



# ALBANIA

## Social Protection Situational Analysis



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## List of acronyms

<b>ALMPs</b>	Active labor market programs
<b>DA</b>	Disability Assistance
<b>DCM</b>	Decree of the Council of Ministers
<b>EAC</b>	Employment Advisory Council
<b>EBRD</b>	European Bank for Reconstruction & Development
<b>ECA</b>	Europe and Central Asia
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>HBS</b>	Household Budget Survey
<b>INSTAT</b>	Institute of Statistics (Albania)
<b>ISS</b>	Social Security Institute
<b>Lek</b>	Albanian currency
<b>MIS</b>	Management Information System
<b>MoHSP</b>	Ministry of Health and Social Protection
<b>MoFE</b>	Ministry of Finance and Economy
<b>NAES</b>	National Agency for Employment and Skills
<b>NE</b>	Ndihma Ekonomike
<b>NEET</b>	Not in employment, education or training
<b>NES</b>	National Employment Service
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>RoA</b>	Republic of Albania
<b>SA</b>	Social Assistance
<b>SPEED</b>	Social Protection Expenditure and Evaluation Database
<b>UNCRPD</b>	United Nations Convention on the Rights of Persons with Disabilities
<b>UNDP</b>	United Nations Development Program
<b>UNICEF</b>	United Nations Children's Fund
<b>VET</b>	Vocational Education Training
<b>VTC</b>	Vocational Training Centre
<b>WDI</b>	World Development Indicators

# Introduction

Despite a period of sustained economic growth, Albania's poverty rate has remained high and is estimated to have increased during the COVID-19 pandemic. While gross domestic product (GDP) per capita increased by an average of 23.8 percent between 2011 and 2019, the incidence of poverty remained relatively stable over the same period. Based on the latest data, 22 percent of the population lives on less than USD 5.5 per day. While Albania's labor market had been trending in a positive direction, evidenced by increased employment and female labor force participation, the employment increases were largely in low wage sectors and due to a rise in informal employment. Albania implemented a policy package with broad measures to mitigate the impact of the COVID-19 crisis on the poor and vulnerable and on the broader economy, yet the pandemic is expected to result in a significant development setback.

Across Albanian society, key demographic groups are falling behind. Poverty and economic development continue to differ widely across regions, with the central and northern regions having higher poverty rates, a significantly lower share in economic activity and lower employment rates than the rest of the country. Moreover, the participation of Roma and Egyptians (who represent around 3 percent of the population) in the education system and labor market is low. Important gender gaps also persist. For example, the female employment rate is 13 percentage points lower than the male employment rate, and the average gender pay gap is 10 percent.<sup>1</sup>

To reduce the incidence of poverty, measures to create more job opportunities for all Albanians must be complemented by an effective social protection framework. Social protection is essential to protect people from falling into poverty and destitution; to help people cope with adverse idiosyncratic or systemic shocks and smooth consumption over their lifetime; and to promote human capital accumulation and ensure better access to jobs. Social protection comprises a variety of policy tools, including cash transfers to the poor and persons with disa-

bilities, social services for vulnerable populations, labor market programs and unemployment insurance, and old-age pensions. While each benefit or service addresses a specific need against which its performance is often assessed, it is also important to analyze whether the system as a whole fulfills its objectives.

Conceptually, social protection systems rest on four main pillars: social assistance, social services, social insurance and labor market programs. Social assistance generally aims to protect people from falling into poverty and provide support at certain points in the life cycle or respond to particular vulnerabilities. It encompasses non-contributory programs (that is, government funded), including non-contributory pensions (often called social pensions), and family- and child-related cash benefits. Social services support individuals and their families to improve their living conditions when facing various risks throughout the life cycle, such as children, adolescents and elderly people, and persons with disabilities. Social insurance aims to smooth income across the life cycle and protect people from shocks and typically comprises benefits based on individual contributions (that is, old-age pensions, disability pensions and survivors' pensions); individuals who contribute to these programs are entitled to benefits, usually based on the length and level of their contribution. Finally, employment and labor market programs aim to improve the functioning of the labor market (through employment services), to enhance labor supply (through training) and to increase labor demand (through subsidies or public works); they also seek to smooth income during unemployment (through unemployment insurance) or to protect employment due to childbirth (through parental benefits).

