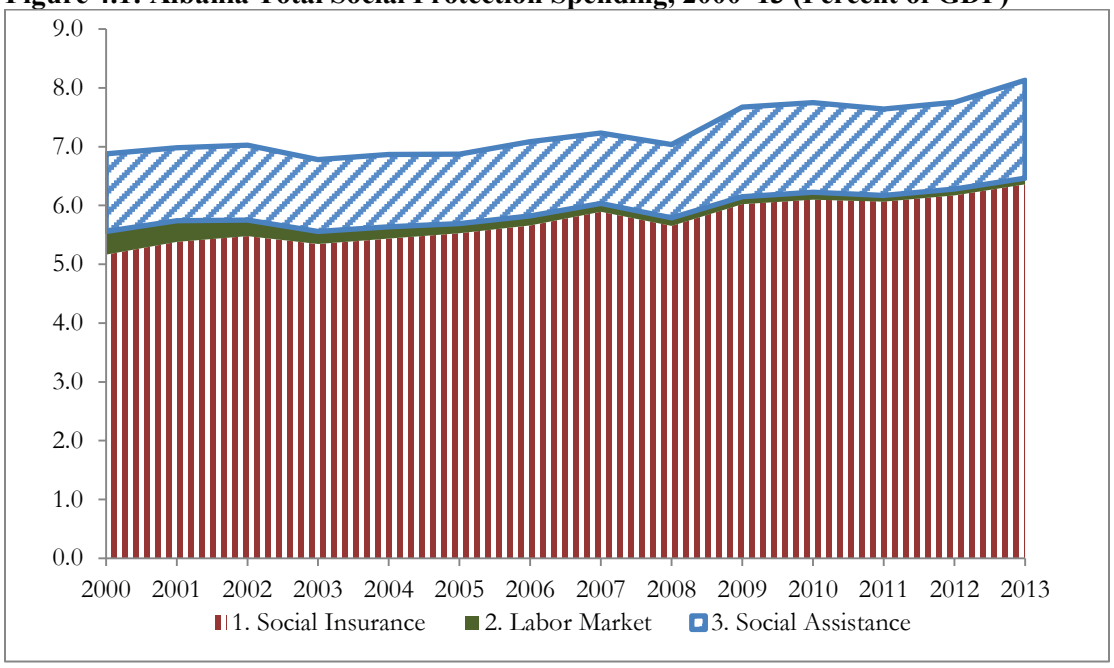
3.51. **Finally, any plans to increase physician salaries must be closely linked to performance, better regulation of dual practice, and specific measures to reduce and sanction informal payments**. Salaries in the health sector have risen consistently for the past few years (see chapter 5). From 2006 through 2008 the government increased health care salaries by 15–25 percent each year. In 2009, the increase was 12–18 percent. Despite the financial crisis and its fiscal implications for Albania, salaries went up by 6–9 percent in 2010 and about 4 percent in 2012. Future salary increases could be tied to performance; and the issue of informal payments to doctors would need to be better regulated and monitored.

CHAPTER 4. SOCIAL ASSISTANCE

A. SOCIAL ASSISTANCE SPENDING IN ALBANIA

4.1. **Albania has a reasonable platform of social protection with contributory insurance, social assistance, and employment programs**. Total outlays on social protection held steady at about 7–8 percent of GDP (Figure 4.1), much lower than in EU countries (19 percent) and lower than the 10 percent average for Eastern Europe and Central Asia. The effectiveness of social policy was undermined by lack of clarity in roles and competing priorities between "social insurance" (contributory) schemes and "social assistance" benefits and in linkages between employment programs and social assistance. Moreover, Albania's working age population is expected to shrink by 15 percent between 2010 and 2050 (Schwarz, Arias, et al. 2014). This demographic shift, coupled with low participation in the social insurance system, underscores the importance of making social assistance programs more effective and improving the pension system to encourage participation and heighten improve fiscal sustainability. The Pensions Policy Note (World Bank 2013) and the first volume of the Albania Public Finance Review (World Bank 2014) analyzed the challenges in detail and made recommendations for the pension system. This chapter will focus on how social assistance programs could be more effective.

Figure 4.1: Albania Total Social Protection Spending, 2000–13 (Percent of GDP)



Source: Europe and Central Asia Social Protection expenditure and evaluation Database, World Bank.

4.2. **Albania's consolidated social assistance system consists of cash benefits and social services.** The main cash benefit programs are the Ndihma Ekonomike (NE) program and the Disability Assistance program. Social care services, residential and nonresidential, are provided for orphans, those disabled, and the elderly on established eligibility criteria. The NE program is the main poverty-targeted benefit; it uses a series of one-off filters to determine eligibility[51]. The disability assistance program is a categorical

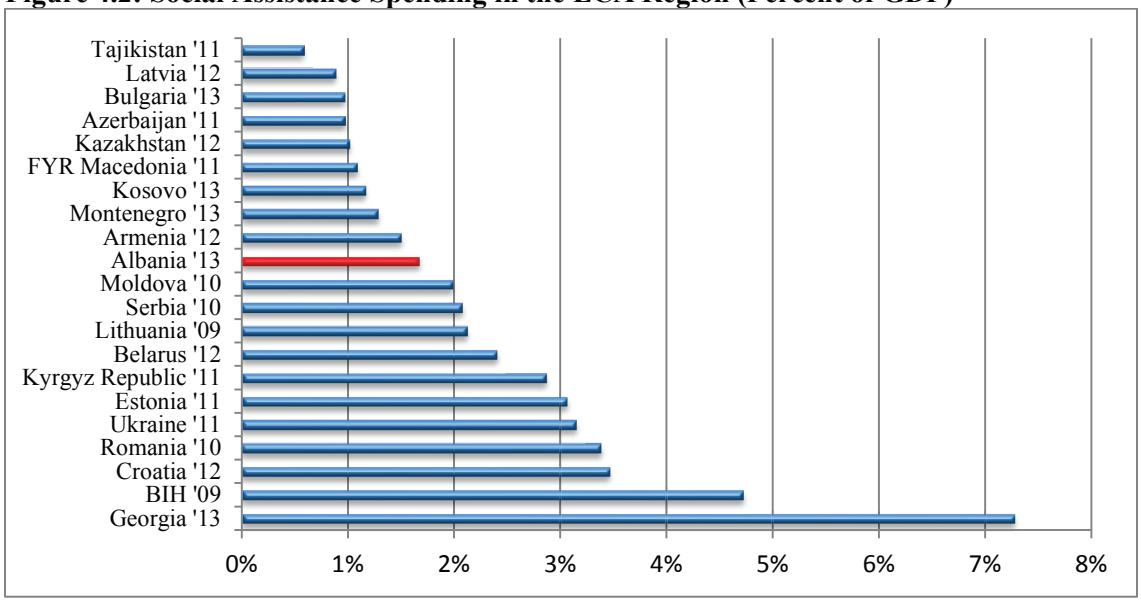
[51] Examples are possession of certain assets (e.g., a vehicle) and participation in economic activities (being employed). In principle, the criteria form a rudimentary means test to identify households in need. In practice, however, these filters exclude otherwise poor households that do not meet the criteria.

benefit provided to people with particular disabilities whatever their economic status or degree of disability. Both cash programs are financed by the central government. Social care services also use funds from local government units, fees from beneficiaries, and donations. Currently local governments conduct the main cash transfer programs according to central eligibility criteria *and* a final decision by local councils. While this allows the use of local information, it also introduces non-transparency to eligibility, and anecdotal evidence suggests that political considerations may enter in these decisions**.** The social assistance reforms (covered in more detail later) aim to address some of these implementation challenges.

4.3. **However, there is fragmentation, and some subsidies are outside the social assistance system.** For instance, electricity subsidies are provided to different categories of beneficiaries, some of which are not covered by the social assistance system. The electricity subsidies constitute a lump-sum amount of ALL 640 per household per month. Designed to compensate vulnerable households for higher electricity tariffs, they are conditional on having a contract with KESH and paying electricity bills regularly. They go to households that benefit from NE, disability assistance beneficiaries, pensioners, and certain categories of civil servants. Pensioners also receive bread subsidies and dependency benefits (amounting to about 0.6 percent of GDP), which are covered by the social insurance system.

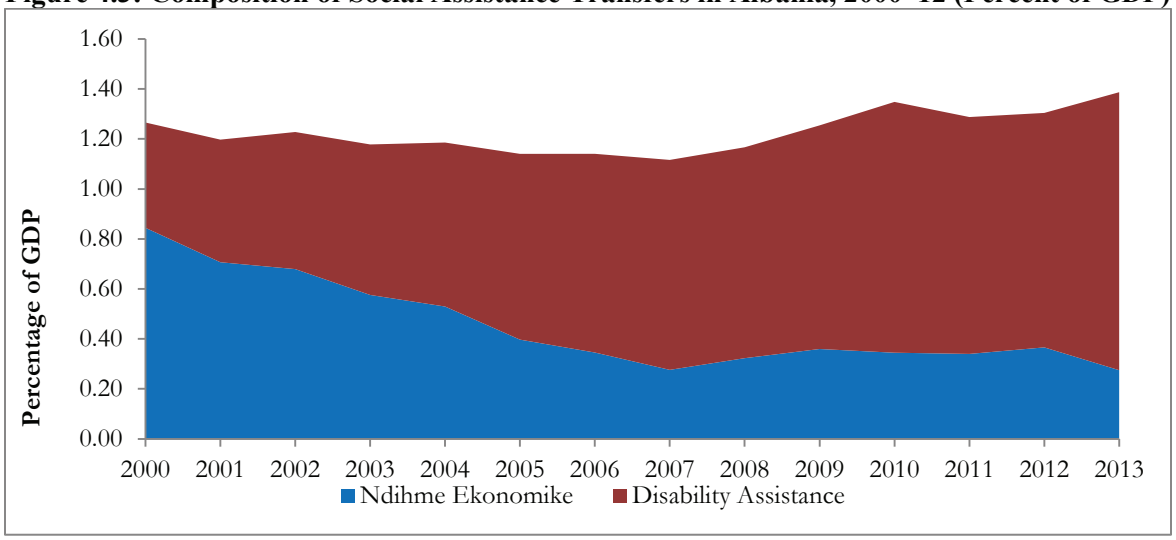
4.4. **While overall spending on social assistance is comparable with other countries in the region, the composition has gradually shifted away from benefits targeted to the poor.** Albania currently spends about 1.7 percent of GDP on social assistance, on par with the ECA average (Figure 4.2). NE and disability assistance account for the majority of this spending. The relative balance in spending on the two programs has shifted significantly over time in favor of disability benefits. Disability assistance spending as a share of GDP more than doubled between 2000 and 2010, from 0.4 percent in 2000 to 1 percent**;** current spending is about 1.1 percent. Meanwhile, the spending on NE dropped by more than half, from 0.8 percent of GDP to 0.38 percent (Figure 4.3), due to both fewer beneficiaries and erosion of benefits.

Figure 4.2: Social Assistance Spending in the ECA Region (Percent of GDP)



Source: Europe and Central Asia Social Protection expenditure and evaluation Database, World Bank.

Figure 4.3: Composition of Social Assistance Transfers in Albania, 2000–12 (Percent of GDP)



Source: Europe and Central Asia Social Protection expenditure and evaluation Database, World Bank.

4.5. **Government has already moved to start reining in ballooning disability spending.** Spending on disability assistance increased because of a larger number of beneficiaries and a generous indexation of benefits, which outpaced inflation by 100 percent due to indexation to minimum wages plus ad hoc adjustments. To contain the costs and reverse the resource shift from the poverty-focused program while preserving the purchasing power of beneficiaries, the government decided to index disability assistance to inflation. A rise in certified beneficiaries of about 50 percent from 2007 to 2013) also pushed up disability spending. An initial diagnostic (World Bank 2010) found that disability legislation is scattered, medical eligibility criteria are outdated, and the system for assessing disability cases open to conflicts of interests (often doctors assessing disability cases are also on the reviewing commission).

4.6. **More needs to be done to rebalance social assistance spending in favor of NE.** The current 1.1 percent of GDP spent on disability assistance is the highest in the region, with only 1 percent of the population report severe and 5 percent serious to severe disability. Albania's spending on disability is even higher than post-war Bosnia and Herzegovina. In contrast, spending on NE is a modest 0.27 percent of GDP, although 13.8 percent of Albanians live in poverty. Clearly, systemic reforms on assessment of disability, eligibility criteria, and institutional frameworks are needed to ensure that transfers reach the truly vulnerable. Although design and implementation of such reforms, which are currently planned (with support from the World Bank), will take time, there are some immediate measures, though difficult, that can be considered to reverse the resource shift.

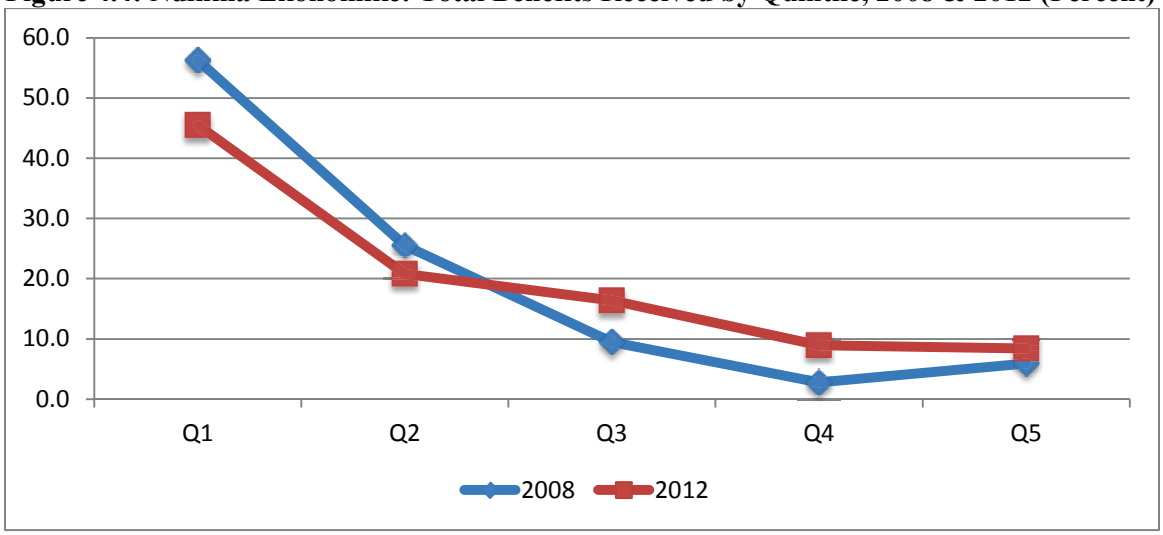
B. NDIHMA EKONOMIKE: DETERIORATING TARGETING ACCURACY WITH LOW COVERAGE

4.7. **The NE program is having little impact on poverty due to low coverage and erosion of benefits.** The program has low coverage, reaching less than 25 percent of the poorest quintile due to filters that cause serious errors of exclusion, and the adequacy of the benefits (only 16 percent of post-transfer consumption) has eroded over time. As a result, the NE program lifts out of poverty only 1 percent of the pre-transfer poor.