Although the specific characteristics of each system vary with history and local conditions, a social protection system should ideally satisfy four basic principles. The first is *adequacy*. The level and generosity of support provided should reflect the level of need of poor and vulnerable households, without

creating disincentives for work or productive investments. The second is *balance* and *effectiveness*. Are the funds allocated to each program used effectively or are there ways to improve impacts for equal levels of spending? Also, could the programs' design be improved to better promote objectives such as poverty reduction, employment and the acquisition of human capital? And is the balance of spending across programs appropriate given the population's vulnerabilities and needs both now and into the future? The third element is *equity*. Government spending on social protection systems should invest more on the poor and vulnerable population than on the middle or upper classes—and possibly significantly more to promote equity in human capital outcomes. The fourth and final element is *sustainability*. Is the level of spending sustainable across time, and can the system honor the promises made to future generations, in particular in terms of pensions?<sup>2</sup>

The objective of this brief situational analysis is to assess the extent to which each element of the social protection system in Albania fulfills its purpose; to determine whether the system as a whole satisfies the four principles outlined above; and to identify knowledge gaps and areas for reform in the short, medium and long term, as well as lessons learned from the response to the COVID-19 pandemic. To be sure, thoroughly addressing all these aspects would require a multitude of exhaustive assessments and falls beyond the purpose of this review. Rather, the purpose of this situational analysis is to provide a holistic overview of the social protection system as a basis to discuss broad areas for reforms and needs for further analyses. The situational analysis is part of a regional initiative, supported by the European Union (EU), to assess social protection systems across the Western Balkans.

The analysis finds that Albania has implemented important reforms of the social protection system in the past years to improve the effectiveness and equity in the system. While some of these reforms are beginning to bear fruit, others must be sustained and furthered to achieve the intended results. Spending on social protection in Albania has risen steadily. This trend is largely driven by expenditures on social insurance, while spending on social assistance is low and that on labor market programs and social services very low. A range of recent reforms provide a solid foundation to improve the effectiveness of the entire social protection system in the upcoming years, although concerns with the equity,

balance and sustainability remain. Reforms of the last resort income support program, the Ndihma Ekonomike, have improved its targeting and the application and delivery of benefits, although the adequacy of the benefit has eroded in recent years. The Disability Assistance reform is foundational to broader reforms of disability benefits but it must still be rolled out nation-wide; further changes also are required to ensure the effectiveness and equity of the system. Promising reforms of social services system have been initiated, with early results being realized in strengthening the planning and financing of these services. However, these investments need to be sustained, with further attention to strengthening the capacity of the ministry (and associated agencies) to support local-level processes, establishing the overall system for quality assurance and social inspection and promoting innovations, such as the contracting out of services. For pension, reforms introduced in 2015 have improved the long-term sustainability of the system. Currently, the share of pension contributors is low, raising concerns about the future wellbeing of the elderly, while fragmentation of the system still raises equity challenges. The employment agency has recently overhauled its active labor market programs according to international best practices. Expanding funding and coverage of these programs will have to be considered following their successful implementation, monitoring and adaptive management. Finally, the COVID-19 pandemic drew attention to the exposure of poor and vulnerable populations to shocks and how the rigidities in the current social protections system undermined the effectiveness of the response. As the recovery from the COVID-19 pandemic begins, it is important to note that this will not be the last crisis to highlight such vulnerabilities. In fact, rising energy and food prices as, in part, caused by the war in Ukraine, are already again demanding a quick, dynamic and effective social protection system to respond.

Table 1 summarizes the key challenges in Albania's social protection system as well as the main recommendations to address them. The government recognizes many of these challenges and is in the process of advancing these reforms, particularly in the area of the DA program, social services and employment.

<sup>2</sup> Given that much of the social protection system is financed, administered and delivered by governments, a commitment to good governance, including transparency and accountability, is also important. This is, however, not considered in this note.



**Table 1. Overview of the key challenges in Albania's social protection system**

Area	Main challenges	Main recommendations
<b>Cash transfers</b>	<ul style="list-style-type: none"> <li>Erosion of the adequacy of benefits limits the impact of the poverty-targeted Ndhma Ekonomike (NE).</li> <li>The new targeting system, which appears to be effective, needs to remain current.</li> <li>The new disability assessment only covers half the country.</li> <li>Physicians need to receive continuous training on conducting the assessment.</li> <li>The disability assessment reform did not cover persons with paraplegia and with visual disabilities.</li> <li>While higher than other cash benefits, levels of monetary and non-monetary disability benefits do not account for the additional costs of disability.</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review the adequacy of the NE benefit.</li> <li>Continue to assess performance of the NE to ensure it remains effective.</li> <li>Update the Unified Scoring Formula.</li> <li>Review delivery systems to ensure poor and vulnerable are being reached.</li> <li>Scale up the new disability system to the whole country.</li> <li>Provide continuous training to physicians on the new disability assessment reform.</li> <li>Develop a monitoring system of the disability assessment reform.</li> </ul>
<b>Social Services</b>	<ul style="list-style-type: none"> <li>Coverage of social services is low and linked to low levels of public spending, which the ministry will increase through the newly established Social Fund.</li> <li>Local authorities lack the capacity to effectively plan, implement and monitor social services.</li> <li>Systems and procedures to support the planning, delivery, monitoring and evaluation of social services need to be strengthened.</li> <li>There is no case management system to support beneficiaries to access multiple services and benefits.</li> </ul>	<ul style="list-style-type: none"> <li>Reforms to extend the coverage of social services by increasing financing are nascent; these need to be furthered, including through regular and increasing allocations to the Social Fund.</li> <li>Strengthen the capacity of the government to support local government units to plan, deliver and monitor social services.</li> <li>Put in place minimum standards for all social services and strengthen the social inspection and monitoring of these services.</li> <li>Strengthen case management to support the provision of integrated cash benefits with social services and employment support.</li> </ul>
<b>Pensions</b>	<ul style="list-style-type: none"> <li>The share of pension contributors is low, raising concerns on the sustainability of the system.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor the evolution of key parameters.</li> <li>Explore complementary sources of retirement income.</li> </ul>
<b>Employment and active labor market programs (ALMPs)</b>	<ul style="list-style-type: none"> <li>The coverage of and spending on ALMPs is low.</li> <li>Vocational training is not demand-driven.</li> <li>The implementation of the NE exit strategy was recently initiated.</li> <li>The generosity of unemployment benefits is inadequate.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure effective implementation of ALMP reforms.</li> <li>Advance implementation of the NE Exit Strategy and then review to learn lessons.</li> <li>Consider options for upskilling of special target groups, such as seasonal or informal workers.</li> <li>Reform the unemployment benefits and carry-out detailed analyses to inform the revision of its parameters.</li> </ul>
<b>Disaster preparedness and response</b>	<ul style="list-style-type: none"> <li>Despite a well-targeted poverty program (the NE), the government chose not to expand its coverage to newly poor households during the COVID-19 crisis.</li> <li>Unemployment benefits only covered a small share of those who lost their jobs due to the pandemic.</li> </ul>	<ul style="list-style-type: none"> <li>Introduce crisis modifiers into the NE, including the identification of potential financing mechanisms.</li> <li>Build out the NE management information system to create a social registry with potential beneficiaries to allow for rapid scaling up of social protection programs during crises.</li> </ul>

The situational analysis unfolds as follows: The next section reviews the main poverty and labor market outcomes in Albania; Section III provides a brief overview of the social protection system in Albania; Section IV looks at non-contributory cash transfers to support the poor, the vulnerable and persons with disabilities; Section V examines social services; Section VI analyzes pensions; Section VII explores employment and active labor market programs; Section VIII reviews the social protection response to the COVID-19 pandemic; and Section VIII and X conclude by identifying main areas for reforms and knowledge gap areas where more detailed assessments would be needed.