4.8. **The NE program could be better targeted:** Less than half of the total benefits (46 percent) are received by those in the poorest 20 percent of the population, (Figure 4.4), and although two-thirds of the total benefits (66 percent) go to the poorest 40 percent, 8 percent actually go to the wealthiest quintile.

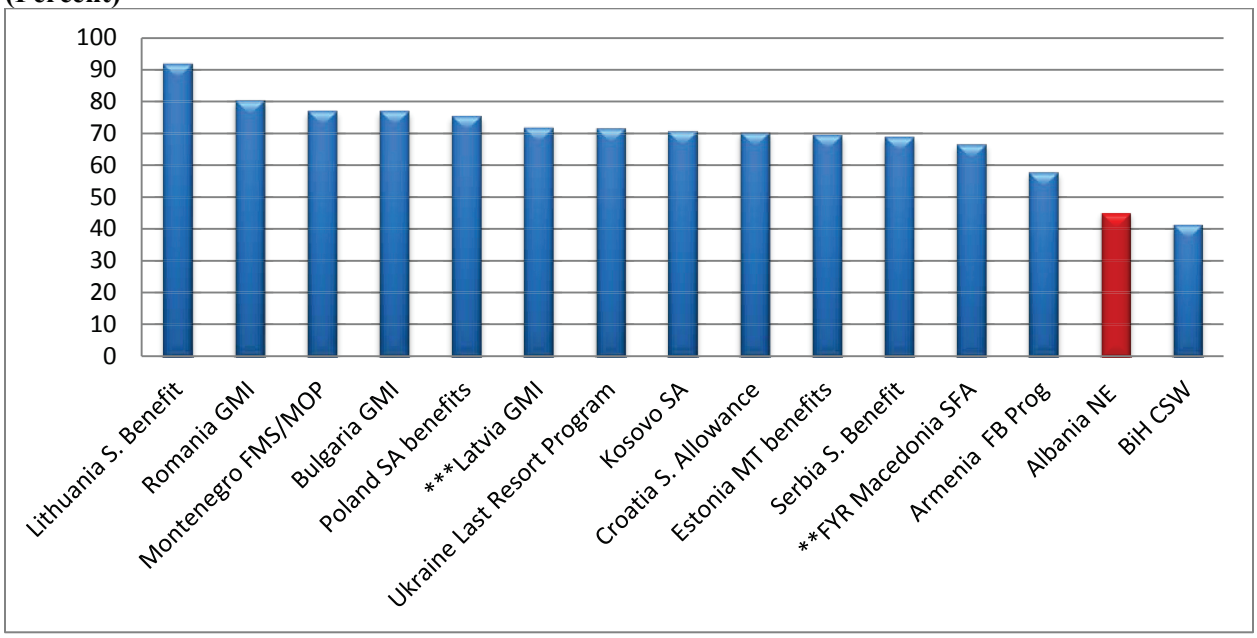
Overall, the targeting accuracy of NE has deteriorated from 2008 to 20012, with a lower share of the benefits going to households in the bottom quintile (from 56 percent to 46 percent). Comparison of NE with similar poverty-focused programs in other countries shows that NE is below average for targeting accuracy in the ECA region (Figure 4.5) and with the recent decline in targeting accuracy NE has one of the lowest targeting accuracy in the region.

Figure 4.4: Ndihma Ekonomike: Total Benefits Received by Quintile, 2008 & 2012 (Percent)



Source: LSMS 2008 and LSMS 2012.

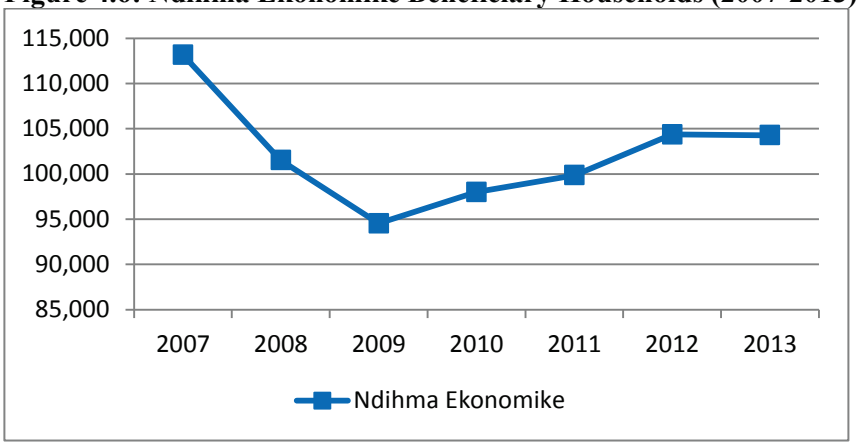
Figure 4.5: Last Resort Social Assistance in ECA: Total Benefits Received by the Poorest Quintile (Percent)



Source: Europe and Central Asia Social Protection expenditure and evaluation Database, World Bank
Notes: * indicates that the standardized methodology was not applied.
**: performance indicators were generated as part of analytical work supporting the FYR Macedonia DPL program.
***: performance indicators were generated as part of analytical work supporting Latvia Reimbursable Advisory Services (RAS) on long-term unemployment.

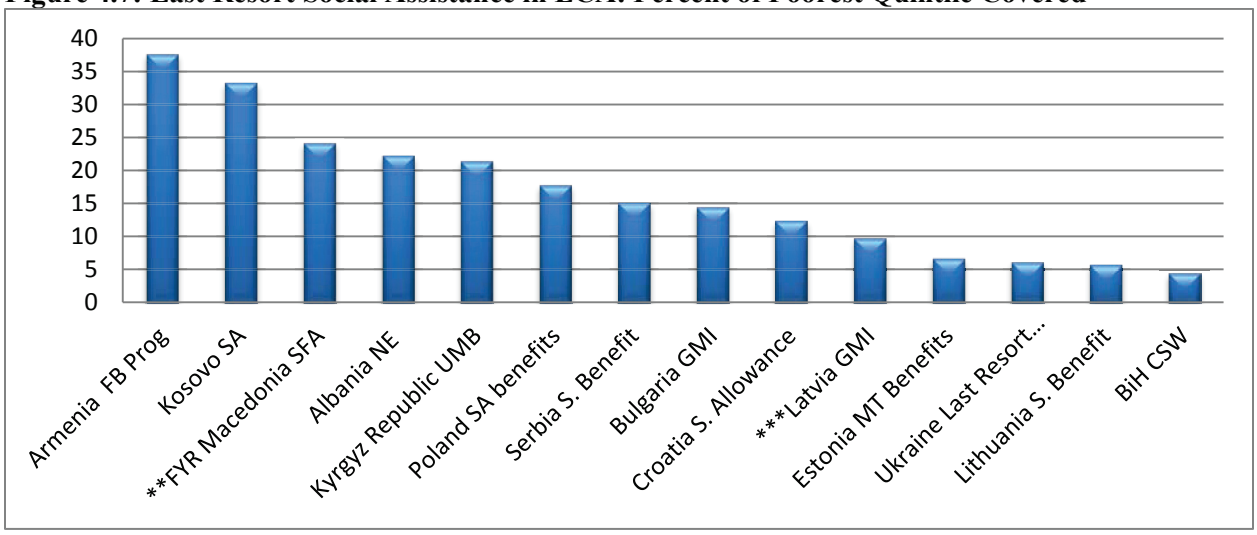
4.9. **Due to high errors of exclusion, the NE program reaches less than a quarter of the poor.** The number of households benefiting from it declined between 2008 and 2010, though it has since been increasing slowly (Figure 4.6). The initial decline in beneficiaries is likely due to efforts to tighten eligibility criteria. The deteriorating macroeconomic environment since 2010 may have contributed to the recent rise in beneficiaries. Along fewer beneficiaries, the percentage of the poor covered by the NE program fell from 36 percent in 2005 to 22 percent in 2008. In 2012 the NE benefits were reaching about 23 percent of the poor, 22 percent of the poorest quintile (Figure 4.7). However, the coverage of the poor is still quite low and indicates that many poor Albanians fall through the cracks of the safety net system and end up not receiving any protection. At the same time, coverage of the non-poor by NE program increased from 5.2 percent in 2008 to 7.4 percent in 2012, which is partly reflected in the worsening targeting accuracy. The low coverage of the poor under NE also reflects the distortions from the definition and implementation of eligibility criteria (i.e. a system of "layered filters" for eligibility). Previous analysis indicates that these "layered filters" introduce distortions in the eligibility process and results in severe errors of exclusion (e.g. implementation of all filters would exclude about 60 percent of those in the poorest 10 percent of the population (World Bank 2012).

Figure 4.6: Ndihma Ekonomike Beneficiary Households (2007-2013)



Source: Ministry of Social Welfare and Youth.

Figure 4.7: Last Resort Social Assistance in ECA: Percent of Poorest Quintile Covered



Source: Europe and Central Asia Social Protection expenditure and evaluation Database, World Bank
Notes: * The standardized methodology was not applied.
**: Performance indicators were generated as part of analytical work supporting the FYR Macedonia DPL program.
***: Performance indicators were generated as part of analytical work supporting Latvia RAS on long-term unemployment.

4.10. **Low NE benefit levels limit its impact on poverty.** NE benefits account for just 16 percent of the total post-transfer consumption of the poorest beneficiaries, indicating only modest adequacy. Failure to index benefits to inflation explains the erosion in real values. Moreover, the expansion in disability benefits may partly explain the decline in NE benefit levels. In 2012, as in 2008, average disability benefit per person was triple the NE household benefit. The erosion in benefits combined with the low coverage of the poor has meant that the NE program does little to reduce poverty.

4.11. **Significant steps have been taken to make NE more effective**. Improved eligibility criteria (i.e., the unified scoring formula) were introduced, which now incorporates objective weights and variables that are empirically associated with poverty. This makes for much better identification of the poor and is expected to make NE transfers more equitable by reducing exclusion errors and improving transparency. The new eligibility criteria are being piloted in Tirana, Durres, and Elbasan starting in May 2014. Budget-neutral simulations indicate that transitioning to the unified formula–based scoring would make targeting considerably more effective Specifically, the coverage of the extreme poor[52] would more than double (from 25 to 54 percent) and targeting accuracy would improve drastically (benefits going to the extreme poor would go up from 15 to 36 percent). The coverage of the total poor as well as the share of benefits going to them would also improve significantly.

4.12. **Linking social assistance beneficiaries with human capital and activation measures would make NE more effective over the medium term**. Current eligibility criteria (the system of one-off filters) exclude the working poor, causing significant disincentives to work. In addition, access of NE beneficiaries to employment services currently does not go beyond registering as unemployed, making it difficult for them to improve their skills and find a job to pull themselves out of poverty. The new eligibility criteria would eliminate the work disincentives to allow protection for the working poor. While social assistance transfers can relieve poverty in the short term, productive employment can provide lasting protection against vulnerability. An integrated approach to promote employability, increase self-reliance, and reduce dependency on benefits would make NE much more effective. An integrated approach would consist of policies to build human capital (e.g., education and health bonuses for NE beneficiaries to prevent intergenerational poverty); identify potential barriers to productive employment for both NE beneficiaries and others who are unemployed); tailor services to relevant groups to eliminate the barriers (e.g., child care and linkages to active labor market programs); and tweak program design so that "working always pays off."

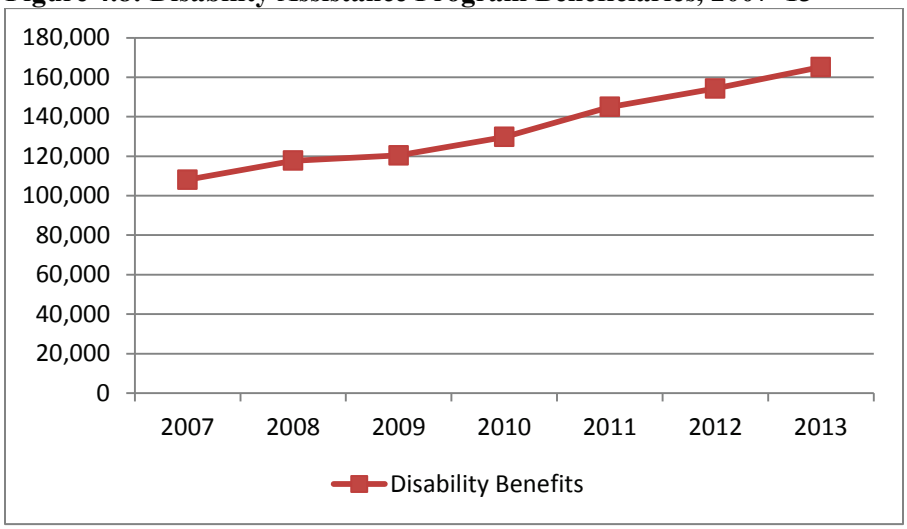
C. DISABILITY BENEFITS: MODESTLY TARGETED BUT EXPANDING COVERAGE

4.13. **While the coverage of disability benefits is expanding, the benefits do not necessarily favor the most severely disabled.** The number of beneficiaries increased by 50 percent from 2007 to 2013 (from 108,000 to 165,000; Figure 4.8). While not explicitly targeted to the poor, the program coverage is low: only 3.8 percent of the poorest quintile receive disability assistance benefits. In contrast, 15 percent of Albania's population reports mild to severe disability, 5 percent serious-severe disability, and 1 percent

[52]The extreme poor are households that fall below the fifth percentile cutoff of the observed consumption distribution. Extreme poverty as defined in this report must not be confused with food poverty, which affects only 1.2 percent of Albania's population. Even though it would be desirable to be able to target *Ndihma Ekonomike*'s assistance to food-poor households as the *most* extre*me* of the extreme poor, the limitations of the LSMS data sample make it impossible to reliably identify such households. The sample of such households is naturally very small and no statistically significant relationship between their consumption and their characteristics in terms of asset ownership, household composition, and others can be established. Therefore the "extreme poor" are defined as those in the bottom fifth percentile of the population economically.