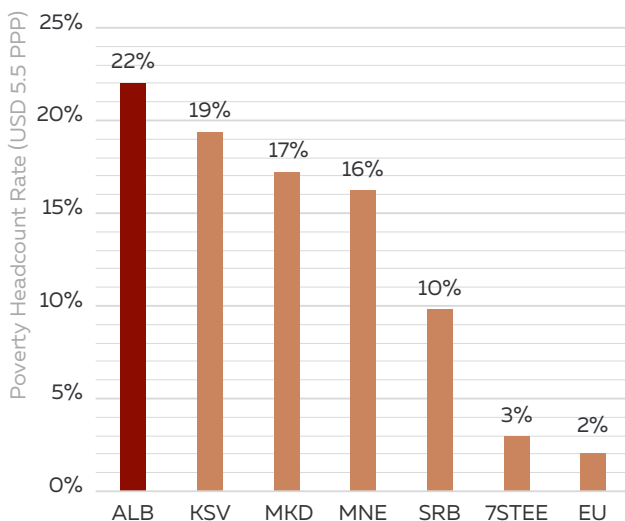
# Poverty and labor market outcomes

With more than a third of the population living below the poverty line, Albania has the highest poverty rate in the Western Balkans. Poorly paid and informal jobs are widespread, and a large share of workers live in poverty. Poverty and labor market outcomes hide large disparities across regions and among different groups. Women, youth, persons with disabilities, and Roma and Egyptian populations are especially disadvantaged.

**Albania saw large reductions in poverty until the 2008 financial crisis.** Having emerged in the early 1990s from 50 years under an authoritarian, isolationist regime as the poorest country in Europe, Albania experienced steady, robust and inclusive economic growth into the early 2000s. Albania is now a middle-income country on the cusp of starting formal negotiations for membership in the European Union. However, the pace of inclusion has stalled since the macro-fiscal crisis of 2008. At 22 percent of the population in 2017, Albania's absolute poverty rate (measured at USD 5.5 per person per day, in purchasing power parity) is currently the highest among countries in the Western Balkans

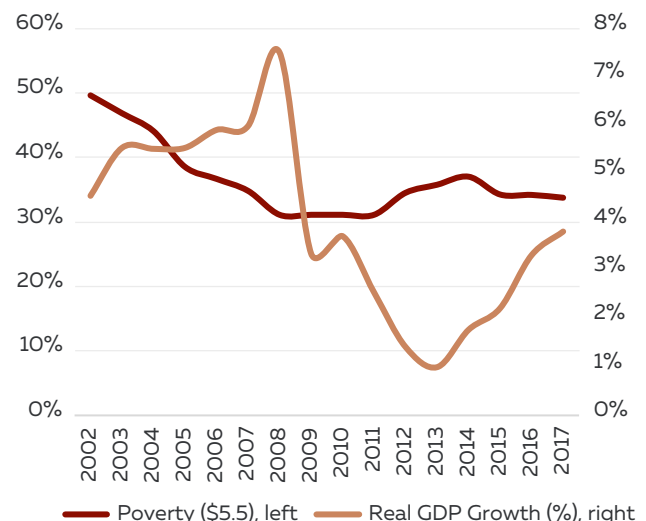
for which recent comparable poverty data exist (Figure 1).<sup>3</sup> While economic growth was accompanied by a significant reduction in poverty prior to the global financial crisis, rates of poverty reduction initially stalled and then reversed, before dropping slightly since 2014. This is despite steady growth since 2014, which indicates that economic growth has become less pro-poor (Figure 2). That is, while a 1 percentage point (p.p.) increase in GDP between 2002 and 2008 was associated with a reduction in poverty of 1.2 p.p., this fell to a one p.p. increase in GDP resulting in only 0.8 p.p. poverty reduction post 2014.<sup>4</sup> Projections suggest that poverty has increased as a result of the COVID-19 pandemic.<sup>5</sup>

**Figure 1. Poverty headcount ratio at \$5.50 a day (2011 PPP) (% of population), 2021 estimates**



Source: World Bank. 2022. *Steering through Crises. Western Balkans Regional Economic Report No. 21. Spring 2022.* Note: ALB, SRB, MKD, MNE, 7STEE and EU estimates are derived from the income based SILC-C data, whereas KSV is measured using the consumption based HBS. Income measures in the SILC and consumption measures in the HBS are not strictly comparable.

**Figure 2. Since the financial crisis economic growth has become less pro-poor**



Source: World Bank. 2020a. *Systematic Country Diagnostic: 2019 Update.* Washington, DC.