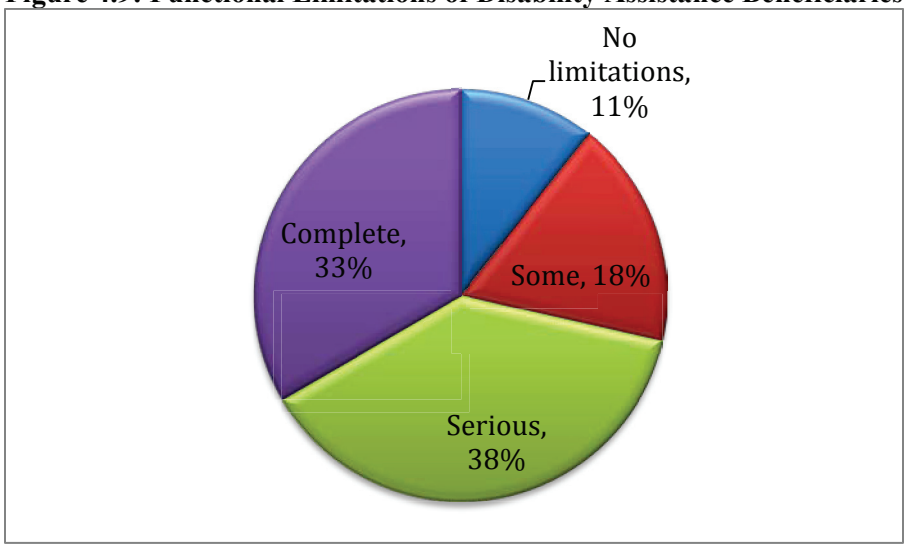
severe functional disability[53]. However, the coverage of disability benefits does not necessarily favor the most severely disabled: analysis of the data found that 11 percent of all disability benefits go to those who report no functional disability at all, and another 18 percent go to those with only mild disabilities (Figure 4.9). This is reflected in the program design, since the determination of benefit levels does not take into account the severity of disability or functional impairments.

Figure 4.8: Disability Assistance Program Beneficiaries, 2007–13



Source: Ministry of Social Welfare and Youth.

Figure 4.9: Functional Limitations of Disability Assistance Beneficiaries



Source: PSIA Disability Survey.

[53] The data are from the nationally-representative PSIA Disability Survey of 1,500 households (with a booster sample of 300 more households that receive disability assistance). The survey, funded by the World Bank PSIA Trust Fund, was carried out in October 2011. It adopted functional definitions of disability based on the WHO Convention for six areas (vision, hearing, mobility, memory, self-care and communication): mild = some difficulty in exercising a given function; serious = a lot of difficulty; and severe = cannot perform the function at all.

4.14. **Although disability benefits are not explicitly targeted to economic need, there appears to be some "self-targeting" of transfers**. As currently structured, disability benefits provide an entitlement whatever the socioeconomic status of the beneficiary. Even though need is not among the eligibility criteria, there is some evidence that the poor do benefit disproportionately. Specifically, the LSMS 2012 data indicate that 60 percent of disability benefits go to the poorest quintile while those in the wealthiest quintile receive 4 percent.[54] One explanation may be that the poor account for slightly more of the disabled in the total population. Survey data suggest that, of the total population of reported disabled (any degree of disability), 23 percent are in the poorest quintile and 18 percent in the wealthiest. An even higher share of those with severe disability are poor (36 percent in the poorest quintile as, 10 percent in the wealthiest). Self-selection may explain the higher representation of the poor among beneficiaries of disability assistance. The process for certifying and recertifying eligibility for disability benefits is quite cumbersome, so many better-off families may be deterred from applying, whereas households that are poor with a member who is disabled are needy enough to make the effort to apply.

4.15. **Disability assistance benefits are generous.** The average benefit accounts for 46 percent of all post-transfer consumption of the poorest beneficiaries, which is almost triple the percentage for NE transfers. This is due in part to generous indexation and in part to past ad hoc adjustments. Since the benefits do not necessarily favor the more severely disabled, the program is not efficient and there is room to improve the quality of spending.

4.16. **Major steps have already been taken to make the disability assistance program more effective.** As noted, to contain ballooning costs but preserve purchasing power, benefits are now indexed to inflation. To make the benefits more equitable, the government also plans to redesign the benefits, starting with revising the eligibility criteria to ensure that benefits reach the truly disabled and vulnerable.

D. POLICY RECOMMENDATIONS

4.17. There is scope for Albania to enhance the effectiveness of its social assistance program through effective policy steps including better targeting of those in need, modernized benefit administration, elimination of fragmentation, and devising ways to move the poor and vulnerable toward productive employment. The government could consider the following key recommendations[55]:

Better Target the Very Poor and the Truly Disabled

4.18. **To improve the equity and efficiency of social assistance programs the government should revamp targeting and eligibility to prioritize the poor and the truly disabled**. Systemic reforms on assessment of disability, eligibility criteria, and the institutional framework are crucial to improve effectiveness of disability benefits and ensure that transfers reach the truly vulnerable. Here policy options consist of taking further steps to design and implement eligibility reforms for the NE and Disability Assistance Programs. Specifically:

[54] It should be noted that disability benefits were included as a separate program for the first time in LSMS 2012. Compared with the administrative data on number of beneficiaries, there appears to be severe underreporting of disability benefits in LSMS. Some degree of underreporting is expected but the level of underreporting seems unlikely, especially for the upper quintiles, which may bias the findings. For instance the PSIA Disability Survey (which had a booster sample of disability assistance beneficiaries) found that about 39 percent of all benefits go to the poorest quintile and 12 percent to the wealthiest.

[55] It should be noted that most of the policy recommendations are already included in the Government's SA reform agenda. The implementation of SA reforms is supported under the World Bank Social Assistance Modernization Project.

- **Move quickly to apply the Unified Scoring Formula-- i.e. an eligibility criteria with objective weights and variables that are empirically associated with poverty-- for the NE program in pilot areas and nationwide (<u>short-term</u>).** Replacing current eligibility criteria with the Unified Scoring formula will better reach the extreme poor within the same budget envelope[56], while improving transparency by eliminating the use of non-transparent discretionary criteria.
- **Continue to index disability benefits to inflation over time and avoid ad hoc adjustments to benefits (ongoing)**. This is crucial to contain ballooning costs and ***redress*** equity imbalances in spending allocations between disability and poverty-targeted NE benefits.
- **Move from a purely medical approach to disability eligibility to a more comprehensive functional approach and recertify beneficiaries (short-term)**. Eligibility should be based on assessment of the functional abilities (the "social model") to ensure that benefits accrue to those that are truly (or more severely) disabled and thus improve the equity of the transfers. The revision of the institutional framework is crucial to eliminate any conflicts of interest and minimize error and abuse in the system. Once the transition to new criteria is complete, all beneficiaries should be recertified.
- **While proceeding with the design and implementation of systemic disability reforms over the long term, look for short-term measures that will rebalance social assistance spending toward NE and contain disability expenditures.** Some ***<u>short term</u>*** options might be to:
    - temporarily freeze new applications, which would curb spending due to more numerous beneficiaries but might leave the newly disabled without protection;
    - recertify beneficiaries for certain subcategories to clean out errors and abuse, though without institutional changes, this might not have much impact;
    - provide adequate social insurance benefits for those injured at work and eliminate this category from the disability assistance program; or
    - temporarily reduce benefit amounts, which can be done to a different extent for different categories of disability.
- **Consider targeting disability benefits in the <u>medium term</u> to the poor who are disabled, to protect the truly vulnerable and enhance equity**. While the social policy objective of disability program may not necessarily call for targeting benefits based on socioeconomic need that would probably make the program more effective in providing protection and reducing poverty, especially poverty stemming ***from*** disability. Rather than setting up a parallel system, the targeting mechanism for the NE program (the Unified Scoring formula) could be used to identify the most vulnerable among disabled individuals. Harmonizing targeting systems would also improve administrative efficiency.

Modernize Benefits Administration

4.19. **The Government could make social assistance programs more efficient by modernizing benefits administration and building in mechanisms to reduce error and fraud.** A national registry and management information System (MIS) for NE and disability assistance is crucial to avoid duplications and track beneficiaries. It would also vastly improve oversight capacity and all aspects of

[56]Budget-neutral nationwide NE reforms would reduce the *extreme* poverty headcount by an additional 1 percentage point rate since the extreme poor would be identified more accurately with the Unified Scoring Formula. Indeed, the envisioned reforms would allow NE to more than double coverage of the extreme poor, from 24.6 to 54.5 percent with the same budget. Coverage of the total poor would also increase substantially.

transparency. The automation of the administration should generate efficiency gains. Moreover, enhancing the detection and remediation of errors and fraud should improve efficiency and generate savings, though they are not quantifiable. Policy options for the government might be to:

- **Move forward with the NE MIS to administer the program first in pilot areas and then nationwide (short-term)**. Currently the MIS for administration of NE benefits has been prepared and is expected to be piloted in the three areas in May 2014. Once fully operational, the system would give policy makers timely access to indicators for monitoring progress, reporting to the public, and building up evidence-based policy making.
- **Start planning the Disability Assistance MIS (short-term).** Although design of eligibility reforms is still in the early stages, it is very important to automate administration of these benefits even under current rules as quickly as possible. This will allow for tracking beneficiaries and provide valuable information to policy makers as they refine the design of disability assistance benefits.
- **Move to strengthen the system for preventing, detecting, and remedying error and fraud in social assistance programs (medium-term).** The current system for detecting error and fraud is comprehensive but there are still gaps. Regular compliance checks are undertaken for both programs, but enforcement and consequences need to be reinforced. Automated information systems would enhance the accuracy of detection of error and fraud in both programs. Other steps would be to build social inspection capacity to apply risk profiles for risk-based inspections and strengthen sanctions for error and fraud.

Eliminate Fragmentation of Social Assistance Mechanisms for Greater Efficiency

4.20. **Utilizing the social assistance system to channel subsidies and to protect the vulnerable from energy tariff increases will eliminate fragmentation and make such transfers more effective (medium-term).** Issues related to the financial viability of the energy sector suggest that end-user tariffs may have go up by 10–30 percent (World Bank 2013b), which will necessitate a mechanism to mitigate the negative impact on the vulnerable. The improved targeting mechanism for NE provides a robust method to identify the poor who are most likely to be adversely affected by higher energy tariffs. Since current energy subsidies are fragmented and not necessarily targeted to vulnerability, consolidating energy subsidies and channeling current and future subsidies to mitigate the impact of tariff increases through the improved social assistance system would therefore improve their effectiveness. This does not imply that only social assistance beneficiaries would be eligible for energy subsidies. The new NE targeting mechanism ranks households based on their predicted welfare, allowing for different thresholds for different programs. Finally, using existing systems and harmonizing identification of the vulnerable, rather than setting up a parallel system, will also improve administrative efficiency.

Devise Ways for the Vulnerable to Move into Productive Employment

4.21. **Linking social assistance beneficiaries with human capital and activation measures would in the medium term make NE more effective.** Helping people, especially the vulnerable, move into (more) productive employment is a government priority that requires an integrated approach, through a variety of policy options:

- **Introduce an education bonus for children of NE beneficiary families to help avoid intergenerational poverty and have a long-run impact on poverty by investing in human capital (medium-term)**. Many countries (low-, middle- and even high-income OECD countries) link receipt of cash transfer assistance to school enrollment and attendance through

what are generally known as "conditional cash transfers." Conditioning of benefits could make sense in Albania, which, contrary most neighboring countries, has not achieved universal enrollment in basic education.

- **Link social assistance to employment support services to promote employability, increase self-reliance, and reduce dependency on benefits (medium-term).** This will require specific policies and stronger institutional capacity to identify circumstances and potential barriers to productive employment (for both NE beneficiaries and others who are inactive or unemployed); provide tailored services to eliminate such barriers as child care and open up access to active labor market programs; and tweak program design so that "work always pays off."

CHAPTER 5. CROSS-CUTTING: PUBLIC ADMINISTRATION REFORM

A. INTRODUCTION

5.1. **In recent years the government has made public administration reform a priority.** The government adopted the Public Administration Reform Strategy (PAR) 2009 – 2013 within the framework of the National Strategy for Development and Integration (NSDI). The adoption of the strategy was to be followed by a new civil service law, which would move the civil service toward a professional and merit-based system. However, the delay in the passage of the new civil service law to May 2013 due to political stalemate further delayed all other activities described in the PAR Strategy. Interventions in the civil service during 2009-13 were limited to simple administration of the system, with little progress made.

5.2. **Major weaknesses in Albania's public administration are the lack of accountability of public servants, concentration of decision-making at the top of institutions, and a tenuous link between HR management and service delivery.** This is due to both widespread corruption[57] and cumbersome administrative decision-making process. Service delivery is still deficient. In public institutions even mid-level managers have very limited decision-making opportunities. A Code of Administrative Procedures drafted some years ago to address the issue is still not approved. Delegation is the exception, though in the very few cases where delegation has been mandated, it has proved to be a success.[58] Among the initiatives of the current government to improve service delivery are the Ministry of Social Welfare Employment Centers and the Police Reception Halls. Better service is closely tied to e-government solutions.

5.3. **The PAR Strategy 2009–13 did not cover many issues integral to effective public administration.** In fact, several PAR components were scattered in other strategies. Fragmentation was one reasons the strategy was linked only marginally with HR management. The Department of Public Administration (DoPA) and the government have begun to draft PAR Strategy 2014–20. Improvements in service delivery and increased accountability of public employees should be considered in parallel with building capacities in public administration. The new strategy should be broader and build on four elements: (1) delivering better service to citizens; (2) making public employees more accountable; (3) delegation of more decision-making; and (4) fostering civil service professionalism and merit-based recruitment.

5.4. **The passage of the new civil service law, coupled with a new government with a fresh mandate to implement it, bodes well for progress in civil service reform**. However, challenges can be expected along the way given the difficulties of building a professional civil service in Albania and the economic difficulties the country is facing. Economic conditions may force the government to suspend activities related to the salary reform, as indicated by its recent decision to freeze all salary increases for three years.

5.5. This chapter analyzes recent developments in public administration and the wage bill, the difficulties of building a professional and merit-based civil service, the pay and salary reform in the civil service, and the nuances of civil service downsizing. It concludes with recommendations for the future direction of public administration reform in Albania.

[57] Corruption Perception Index 2013 ranks Albania at 116 out of 177 countries.
[58] National Registration Centre.

B. THE PUBLIC SECTOR AND THE WAGE BILL: NOT LARGE, AND NOT GROWING

5.6. **The size of the public sector in Albania has been stable in recent years,** as shown in table 5.1. However, it is difficult to find reliable data because there is no single, authoritative source of information on the size of either the civil service or public administration. Due to differing interests, data are sometimes hard to obtain and the number of employees in different sources does not always match. DoPA is working to create a unified HR Management Information System, but as yet the system is only partially in operation.

Table 5.1: Albania: Public Sector Employment and the Wage Bill, 2013–14

Main groups	2013	2014	Percent of the Wage Bill	Percent of Population
Independent institutions	1,821	1,830	4	0.07
Central administration	25,429	23,966	30	0.86
Police	9,915	9,915	13	0.35
Republican Guard	1,377	1,377	1	0.05
Armed forces	9,000	9,000	8	0.32
Judiciary	1,215	1,309	2	0.05
Education	38,953	38,953	41	1.39
Total	**87,710**	**86,350**	**100**	**3.08**

Source: Budget laws 2013 and 2014 and DoPA.[59]

5.7. **Some large public sectors are not included in the overall number of budgetary employees as they are not directly financed by the state budget**.

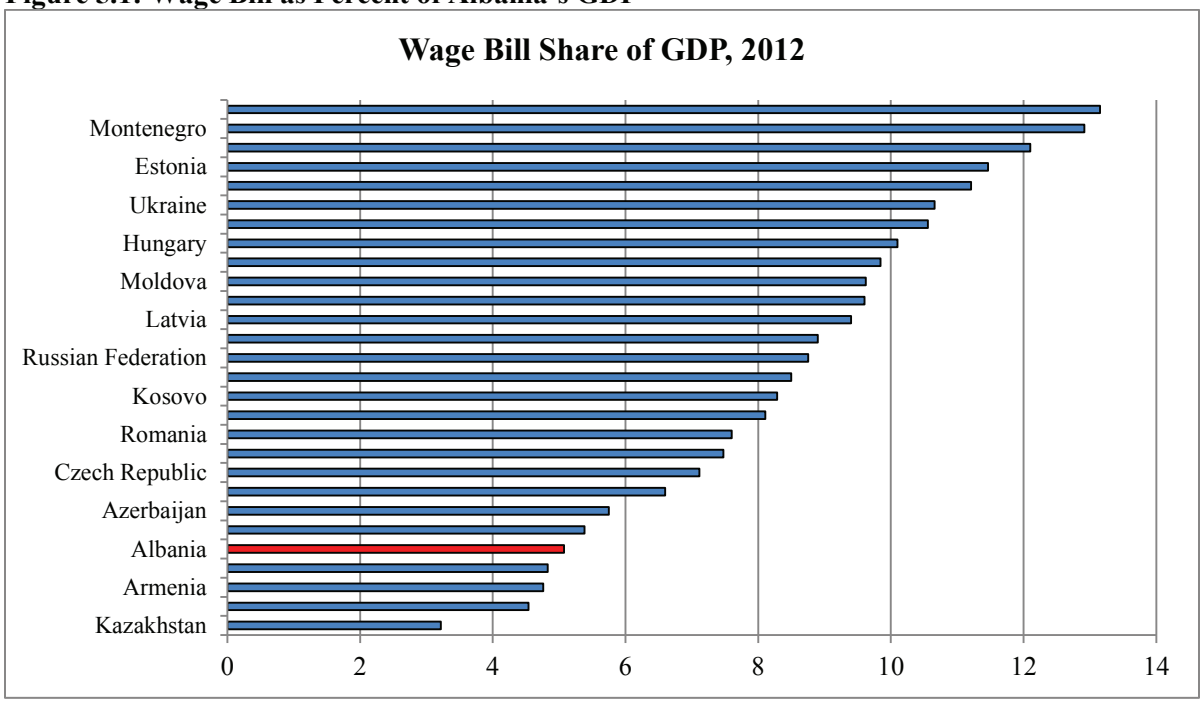
- The health sector is no longer counted as part of public administration directly financed by the budget. INSTAT reports 22,120 employees in public health for 2013, accounting for 0.79 percent of the population. For 2012, INSTAT reports the total number of public employees as 104,400 (including health and local government employees), 3.7 percent of the population.
- Employees in state-owned enterprises (SOEs; companies in which the state owns at least 51 percent of the shares) are not included in the previous numbers. In 2012 they were reported to number about 60,000.
- If health and SOE employees are added, total public administration employment would be about 165,000 people, some 5.8 percent of the population.

5.8. **The civil service to date represents only a small share of public administration, accounting only for 5.8 percent of public administration, but under the new civil service law the share will grow to 19.2 percent.** Ministries employ 2,019, of which 1,575 (78 percent) are civil servants. Between 1,000 and 1,200 civil servants are employed in independent institutions and about 2,500 in local government.[60] With the extension of its scope based on the new civil service law, the civil service is expected to grow to 16,600, about 19.2 percent of public administration.[61] The new civil service law does not consider education, health, the judiciary, and the army forces to be civil servants. For all these categories special laws are in force based on which their HR will be managed. The same applies for political positions and for support staff positions in all public institutions.

[59] Census 2011 data are used as a reference for Albania's population (2.8 million).
[60] There are no clear data for independent institutions and for the local government. The figures are DoPA estimates.
[61] DoPA estimates.

5.9. **Employment in Albania's public administration has held steady in recent years, with only minor fluctuations.** The number is not very large one compared with other countries in the region (Figure 5.1). The size of the wage bill[62] has also remained stable in recent years, varying from 30 percent of current expenditures in 2006 to 26 percent in 2014 and hitting the lowest level in 2011 at 23 percent of current expenditures. Albania has one of the lowest wage bill to GDP ratios in Eastern Europe (Figure 5.1).

Figure 5.1: Wage Bill as Percent of Albania's GDP



Source: MoF, World Bank.
Note: A caveat: in some countries the health sector is counted as part of public administration and in others, such as Albania, it is not.

5.10. **A strict establishment and payroll control system has helped keep the size of the wage bill stable in Albania**. To establish a new position, each institution needs the consent of DoPA (who checks the position from the perspective of functions, duties and placement in the organizational structure) and of the Ministry of Finance (who assesses the fiscal impact of the new position) before approving the change in the organizational structure by the Prime Minister. This centralized procedure, combined with a salary structure free from discretion, has made possible the efficient control over the government's hiring practices and wage bill. This procedure has been under implementation since 2004.

C. PROFESSIONAL AND MERIT-BASED CIVIL SERVICE: A WORK IN PROGRESS

5.11. **Achieving a professional and depoliticized civil service is still just an aspiration in Albania.** According to EC's analysis as of end-2012, the Albanian civil service still suffers from shortcomings related to politicization and a lack of meritocracy in recruitment, promotion and dismissal of civil servants (EC 2012). Though there is intensive rhetoric about professionalization and adoption of principles for fair recruitment, equality of chances, and protection of civil servants, practice contradicts it. Despite laws related to merit and professionalism in the civil service, the general impression is that recruitment

[62] In calculating this ratio, only the expense for salaries is used; the expense for social insurance is not.

procedures remain politicized and the public has little trust in their fairness (SIGMA 2012). Public administration is heavily influenced by politics, and the political stalemate in the previous parliament prevented progress on reform, including introduction of new legislation. There is also evidence that public employees and civil servants are actively involved in electoral campaigns.

5.12. **The Civil Service in Albania has been narrow in scope, and large areas of public employment have remained outside.** For these categories[63] applying the principles of professionalism, impartiality, and equality of opportunity has been very difficult. There is practically no competition to fill a vacancy and appointments have been made at the discretion of the heads of institutions. The new law, which extends the scope of the civil service, is expected to redress this issue. However it has yet to be verified in practice; the old law was not particularly bad, but the practices implementing it were really deficient.

5.13. **Recruitment procedures have been severely compromised by a widespread use of "temporary contracts."** That is not foreseen in the civil service legislation and verges on the illegal. However, it has been widely used since passage of the original civil service law and is still used. Often institutions employ a candidate on a temporary contract and then organize a recruitment procedure to legalize the employment relationship.

5.14. **While there are no reliable data on the exact number of temporary contracts, anecdotal evidence suggests they constitute a significant share of civil service employment.** DoPA reports only some of these contracts, because often institutions do not report them. In 2004, an initiative was launched to supervise this phenomenon, and by the end of that year 2004 DoPA had succeeded in reducing the number of temporary contracts to 2.2 percent of total positions (DoPA 2004). However, the practice resumed in 2005, and temporary contracts had reached about 11 percent by the end of 2006 (DoPA 2006) and 7 percent by the end of 2007. The real figure was likely much higher, as a number of institutions did not request DoPA approval, or continued with contracting even when DoPA had rejected the proposal. A survey done by the NGO Akses (2009)[64] found that, among the group of civil servants interviewed, 15 percent were recruited on temporary contracts.

5.15. **More recent data from recent years suggest that the problem is more worrying for some institutions than for others bodies.** One of these institutions is the Ministry of Defense (MoD). A monitoring visit by the Civil Service Commission in 2011 found that out of 116 civil service positions, 55—almost 47 percent—were occupied by personnel on temporary contracts (CSC 2011). Even more worrying, in every case where there was a formal recruitment procedure, the winner was the person already employed on a temporary contract, rendering the whole recruitment procedure pointless formality and contravening the principles of merit and equality of chances for all the candidates (CSC 2011). In January 2013, almost 16 percent of MoD civil service positions were still occupied by staff with temporary contracts (DoPA data). What should have been an exceptional, pragmatic way of meeting staffing needs had become the main recruitment method, circumventing the competitive procedure established by law.

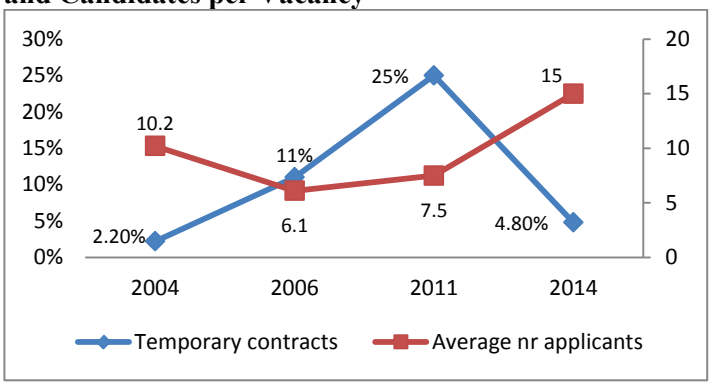
5.16. **Temporary contracts seem to have spread widely in 2010–11, when according to DoPA they were used for about 25 percent of civil service positions.** Since then, after careful monitoring but also increased commitment from political leaders, this figure has not been brought down, DoPA reports, to just 4.8 percent on temporary contracts. The practice undermines recruitment procedures and diminishes the credibility of the competition process. Differences between the top-scored candidate and the remaining candidates were sometimes as wide as 40 percent (DoPA data)which suggests that competitors'

[63] Executive agencies, subordinate institutions, and branches of ministries.
[64] This report was part of an investigation into the influence of the election on the stability of the civil service.

chances compared to those of the preferred candidate are purposely limited. The new civil service law is expected to put an end to this procedure; and DoPA committed to closely control the situation.

5.17. **There is a correlation between the use of temporary contracts and the number of candidates for each civil service vacancy.** After temporary contracts fell in 2004, DoPA registered 10.2 candidates for each position. In 2006, only 6.1 candidates applied for each position, the lowest in years, and in 2011 the number increased only slightly, to 7.5. In 2013, DoPA saw a boom in applications and the last two months of 2013 there was an average of 15 candidates for each vacancy. This demonstrates that when recruitments are run professionally and the choice of candidates is not predetermined, the public trusts the process and there are chances to recruit the most qualified candidate.

Figure 5.2: Correlation of Temporary Contracts and Candidates per Vacancy



Source: DoPA.

5.18. **Implementation of the new civil service law based on the spirit of the rules will be critical.** The return of DoPA to the Prime Minister's office (although DoPA is a responsibility of the Minister of State for Public Administration and Innovation, below the Prime minister) is expected to boost the reform and give DoPA the necessary authority to impose the rules on other institutions. Learning from past experience, DoPA has proposed a recruitment system that is already part of the new civil service law. The intent is to reduce the direct influence of the institutions over the recruitment procedure and thus ensure the application the merit-based principle to the civil service. However, the adoption of a civil service law, while necessary, will not be sufficient to professionalize the civil service. That will depend on the law being implemented with as little political interference as possible.

What the New Civil Service Law Does

5.19. **Albania's new civil service law was approved in May 2013.** Two previous attempts to increase the warranties offered by the civil service law, both initiated by the DoPA technical staff, failed for lack of political support. DoPA then decided to draft a completely new civil service law based on analysis of the previous experience. In May 2013, parliament approved the new law at its very last session before the election. The approval of the law was one of the EU requirements during negotiations of Albania's candidate status. The main changes the new civil service law introduces are as follows:

- **The scope of the civil service is extended to all institutions belonging to the executive**. The most important additions are the employees of agencies under ministries. As a result, the number of civil servants is expected to grow from the current 5,000 to about 16,600. About 3,500 staff are employed by local governments.[65] Currently 1,575 civil servants, out of 2,019 employees in total, work in ministries. The rest will be the employees of agencies under the ministries, independent institutions, and the communes (local government institutions). The final numbers in the last category will depend on results of a separate initiative to reorganize

[65] Data source DoPA and Ministry of Finance. However the exact figures for civil servants in central and especially local government are not very accurate. Estimations are made by DoPA and MoF in the absence of a central human resources database.

subnational government that could drastically reduce the number of local government units, with many communes being absorbed into larger municipalities.

- **New recruitment procedures for the civil service are specified**. A batch recruitment process will be used for entry-level civil servants. At the beginning of the year all civil service institutions should identify their needs for executive-level civil servants and DoPA will organize batch recruitments for specific professions. Appointments to the vacant positions will be based on the "first-ranked, first-served" principle. Batch recruitment should reduce undue influence from institutions during testing and replace the former practice of selecting one from among the first three candidates. This should also significantly improve institutional planning capacities.

- **A career-based civil service is created.** The new law creates an almost closed career system for low-mid-management civil servants. Entry into the civil service will be based on competition but promotion in hierarchy will be based on an internal procedure in which positions will be first offered only to current civil servants.

- **A new cadre of high-level civil** servants will include all major management positions in institutions. In principle, only current civil servants have the right to become part of this group, but the government can in exceptional cases open it up to external candidates. Entry will be through a competition organized by the Albanian School of Public Administration (ASPA). All winners must go through an in-depth training program. Mobility within the group is very easy and members can be appointed quickly to all positions belonging to the group.

- **Flexible procedures for internal mobility are established.** This is expected to help motivate civil servants while also responding quickly to the needs for filling vacancies.

5.20. **The new civil service law was supposed to enter into force in October 2013 but the new government proposed to postpone that until April 2014 because the necessary regulations were not ready.** The regulations were not prepared in time in part due to the June 2013 election and transition to a new government. The new government which took office in September recognized that the law could not enter into force smoothly without the necessary implementing regulations and after consultations with the EU and other international partners, including SIGMA, approved postponement of the law's entry into force until April 1, 2014 and extend the power of the old civil service law until then. However, the opposition contested this decision, and on February 26, the Constitutional Court declared the normative act, and parliament's approval of it, unconstitutional and ruled that the law was in force from the date of publication of the decision in the Official Gazette. This tight (5–4) decision of the court did not have any retroactive effects and management decisions taken from October 2013 until official publication of the decision remain valid. In respect of procedures started under the old regulation and not yet completed, DoPA should apply the transitional provisions of the new civil service law.

5.21. **Thus the new civil service law has in principle been in force since February 26, 2014.** The government has in the meantime made good progress in preparing the necessary regulations; DoPA did exceptional work and drafted 10 regulations,[66] all of which were approved by the government in March. Entry into force of the law will have implications for the planned reform of local government, which

[66] 1. Recruitment and promotion procedures; 2. Job evaluation and job description procedures; 3. Planning in the civil service; 4. Management rules for the group of Senior Civil Servants; 5. Performance appraisal procedures; 6. Transfers, suspension and termination of employment; 7. Disciplinary procedures; 8. Organization and functioning of the Albanian School of Public Administration and training procedures; 9. On creation and management of the HRMIS; 10. On existing employees and transitory rules.

envisages a drastic reduction in the number of communes. All commune employees will be considered civil servants, and the state will be obliged to find positions for them.

Implementation Challenges

5.22. Approval of the new civil service law is clearly an important move toward the creation of a professional and merit-based civil service. The regulations are in line with the principles of the law and reflect best practices in neighboring countries. However, there are challenges still to be dealt with.

5.23. **There is a closed-career system up to mid-management.** For top management the law foresees the possibility of opening up vacancies for candidates outside the civil service but not for mid-management and below. This is contrary to the trends in other EU countries, where civil services are becoming more open and position-based, but there is some justification for it. The Albanian civil service has suffered from instability and high turnover (10–20 percent a year[67]) and appointments were politicized—hence, the decision to close the system and promote internal career development. While the reasons are clear, the change may have gone too far in the opposite direction and prevented the civil service from interacting positively with the private sector. It is largely accepted that the civil service needs to interchange staff with the private sector to benefit from their experiences and help introduce more good practices. The solution promoted in the law does not allow for this. Given the limited resources and capacities available in the Albanian labor market, this seems likely to create new problems.

5.24. **It is difficult to return to the civil service after being away more than two years**. In career systems the civil servant status (grade) is an attribute of the person, who can return at any time to the last position or a position similar in grade. Albanian law recognizes this possibility only for suspensions of less than two years. If a suspension period is longer, even a former manager servant will be required to take an exam and enter the civil service from the lower levels. This might interfere with the mobility of civil servants to the private sector and back.

5.25. **The Albanian School of Public Administration (ASPA) prepares candidates for senior civil service positions.** The law foresees a special role for ASPA: after passing an exam, each candidate has to follow an in-depth ASPA training program before appointment to a civil service position is possible. This path is mandatory. This role of ASPA raises several issues:

- The arrangement puts ASPA in a monopoly position, because the requirement for ASPA training applies no matter what the previous education of the candidate, whether at the master's or PhD level, in Albanian or international universities. This provision means that well-qualified candidates must spend unnecessary time being trained, at considerable expense to the state.
- ASPA will also need to create proper curricula and organize classes regardless of student numbers. The number of senior civil servants is small and the number needed to refresh it will be even smaller. It remains to be seen how feasible it will be for ASPA to run academic courses for these purposes.
- ASPA now provides mainly general training, and is able to expand its role to high- level training for senior civil servants. However, the Regional School of Public Administration (RESPA) is also tasked with providing such training throughout the Western Balkans. Since Albania pays its contribution to RESPA's budget, it should make full use of this facility.

[67] Data calculated based on the number of new appointments recorded in DoPA annual reports.

5.26. **Preparing for group recruitments is not an easy task** when all ministries and subordinate institutions are undergoing major changes. DoPA used the old civil service legislation to finalize recruitment procedures for vacancies created after the ministries were reorganized late in 2013. These procedures and drawing from the current waiting list, are expected to fill the need for new recruits for at least the first half of 2014 and most likely for the second. The Minister for Public Administration has declared that recruitment using the new procedures will not take place until July 2014. This should be enough time for DoPA to properly prepare for the first batch recruitment under the new rules, but it will need careful preparation. To effectively run group recruitments DoPA should work on two processes:

a. ***Human resources planning*:** Albanian institutions are not used to making, or necessarily able to make, accurate quantitative analysis of HR needs. Although the previous law required HR planning, in practice institutions rarely did this. This negligence was tolerated because recruitment was de-concentrated and there was a lack of major effects. However, effective HR planning will be essential for the new batch recruitment system. Each institution needs to build capacity to accurately identify its HR needs by category. Moreover, the new law will bring a large number of new institutions into the civil service. For these institutions in particular, but also for institutions already under the civil service law, DoPA should organize training as soon as possible in 2014.

b. ***Infrastructure and capacity to run batch recruitment.*** The organization of batch recruitment requires creation of databases, with multiple choice questions from DoPA; and careful selection of experts who can prepare tests, deal with logistics and organization, and run the competitions. DoPA's experience is limited to organizing recruitments for a single position with a limited number of candidates, so it must prepare itself for managing a more complex process. Given the increased interest in civil service employment, DoPA is already organizing an exceptional recruitment with up to 81 candidates.[68] If the trend continues DoPA should expect higher numbers of candidates and elaborate procedures to manage them.[69]

5.27. **Conforming to the new job classification system will be a challenge.** The new system will be extended to all institutions within the scope of the civil service. This will be easier in the ministries, where HR units use a similar system. For subordinate institutions DoPA should prepare manuals and train them on the methodology. Close supervision throughout will be necessary to keep costs under control.

- DoPa's new job classification methodology raises some issues to be addressed. The classification of positions is entirely based on the hierarchy principle, i.e., the main factor for determining salary is where the position fits in the hierarchy. The methodology does not distinguish between director positions in ministries—all have the same salary—but a different principle is applied for executive positions. For lower positions the methodology allows for classification in three levels, depending on job content. Currently DoPA classifies executive civil servants in policy making or regulatory departments in the top category and those in support services in lower categories. This principle is not implemented for director or general director positions.

- In theory the hierarchical principle for salaries also extends to subordinate institutions but the fact that the institutions are subordinated to ministries results in the positions being graded one level below the equivalent ministry positions. This accurately reflects the nature and job content of some institutions, but not all. Some institutions that are detached by the ministries

[68] This relates to recruitment for an expert position in the Ministry of Social Welfare and Youth early in 2014.
[69] In December 2013 recruitment for the Tax Administration attracted about 1,500 candidates and the administration was forced to use the Sports Arena in Tirana.

due to their size (e.g., Tax and Customs Administration, Road Directorate.) or other reasons, require specific and very professional staff. For them the hierarchical principle does not make for fair and equitable job classification.

- DoPA has tried to remedy this problem by creating supplements for some specific job conditions. Although the reason for DoPA's conservative approach—the fear that the system could get out of control—may be understandable, DoPA should try to combine the hierarchy principle with other principles and take a systematic approach to grading positions based on job content, such as a points-based grading system linked to a single pay spine.

D. SALARY AND PAY REFORM: STEADY PROGRESS

5.28. **The pay and salary reform has been proceeding in recent years**. The salary reform was launched in 2001 and represents one of the main achievements of the government. The government has since been promoting policies leading to the adoption in pay systems of the European principles of transparency, internal equity, predictability, and incentives for responsibility. All are incorporated into the current system, but some nuances need to be adjusted in respect to the "internal equity" and "responsibility incentives" principles because of the excessive reliance on the hierarchy principle in determining salaries.

How Pay and Compensation Are Governed

5.29. **The salary system for public administration and civil service institutions has been in the process of reform since 1999,** when a new service law put in place a new salary structure for civil service positions. Although it entered into force at the beginning of 2000, it was not activated until 2002, first in the ministries and then in other independent institutions and agencies of ministries.

5.30. **The civil service salary structure has four components**:

1. *Basic salary*, a fixed component based on pre-entry qualifications for the job;
2. *Seniority supplement*, a percentage (2 percent of the basic salary a year, up to a maximum of 25 years) added each year to the basic salary;
3. *Qualification /special working conditions supplement,* which was first used for information technology positions in order to compete with the private sector, where the demand and pay for these positions were more attractive than in the civil service. It was then extended to other categories, such as the Office for Registration of Immovable Properties, Tax Administration, Agency for Legalization of Informal Zones, General Department of Prisons, Public Procurement Agency, etc. where the supplement balanced use of the hierarchy principle as the main factor in determining salaries;
4. *Position supplement,* the largest part of the salary (up to 80 percent for very high positions), which reflects the importance of the position within the hierarchy. The value of the supplement is determined through a job evaluation exercise.

5.31. **The civil service salary structure is transparent and leaves little leeway for discretion in determining individual salaries.** The only variable part of the salary is the seniority supplement, which depends on years of service. Because this supplement is calculated only on a small part of the salary, not the total, it constitutes only a small percentage of take-home pay. The principles and the salary model used in the civil service were gradually extended to all subordinate institutions in 2006–07 and to

education and health care systems, reaching the majority of public employees in the executive branch.[70] Different allowances also made do not distort the salary system and do not represent a problem. They are minimal and distribution is strictly regulated.

5.32. **The civil service salary structure has been operating in parallel with two structures: the class-based and the grade-based salary schemes.** The class-based structure was the old salary system used generally in public administration institutions before the civil service salary structure applied. The shift to the civil service structure was gradual as institutions were transferred gradually to the new system.

- The class-based salary scheme, criticized for the amount of discretion it allowed for, was abolished in 2009, when the government approved the salary structure for support positions (the last ones using the class-based scheme) based on the same philosophy as the salary structure for civil servants. It no longer applies anywhere in Albania.

- The grade-based salary applies to the armed forces, the police, and diplomats,[71] for which there are separate laws). In these cases the employee is paid according to the grade, regardless of its position in the organizational structure. These are closed-career systems but salaries are comparable to the civil service system.

5.33. **In 2006, parliament[72] approved a special law to regulate the salaries of positions of high state officials** by linking them to the salary of the president, the highest salary in the public sector. This law generalizes use of the same categorization system and civil service position titles in independent institutions. It delegates to the Council of Ministers power to approve salary levels for these institutions, linked to the salary levels of civil service positions.

5.34. **In the civil service salary scheme no bonuses are paid, except for performance.** In practice, the performance bonus represented only 5 percent of the wage bill, an amount that was not sufficient to support a proper performance bonus system. As a result, institutions used savings from unfilled vacancies to pay the bonus, a practice which the Supreme State Audit found to not be in conformity with the law. In 2006, the state budget included a supplement of 15 percent of wage bill for performance bonuses, but by the end of that year, the government decided to apply a unique bonus system of ALL 10,000 (€80) per public employee, regardless of employee performance, which is still in effect. This bonus was applied in the period 2006-2012. In 2013, this bonus was not paid due to economic crises that demanded fiscal restraints.

5.35. **Albania's system for public administration salaries is easy to manage and generally complies with European principles.** It was designed with very rigid rules that leave institutions almost no discretion as a specific response to problems of the previous system in 2000–01. That system suffered from distortion and excessive use of supplements, sometimes up to double or triple the basic salary. The new system is free of discretion and 100 percent predictable. While the achievements are evident, however, it seems to have limitations related to use of the hierarchical principle as the main determinant of salaries and lack of incentives for public employees in the form of bonuses or horizontal progression.

[70] Although this is referred here throughout as the civil service salary structure, it is also applied to institutions outside the civil service, such as agencies under ministries and the education and the health sector.

[71] Armed forces do not belong to the civil service. Though the police and the diplomatic sector are considered part of the civil service, due to their specificity, special laws on police and on foreign affairs service regulate HR procedures in these two categories, and their salaries are also regulated by special acts.

[72] Law n. 9584 of 17 July 2006 "On salaries, rewards and structures of Constitutional independent institutions and other independent institutions created by law."

As a result the principle of "internal equity" (equal pay for equal jobs) cannot be considered to fully apply (see below for further analysis and related recommendations).

Trends in Compensation of Public Servants

5.36. In parallel with reforming the system, the government raised salaries substantially in 2006–09, particularly in education and health. Low-level salaries went up comparatively more than high-level salaries.

Table 5.2: Salary Increases, 2005–13 (Albanian Lek)

Sector	Average Salary 2005	Average Salary 2013	Nominal Increase	Real Increase [a] (Percent)
Education	23,100	54,828	137.4	5.23
Health (doctors)	22,683	59,495	162.3	6.36
Health (nurses)	15,044	37,854	151.6	5.87
Armed forces	29,820	43,472	45.8	1.11
State Police	30,655	57,344	87.1	2.97
Civil servants/other employees[b]	36,573	68,653	87.7	3.00
Support staff	22,559	37,199	64.9	1.97
President	220,000	257,000	16.8	-0.20
Prime minister	195,000	228,730	17.3	-0.18
Minister	150,000	174,760	16.5	-0.21
Member of parliament	135,000	156,770	16.1	-0.23
All public sector[c]	**27,336**	**52,782**	**93.1**	3.24

Source: DoPA.

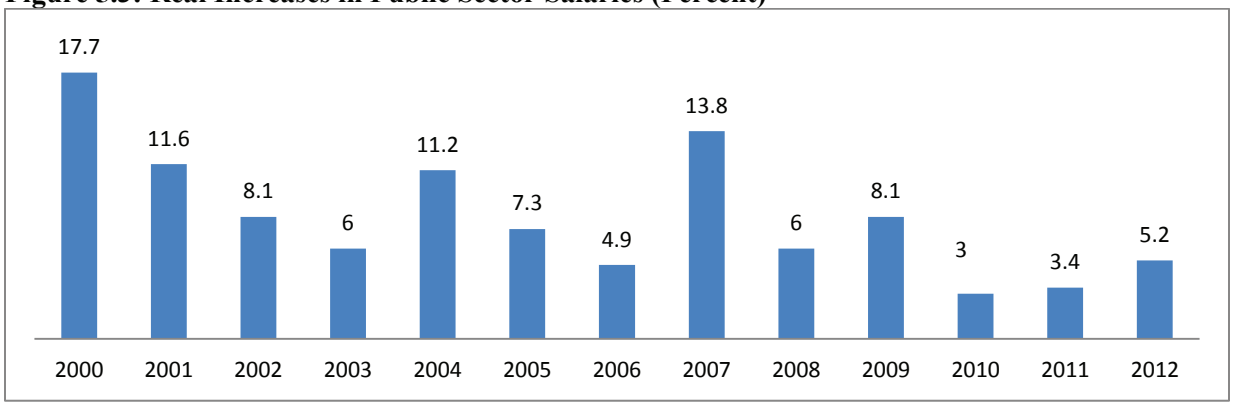
[a] The nominal increase is corrected for inflation in 2006–13 of 21.2 percent (calculated based on INSTAT data). The formula for calculating the real increase is (1+w)/(1+i)-1, where w and i are nominal wage growth and inflation, respectively.

[b] This category represents increases for civil servants and increases for employees in agencies under the ministries not belonging to the civil service.

[c] Employees of local government institutions and state owned enterprises are not included here.

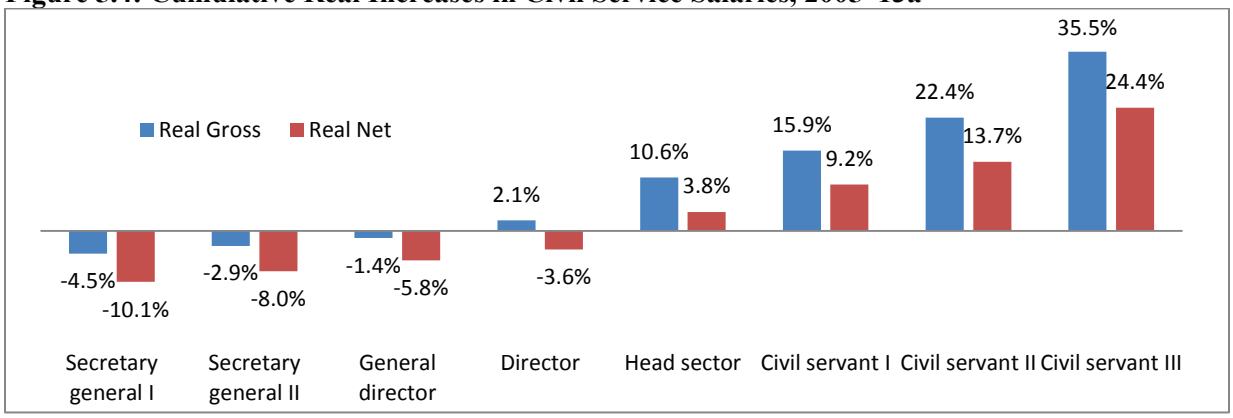
5.37. **Real increases in public sector salaries, including the state owned companies, have moderated in recent years** (Figure 5.3). Government policy in 2006–13 was to increase lower salaries more than higher. This resulted in significant salary compression. Civil service management positions service benefited from nominal increases of 9 to 16.8 percent, compared to net increases of 25.8 to .8 percent for executive positions. Although civil service salaries for some positions went up significantly, the real wage increase was not so big: for some positions the effects of inflation not only balanced the increase but sometimes gave it a negative value. Only for low-level management and executive positions were salaries effectively increased.

Figure 5.3: Real Increases in Public Sector Salaries (Percent)



Source: INSTAT (includes state-owned companies).

Figure 5.4: Cumulative Real Increases in Civil Service Salaries, 2005–13a



[a] Salary data were obtained from DoPA and the inflation for 2006–13 (21.2 percent) was calculated based on INSTAT data. The formula for calculating the real increase is (1+w)/(1+i)-1, where w and I are nominal wage growth and inflation, respectively.

5.38. The compression ratio was significantly lower in 2013 than in 2005 for both the public sector and the civil service (Table 5.3). This creates difficulties in attracting qualified managers to work in public administration and reduces responsibility incentives in the salary structure.

Table 5.3: Gross Salary Compression Ratios, Public Sector and Civil Service, 2005–13

	2005	2013
President[a] / minimal salary	20.24	11.68
President / average salary	7.64	4.87
Civil service [b]	3.95	2.79
Civil service management[c]	2.40	1.98

[a] The salary of the President of the Republic is the highest salary in the public sector.
[b] Calculated as a ratio between the salary of the Secretary General in the Government (highest civil service position) against the salary of the lowest level civil servant in a ministry.
[c] Calculated as a ratio between the salary of the Secretary General in the Government (highest civil service position) against the salary of the lowest management position in the ministries (head of sector of the low level.

5.39. **The government of Albania has frozen 2014 salaries except for the police force**. While current fiscal constraints dictated this decision, freezing salaries across the board raises a medium-term issue of the competitiveness of the public sector and whether it can attract skilled candidates for technical and managerial positions.

Public Sector versus Private Sector Pay

5.40. **Given the relatively small labor market, public sector salaries influence private sector salaries in Albania. It is also difficult to make a clear comparison between public and private sector salaries, given widespread informality and the difficulty of controlling for qualification and types of jobs.** DoPA commissioned a study in 2011 to compare private and public sector salaries.[73] The survey was limited in scope and the number of interviews, but as virtually the only source of information it had some interesting findings:

- *At mean value the public sector pays more than the private sector;* however, this positive premium is not equally distributed across different categories of government wages and job positions. The public sector pays more on average than the private sector for workers with no more than secondary education.

- *The private sector pays more for highly educated employees*. Those studying computer sciences, engineering, foreign languages, mathematics, and sciences earn more in the private sector than in the public.

- *Senior managers are paid more in the private sector,* and mid-level managers also get higher salaries and other benefits. Technical and professional positions like lawyers and engineers net 24 percent less every month in public positions than in the private sector; and senior public officials earn 5 percent less than those in senior positions in the private sector.

5.41. A rough comparison of the average private sector pay by positions in the companies surveyed with the salaries of civil service hierarchical positions (not professions) in government ministries is shown in the last column (Table 5.5).[74]

[73] The study was done by Institute of Contemporary Studies and financed as part of the EU-funded project "Support for Implementation of Civil Service Legislation" conducted by GIZ.

[74] Because this type of comparison does not control for skills required and the nature of the job, it should be viewed with caution. It would be better to draw such salary comparison data from an analysis of the HBS survey, so that civil service salary levels could be compared to that of an employee in the private sector, with explicit control for skills, the nature of job, etc.

Table 5.4: Comparison of Average Public and Private Sector Pay for Similar Positions (Albanian Lek)

Private sector				Public Sector[a]	
	Gross Pay		Bonus	Gross Pay	
	Minimum	Maximum		Minimum	Maximum
Senior Management Staff	**132,900**	**249,425**	**192,472**	**124,600**	**174,760[b]**
Mid-Level Management				**91,200**	**108,500**
Finance and accounting	67,594	129,803	81,308		
Auditing	93,000	111,344	168,333		
IT	57,809	157,555	125,000		
Administration and logistics	98,500	103,290	132,500		
Procurement	93,833	111,357	128,000		
Marketing and communication	79,227	97,283	83,000		
Information and statistics	46,393	73,500	76,667		
Human resources	94,714	164,300	182,111		
Legal	102,800	145,714	80,000		
Technical and engineering	126,539	155,133	63,125		
Technicians and associate professionals				**52,300**	**73,800**
Finance and accounting	50,381	72,060	61,364		
Auditing	64,400	91,800	82,500		
IT	53,462	69,575	56,000		
Administration and logistics	47,857	80,143	67,500		
Procurement	55,000	93,400	60,000		
Marketing and communication	51,000	72,007	49,444		
Information and statistics	202,500	97,500	70,000		
Human resources	49,900	76,700	72,500		
Legal	59,500	91,000	53,250		
Technical and engineering	95,667	139,200	58,571		

Source: DoPA commissioned survey, August 2011.

[a] Based on end-2013 ministry salaries.

[b] This is the minister's salary.

5.42. **The survey also covered a small group of self-employed professionals, usually with more than 10 years of experience.** At an average monthly income of ALL 144,000, 90 percent confirmed that their income was satisfactory and had been constantly growing. They also believed that they make more self-employed than they would if employed by others. Not surprisingly, only 20 percent would be interested in pursuing a career in public administration. The main drivers for joining public administration seem to be work security and the desire to contribute to the country. The main deterrents, on the other hand, seem to be low salaries, an inappropriate work environment, and political influences.

5.43. **The survey also explored the practice of private companies with regard to the thirteenth salary, known as the year-end bonus.** About 17 percent of the companies surveyed did not distribute end-of-year bonuses for staff, but more than three-quarters did so always (59 percent) or sometimes (17 percent. The value of the bonus seems to fluctuate around the monthly salary of each employee.

Attractiveness of the Civil Service

5.44. **Although public administration has lower salaries for senior or highly technical positions, it still remains very attractive for Albanians,** as shown by data published by DoPA on the average number of candidates per vacancy published in the previous months (15 candidates/vacancy). The public sector provides for service stability, salary predictability, and social contributions. High unemployment in the country and a weak private sector also make the public sector more attractive.

5.45. **However, public sector managers assert that they have problems attracting highly qualified managers and professional staff.** There are several reasons for this. Whereas the private sector uses a number of motivation and reward mechanism (Table 5.6)—cost reimbursement and material benefits, other paid vacations, and other than mandatory pension and health insurance benefits—the public sector offers few if any, and reward mechanisms like the ones used in the private sector, are not applicable. The use of official cars is restricted to the minimum as is reimbursement of communication costs or other representation services. Given that the lack of good management makes reforms in all sectors far more difficult, the government may want to consider reviewing the salary level for managerial positions in public administration. Where successful reforms have been carried out in other countries, it is almost always through bringing in new managers (often from the private sector) who, as new formal structures are developed, can help to change the culture of the organization. Without such mechanisms, all other reforms are unlikely to succeed.

Table 5.5: Benefit per Position Frequency in the Private Sector (Percent)a

	Cost Reimbursement and Material Benefits (Company Car, Paid Communication, tc.)	Paid Vacations Other than Obligatory	Pension or Retirement Scheme Other than Mandatory	Health Insurance Other than Mandatory
Senior managers	56	3	3	4
Mid-level managers	38	3	3	4
Technicians and associate professionals	14	3	3	3
Support/administrative staff	15	2	3	3
Sales and service workers	19	2	3	3

Source: DoPA commissioned survey, August 2011.

5.46. **Performance appraisal and related bonuses are not implemented well in the public sector.** Performance appraisal is clearly not implemented according to the rules: almost 98 percent of civil servants are given excellent marks, and with such a weak performance appraisal system, implementing a performance related bonus becomes difficult. When the government decides to distribute a small bonus across the board no matter what the performance appraisal results, the procedure is left without any merit.

5.47. **Beside salaries and general rewards, other public sector disincentives include limited chances for career development beyond a certain level.** In the position-based civil service law system a civil servant has to be promoted to receive a higher salary. Few promotion possibilities exist because fewer and fewer positions become vacant as one moves up the hierarchy because the number of top positions that become vacant and are open to competition has been reduced due to their progressive politicization. Horizontal career options are not applicable in Albania.

5.48. **The civil service hierarchical salary principle reduces incentives to apply for positions in lower-level institutions.** This principle is applied not only within an institution but also in subordinate

institutions. In executive agencies, depending on the type, the agency head usually has a salary comparable to director or general director in a ministry. Where institutions have branches, positions in branches are classified a level down, although the job content might be similar or even more substantial than in the center. To redress this disincentive problem, DoPA has been forced since 2004 to use the "job conditions supplement" for a number of positions—or for entire institutions—in order to make the positions attractive or increase the value of positions for entire institutions. The impact of this has so far been limited. As a lasting remedy, the rigid job classification system would need to be amended to allow for subordinate institutions in which positions have the same value and importance to have the same salary levels as in ministries. The hierarchical principle can be the main factor for determining salary but not the exclusive one. For some very important or highly qualified managerial positions, the system should allow for the possibility of having the hierarchical principle considered to be secondary rather than primary. The "equal pay for equal work" principle should ultimately prevail.

5.49. **The government should in particular review salaries for positions with regulatory and inspection functions because they are generally low and arguably create incentives for corrupt practices.** Motivation mechanisms can be created. For example, the government signed a performance-based contract with a private company to support customs activity. Similar mechanisms can be used to ensure staff motivation and reward performance. The strategic planning units created in each institution can elaborate a transparent monitoring and measurement mechanism based on results. Latvia, Romania, Kosovo and other countries have promoted a system with special contracts for specific positions that are central to achieving the main objectives of an institution. The salary for these positions (some of which were civil service and some special status positions) was up to triple the salary for a similar hierarchical civil service position in that institution. Although this produced some immediate effects, long term the solution proved to be fiscally unsustainable because governments could not afford the costs. This is why a solution within the civil service salary system, not outside it, would be preferable, based on real job evaluation procedures with transparent criteria.

E. CIVIL SERVICE SECTOR DOWNSIZING: DISRUPTIVE AND COSTLY

5.50. **Recent Albanian governments have all attempted to reorganize the public sector.** The reorganizations and downsizing have sometimes been a large scale based on extensive studies and at other times focused only on small parts of the institutions based on immediate needs. The last major reorganization, before the current government's effort, was been carried out in 2005–06, based principally on a DoPA study. In that round, the number of employees in 2006 was 24 percent less than in 2005, but the numbers have since gone up steadily and by 2013 were 15 percent higher than in 2006.

5.51. **All furloughed civil servants are registered on a waiting list.** The old rules allowed surplus civil servants to stay on the waiting list for up to one year, during which time they receive full benefits and salary. Before registering them on the waiting list the institution should make all the efforts to transfer civil servants to another position where they fulfil the requirements, either in that institution or another. DoPA should supervise the process in general. In 2006, almost 27 percent of ministry civil servants were registered in the waiting list (DoPA 2006). In 2007 almost 23 percent civil servants in ministries were registered in the waiting list (CSC 2007).

5.52. **Unfortunately, recent governments have misused reorganizations and the waiting list to dismiss civil servants and replace them with others they regarded as more loyal.** Reorganization was in practice the most effective tool to replace civil servants. The CSC granted many appeals but ministries did not enforce the decisions. According to CSC, the ministries agreed to pay almost €1 million a year in severance pay rather than rehiring civil servants from the list (CSC 2006). Although the ministries sent many cases to the courts, the courts upheld CSC's decisions in almost 92 percent of the cases.

5.53. **The most recent reorganization of the ministries was carried out in the last few months of 2013, as soon as the current government took office**. The reorganization was publicized as an initiative to downsize and restructure the ministries to cut costs. To date, according to DoPA there are 12 percent fewer positions in the ministries, even though two new ministries have been created (Table 5.7).While the savings are insignificant, some important ministries saw drastic reductions in staffing. Only the Office of the Prime Minister (OPM) and the Ministry of Integration gained staff, the OPM by 50 percent and the Ministry by 20 percent. The OPM increase is the direct result of transferring DoPA from the Ministry of Interior and appointment of two other ministers without portfolio and their staff. The increase of staff for the Ministry of Integration reflects the government priority to accelerate the EU integration process.[75]

Table 5.6: Ministry Civil Service Staff Cuts, 2013 Reorganization, Percent

Nr.	Institution	Reduction
1	Office of the Prime Minister	–50
2	Economy and Trade	41
3	Foreign Affairs	25
4	Education and Sports	19
5	Agriculture, Rural Development, and Water Administration	22
6	Transport and Infrastructure	33
7	Finance	28
8	Interior	33
9	Defense	33
10	Environment	18
11	Justice	18
12	Culture	33
13	Social Welfare and Youth	19
14	Health	24
15	EU Integration	–20
16	Energy and Industry	New ministry
17	Urban Development and Tourism	New ministry
	Total	**12**

Source: DoPA.

5.54. **This most recent downsizing was carried out in haste and without a study to support the cuts.** The ministries did not follow the procedures and standards set out in the Council of Ministers (CoM) decision (2011), which established rules and procedures for reorganization of ministries and was designed to make it more difficult to abuse the process. The decisions require institutions to justify the reorganization and change of the structure with studies. This was not done.

5.55. **Downsizing is likely to create difficulties in discharging important duties assigned to certain ministries without significant budgetary savings.** According to the DoPA, after the 12 percent reduction in ministry staffing, almost 270 civil servants were on the waiting list. This still creates a financial burden for the institutions for 2014, when they have to pay these civil servants full salary for a year. In practice the government will have no savings from downsizing the ministries. Instead, personnel costs will rise because the ministries are hiring new staff for published vacancies and expect to have all positions filled before the end of 2014. Based on DoPA data, only 27 employees from the waiting list have been reappointed. The government and all the ministries institutions should work to reappoint as

[75] The reorganization figures reflect only the reduction or increase in the ministries' staff and do not include the agencies under the ministries.

many civil servants from the waiting list as possible to at least keep the cost of salaries the same as in 2013.

5.56. **The next step in reorganization relates to subordinated institutions.** The process is led by a high-level working group, supported by several technical working groups. The aim is to remove any overlap in competences; to review all institutions that do not have a proper role for an executive agency; and to identify institutions that do not operate according to the law that created them. The working group has just started work and as yet has not highlighted any major issues. The subordinate institutions are small and the government should not necessarily downsize them. What is important is to scrutinize the functions of each and explore the scope for rationalizing the functions and the institutions.

F. POLICY RECOMMENDATIONS

5.57. One of the main drivers of civil service reform in Albania has been the EU accession process, especially EU concerns about the quality of public administration and the extent of politicization. Major steps have been taken to address these problems starting with enactment of the new Civil Service Law, which is now in force. However, to translate this achievement into genuine improvement of public administration and to end the cycle of politically motivated appointments and circumvention of the rules will require a broad effort sustained over a number of years.

5.58. A more effective public service will also be critical to the government's ability to deliver on its program. The start of a new political cycle, with a new government, provides an opportunity to set a clear strategic direction for improving the quality of public administration, starting with successful implementation of the civil service law and dealing with the unresolved issues this analysis has identified.

Refine the PAR Strategy

5.59. So far the new Government's public administration reform effort has had limited short-term objectives of downsizing government departments and restructuring ministries, to better support government policy objectives. These have mostly been achieved. Now the government should formulate a medium-term public administration reform program to make public service more effective in terms of meeting policy objectives for the quality of public services (short-term). This could look at the following broad areas:

- Improve delivery of services to the citizens.
- Delegate more decision making and improve accountability and performance management.
- Foster professionalism as the core principle in civil service.
- Match recruitment and training to changing skills requirements.

Move to put the new Civil Service Law into Practice

5.60. Approval of the new civil service law and related regulations is a good first step toward addressing politicization issues and moving to merit-based civil service. The following could be done to achieve the objectives of the new law:

- **Give the Department of Public Administration a larger role in regulation and oversight of the public service and reinforce its capacity (short-term).** Recently DoPA has added staff and was transferred back under the Minister for Innovation and Public Administration,

next to the Prime Minister. This will increase its authority but care should be taken to limit undue political influence over civil service management and oversight.

- **In cooperation with all institutions, DoPA could improve professional HR management practices in line ministries and local government (short-term)** , supported by installation of the HR management information system and training across government.

- **DoPA should consider undertaking, through ASPA, a large capacity building program for the managers and HR staff (short-term)** in institutions entering the civil service for the first time to ensure that procedures are implemented properly.

- **DoPA could duly prepare for the new recruitment procedures and increase planning capacities in the civil service institutions as a prerequisite for batch recruitments (short-term).** The government has already decided to postpone new recruitment procedures to July 2014. Recruitments completed until February 2014 and the possibility of using civil servants from the waiting list normally should satisfy institutions' needs for new staff. This will allow DoPA to organize pilot batch recruitments in autumn and organize large-scale recruitments only in 2015.

- **The Government should consider reviewing ASPA's role in capacity building programs for high-level civil servants**, and analyze the relationship with RESPA and trainings that RESPA could provide (medium-term). The current arrangements for this program seem costly and complicated to manage. The government needs to better balance the need to increase capacities with cost efficiency.

- **For future downsizing exercises the Government could carry out a careful analysis** based on a review of the functions the institutions perform (medium-term).

Enhance the Attractiveness of the Public Sector

5.61. The progress achieved so far in reforming salaries should be consolidated and remaining issues addressed. The government has to balance the need to attract and retain skilled staff with affordability and long-term sustainability.

- **Review public service pay and grading systems to ensure that the skills needed can be recruited and retained**, especially for technical, professional, and managerial positions (short-term). The job evaluation procedure should be enhanced to recognize specific job content and the market value for positions.

- **Reconsider use of hierarchy as the only principle in determining salary levels (short-term).** The hierarchy principle can be used as a primary mechanism, but other principles, e.g., equal pay for equal work, should be considered in determining the salary scales for subordinate institutions and for management positions.

- **Decompress the salary structure and increase pay differentials for managers (medium-term).** There is a need to invert the government policy applied from 2006 through 2013 and intervene in management salary levels in order to incentivize managers. As objective for the next PAR Strategy should be to achieve the 2005 compression ratio.

- **Consider the use of horizontal career mobility or reward for achievement of results (medium-term).** The initiative to create specific units to improve strategic planning in institutions should be coupled with initiatives to monitor performance and reward achievement of results. Since salaries are relatively low, monetary incentives could be attractive. However the Government should be careful in improving first the performance appraisal procedure to make it more objective, before introducing any performance reward or bonus system.

CHAPTER 6. IMPLICATIONS FOR FISCAL SUSTAINABILITY OF THE PROPOSED INCREASES IN PUBLIC SPENDING ON HEALTH AND EDUCATION

6.1. **This chapter provides an update to the fiscal sustainability analysis, conducted as part of the first phase of the PFR, in light of the spending policy recommendations in this report.** In the short to medium term, given the lack of fiscal space and the fiscal consolidation plan in place for the period 2014-16, Albania should carry out reforms to make the social sectors more efficient and do more with the same level of budgetary resources. In the medium to long term, particularly starting with 2017, Albania could consider increasing public spending on education and health. The key public spending recommendations with implications for fiscal sustainability relate to education and health:

- **Education:** Increase public spending on education, as fiscal space opens starting from 2017, from the current 3 percent to about 4 percent of GDP, bringing Albania closer to its regional peers in terms of the level of public spending on education. The additional public spending could be channeled to several areas in which Albania still needs investment, such as teachers' professional development; learning materials and school supplies; quality of school facilities; and, more time on tasks and activities in schools.

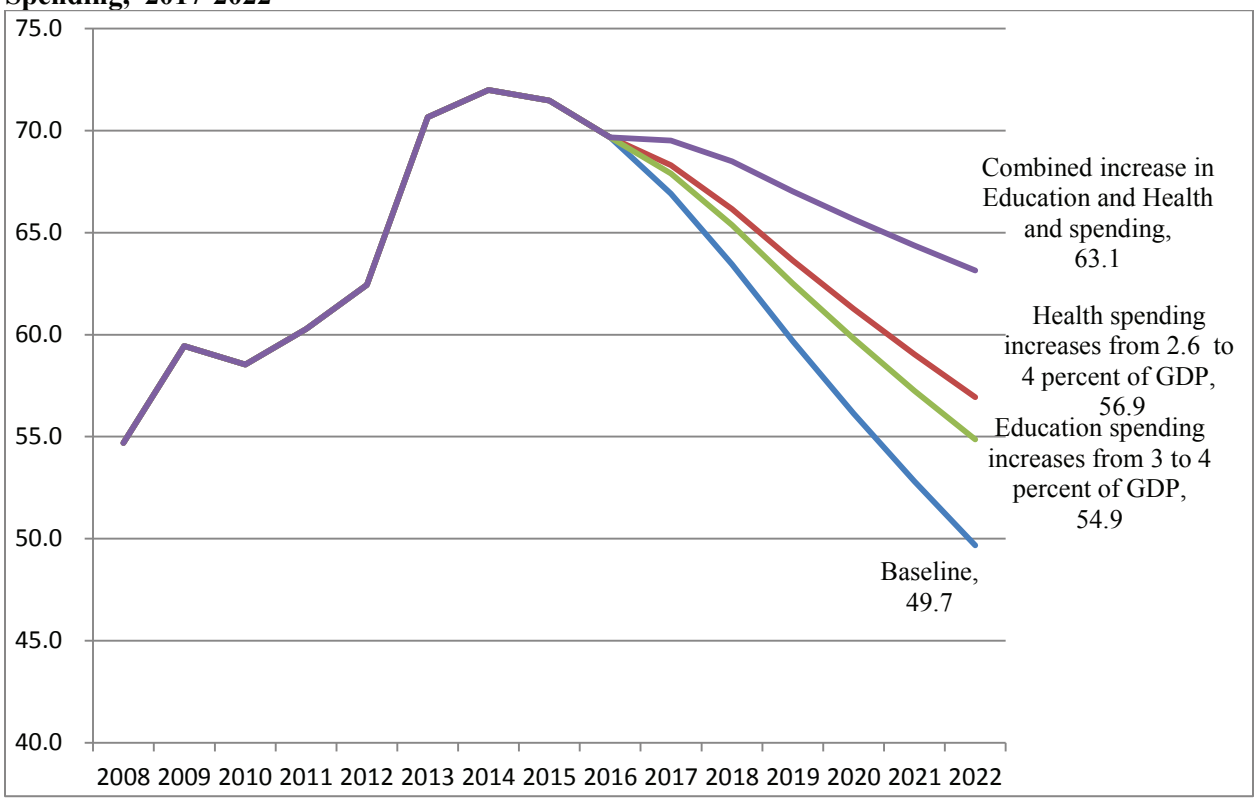
- **Health:** Increase public spending on health, as fiscal space opens starting from 2017, from the current 2.6 percent to about 4 percent of GDP, to better fund basic health care services and bring Albania closer to its regional peers in terms of investment in health care.

6.2. **The proposed policy recommendations with respect to social assistance and public administration reform have no direct budgetary consequences—or can be undertaken in a budget neutral way-- and as such do not affect fiscal sustainability.** With regard to social assistance, Albania currently spends about 1.7 percent of GDP, on par with the ECA average. The challenge there would be to rebalance –within the same level of budgetary envelope--social assistance spending in favor of Ndhima Ekonomike, the last resort safety net program, by curbing spending on disability benefits which has rapidly grown from 0.4 percent of GDP in 2000 to 1.1 percent in 2013. Similarly, with regard to public administration, the proposed policy recommendations do not require additional public spending to implement– and can be carried out with savings from efficiency gains in a budget neutral way. Indeed, some of the additional costs (e.g. those associated with civil service downsizing) could be avoided, but such savings are not large either.

6.3. **The assumptions behind a baseline scenario for Albania's fiscal sustainability are as follows:** The current fiscal consolidation program for the period 2014-2016, both on the revenue and on the expenditure side, will remain in place and will be implemented as planned. Under this scenario, Albania's public debt-to-GDP ratio will fall from 72 percent in 2014 to 69.7 in 2016, including the clearance of arrears of 5.3 percent of GDP over three years. Beyond 2016, the baseline scenario assumes that the fiscal consolidation continues between 2017-2022, with the expenditure to GDP ratio declining from 28.7 percent in 2016 to 25.2 percent in 2022, while revenues staying at 25.2 percent of GDP. Public debt-to-GDP reaches 49.7 percent at the end of 2022 under the baseline.

6.4. **Relative to the baseline scenario, the impacts of the proposed increases in public spending on education and health (from 2017) on the public debt-to-GDP ratio are presented in Figure 6.1.** An education spending increase scenario assumes an increase in education public spending from the current 3 percent of GDP to 4 percent of GDP starting in 2017 and continuing throughout the considered period. The effect of this will be to increase Albania's public debt-to-GDP ratio by 5.2 percent of GDP by 2022. A health spending increase scenario assumes an increase in health public spending from the current 2.6 percent of GDP to 4 percent of GDP starting in 2017 and continuing throughout the considered period. The effect of this relative to the baseline scenario will be to increase Albania's public debt-to-GDP ratio by 7.2 percent of GDP by 2022. The combined effect of increasing public spending both on education and health, starting with 2017, will be to increase (relative to the baseline) Albania's public debt-to-GDP ratio by 13.3 percent by 2022. Public debt will still remain on a downward trajectory.

Figure 6.1: Albania Public Debt to GDP Ratio Under Increased Education and Health Sector Spending, 2017-2022



Source: World Bank staff calculation.

Table 6.1: Albania: Impact of Increased Education and Health Sector Spending on Public Debt, 2017-2022

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Baseline	72.0	71.5	69.7	66.9	63.4	59.7	56.1	52.8	49.7
Education spending increases from 3 percent to 4 percent of GDP	72.0	71.5	69.7	67.9	65.4	62.5	59.8	57.3	54.9
Health spending increases from 2.6 percent to 4 percent of GDP	72.0	71.5	69.7	68.3	66.2	63.6	61.3	59.0	56.9
Combined increase in education and health spending	72.0	71.5	69.7	69.5	68.5	67.0	65.7	64.4	63.1

Source: World Bank staff calculation.

6.5. **The implications for fiscal policy are as follows**: In the short to medium term, with the fiscal consolidation plan 2014-16 in place to reduce public debt, Albania will have no room to entertain additional public spending in health or education. In the medium to long term, particularly starting with 2017, Albania could consider increasing public spending on education and health as discussed above, with a clear recognition of the trade-offs – that increased public spending in health and education will lead to a higher public debt-to-GDP ratio (relative to the baseline) but that given the needs in the sectors such investments may be worthwhile. The policy debate around increased resources for health and education could also be informed by further details (not currently available) on the design and implementation of the proposed move toward a general revenue-funded universal health care system in Albania.

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ANNEXES

Annex 1. Additional Education Statistics

Table A.1. Resource Allocation and Enrollment by Education Level, 2013 (Percent)

	Share of Budget	Share of Public Enrollment
Basic education (including pre-primary)	62.5	61.6
General upper secondary education	14.1	15.7
Vocational and technical upper secondary education	6.4	3.2
Higher education and science	17.1	19.5

TableA.2. Public Spending on Education by Category (Percent)

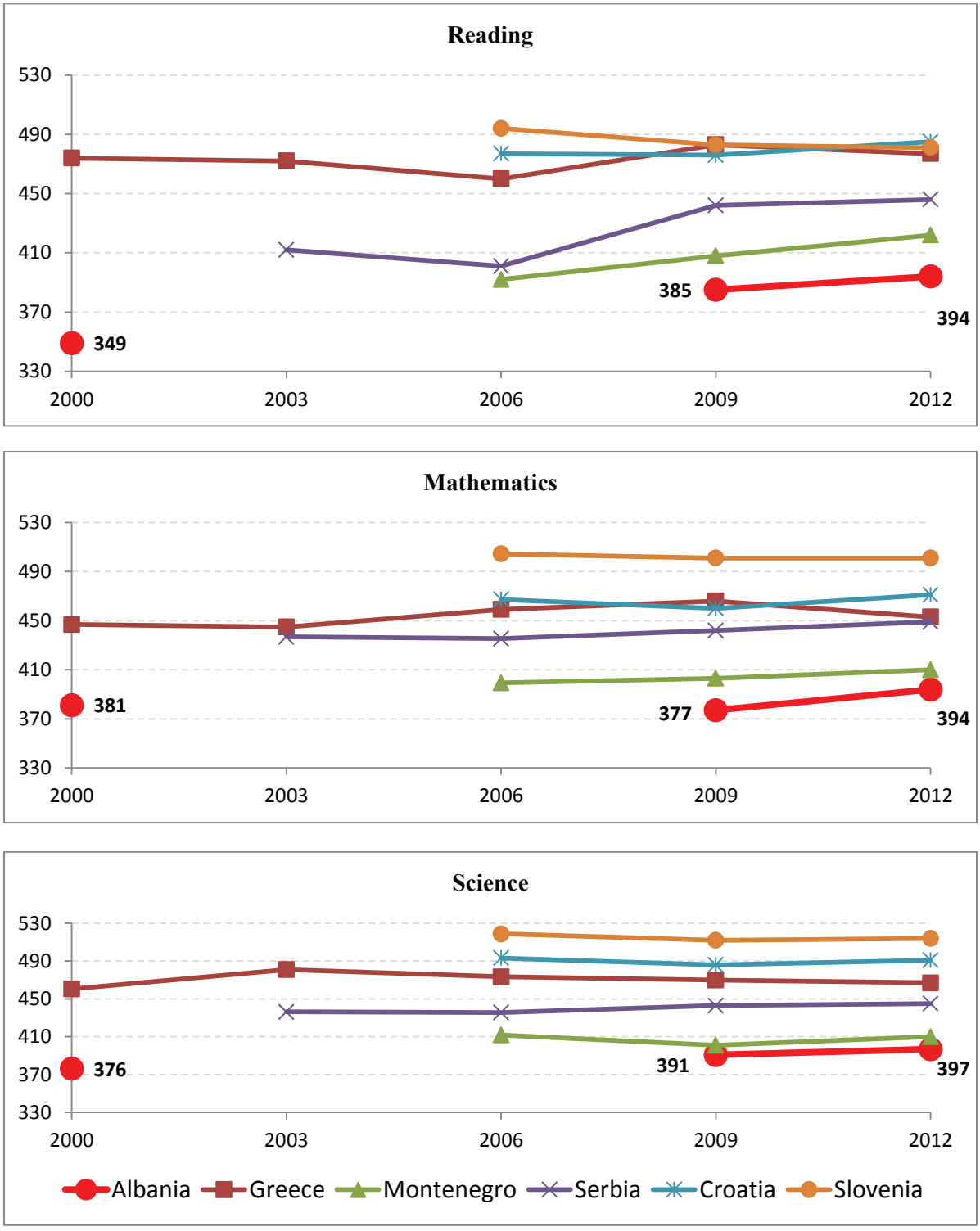
	2011	2012	2013
Salaries	72.5	71.0	73.5
Goods, services, and utilities	18.7	18.4	17.7
Capital	8.3	10.6	8.8
Other	0.4	0.0	0.0

Table A. 3. Trends in Student-Teacher ratio and Class Size

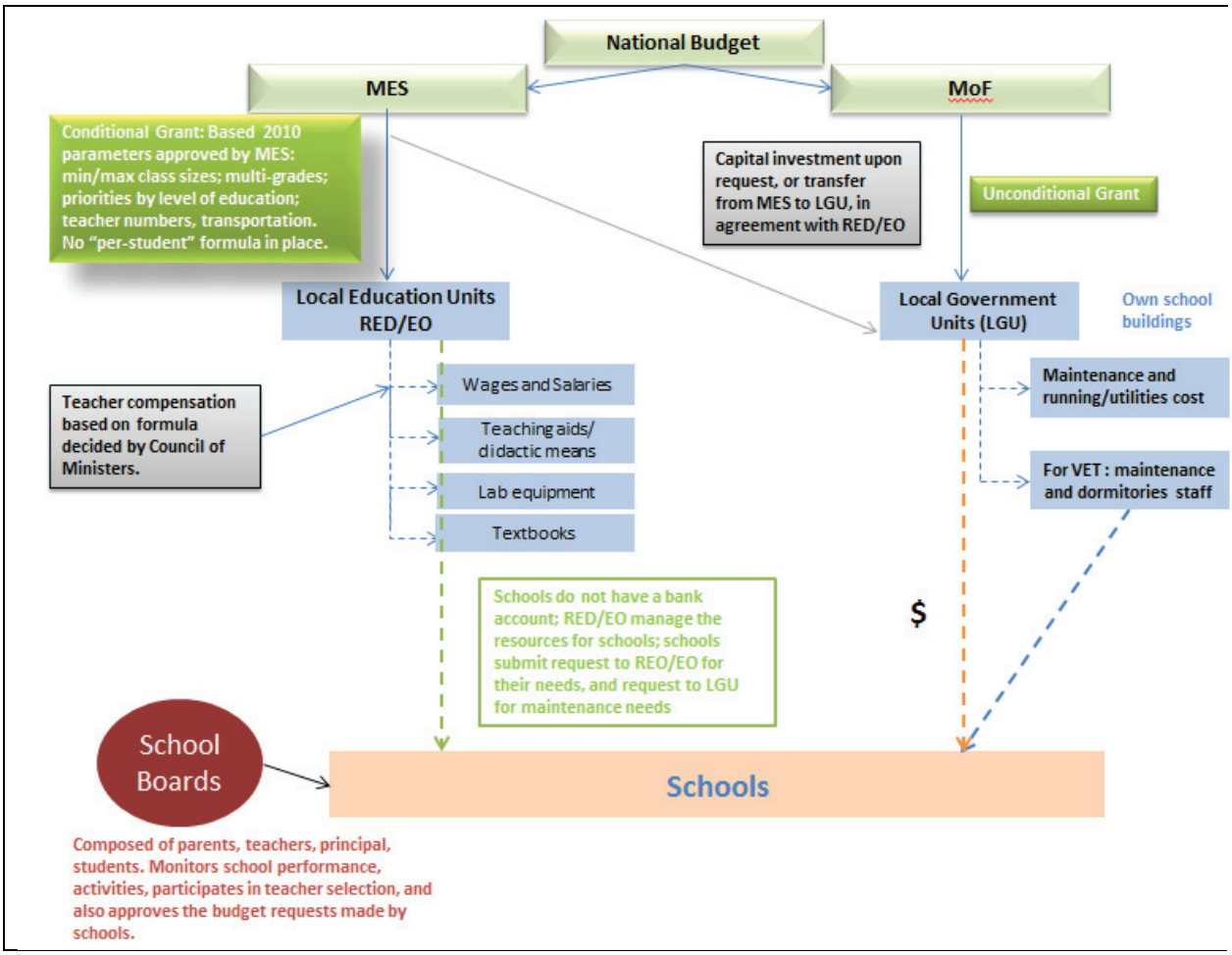
	Student-teacher ratio (STR)	Class size
Preprimary	**2013=18.6; OECD=14.4** Has decreased very little since 2007. Most counties have high STRs, except for Gjirokaster. STRs are particularly high in rural areas, probably due to low supply of teachers.	
Primary	**2013=19.4; OECD=15.4** Has been stagnated since 2007. High variance across counties but all but Gjirokaster are higher than the OECD average. Tirane and Durres have particularly high STRs. Urban areas present significantly higher indicators.	**2013=26.4; OECD=21.3** Has remained constant since 2007. Low variance across counties. Rural areas are a little less crowded, but still above the OECD average
Lower secondary	**2013=13.2; OECD=13.3** Has fallen in most counties and converged toward OECD level. Tirane and Durres still present somewhat high STRs while Gjirokaster's is too low. Urban areas have significantly higher STRs.	**2013=25.7; OECD=23.4** Has converged toward OECD level. Little variation across counties. Urban classes tend to be more crowded.
General upper secondary	**2013=19.2; OECD=13.9 (all upper secondary)** Has risen slightly since 2009 and is relatively high in all counties. Indicators are moderately lower in rural areas.	**2013=32.3** Has fallen since 2007 but is still well above the OECD average. Urban classes tend to be more crowded. Tirane and Durres are the most crowded.
Vocational upper secondary	**2013=12.7; OECD=13.9 (all upper secondary)** Has remained nearly constant since 2009. Fell in rural areas that used to have high STRs. Durres continues to have very high STRs in rural areas, probably due to low supply of VET schools.	**2013=25.6** Has fallen substantially in all counties, but remains high for vocational education. Urban classes tend to be more crowded.

Source: INSTAT and OECD 2013, Tables D2.1 and D2.2 (pp. 374–75).

Figure A.4. Trends in PISA scores

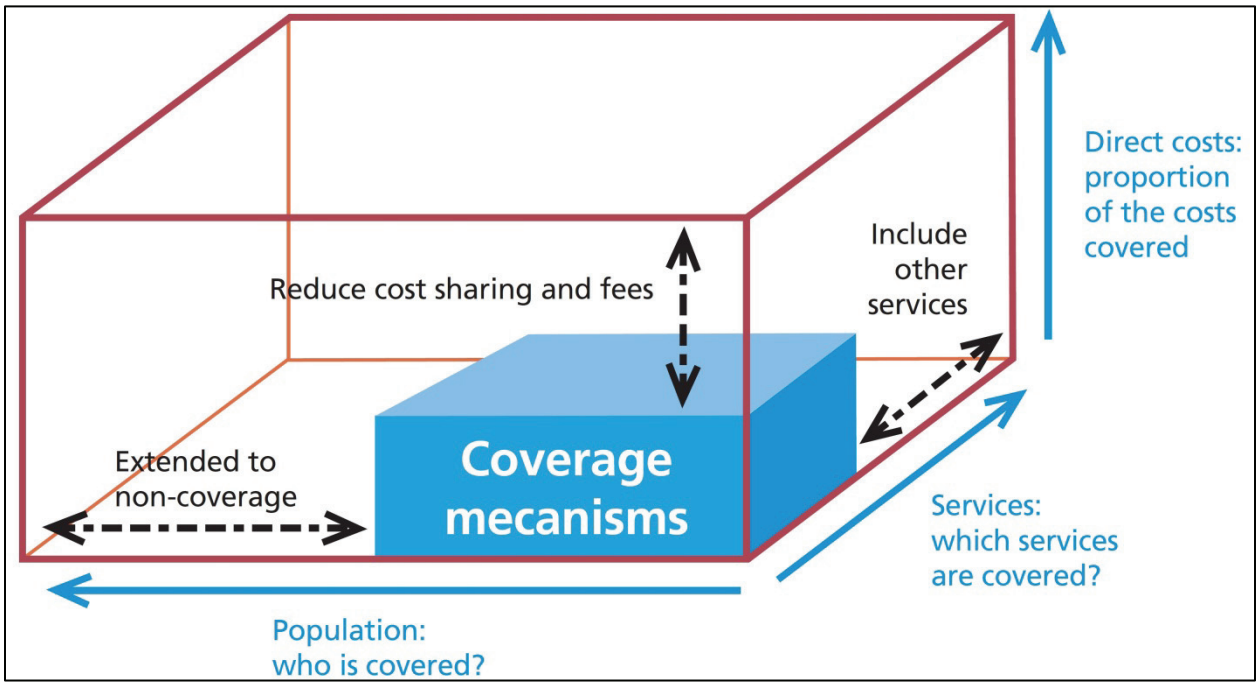


Annex 2. Albania: Institutional Framework and Funding Mechanisms for Education



Source: World Bank Staff presentation based on consultations with MoES Officials and legislation in place.

Annex 3: Towards UHC – Devising Strategies to Increase Coverage



Source: WHO: World Health Report, 2010.