Note: In this graph, unlike in Figure 1, the poverty rate is measured using the consumption based HBS. This poverty rate is not comparable to the poverty rate derived by the income-based SILC.

<sup>3</sup> This situational analysis uses estimates based on consumption of households from the 2014 Household Budget Survey. More recent estimates use estimates based off of the Survey on Income and Living Condition (SILC), estimating that income poverty has reduced since 2016. Nevertheless, even using recent estimates of income poverty Albania continues to have the highest poverty in the Western Balkans at 31.8 percent in 2019. (Source: World Bank. 2021a. *Greening the Recovery. Western Balkans Regular Economic Report No.20.* Fall 2021. Washington, DC.)

<sup>4</sup> World Bank. 2020a. *Systematic Country Diagnostic: 2019 Update.* Washington, DC.

<sup>5</sup> World Bank. 2021. *Subdued Recovery. Western Balkans Regular Economic Report No.19.* Spring 2021. Washington, DC.

**Regional disparities in living standards persist, although within areas, poverty is associated with larger households and lower education.** In Albania, prefectures along the coast and in the south tend to be better off relative to those in the central and northern regions, which have less economic capacity and heightened exposure to natural hazards. Regionally comparable data are sparse, but data from 2012 show the capital city of Tirana having a poverty rate of 11.7 percent. This is almost half of the highest poverty rate of 20.6 percent in the north-east.<sup>6</sup> Similar regional disparities exist across a variety of welfare indicators, such as, *inter alia*, GDP per capita, housing conditions and the number of families receiving social assistance.<sup>7</sup> Poverty and economic development have a strong geographic dimension; but once controlling for geography, those affected by poverty tend to live in larger households with many dependents and in a household whose head has little education. Low pay continues to be a key contributor to high poverty rates, stemming from structural issues surrounding Albania's economy and labor market, as elaborated below.

Albania's labor market had been trending in a positive direction, although much labor growth was concentrated in low wage sectors. In 2019, the employment rate reached a record 61.2 percent (68.2 percent among men and 54.4 percent among women, Figure 3) and female labor force participation climbed to 61.6 percent (compared with 77.6 percent for men).<sup>8</sup> Employment grew by 42,000 persons (or 3.4 percent) between the second quarter of 2018 and the second quarter of 2019, and more than half of those new jobs went to women and 25-54 year olds.<sup>9</sup> The largest portion of the employment increase, however, was in low-wage sectors and due to a rise in informal employment of 30,000 (or 6.7 percent) between the second quarter of 2018 and the second quarter of 2019. During the same time period the share of long-term unemployment decreased by more than 3 percentage points, to 64 percent of total unemployment, which was below the regional average but still well above the EU average.<sup>10</sup>

**Figure 3: Labor market indicators, Western Balkans**



Source: SEE Jobs Gateway: <https://data.wiiw.ac.at/seejobsgateway.html>.

Note: Data for employment, unemployment and inactivity are for the second quarter of 2019; data for NEET rate are for 2018.

<sup>6</sup> Jorgoni, Elira (2019). ESPN Thematic Report on In-work poverty – Albania, European Social Policy Network (ESPN). Brussels: European Commission.

<sup>7</sup> World Bank. 2020a. Systematic Country Diagnostic: 2019 Update. Washington, DC.

<sup>8</sup> Republic of Albania. 2021. "Economic Reform Programme 2021-2023." Tirana.

<sup>9</sup> World Bank. 2020b. "Western Balkans Labor Market Trends 2020." Vienna.

<sup>10</sup> World Bank. 2020b. "Western Balkans Labor Market Trends 2020." Vienna.

**Despite these positive trends, Albania's working-age population continues to shrink as people emigrate in search of better job opportunities.**

The Albanian diaspora represents 57 percent of the country's current population, one of the highest in the world. In 2019, the Balkan Barometer indicated that 50 percent of the Albanian total population would consider living and working abroad.<sup>11</sup> While Albania's total population of 2.8 million (2020) has remained constant since the early 1980s, it has aged rapidly due to the continuous emigration of working-age Albanians and a decline in the fertility rate, from 3.4 in 1980 to an average of 1.62 between 2015 and 2020. In 2020, births exceeded deaths by only 470, much lower than the 10,345 in 2016. This large-scale migration combined with an aging population presents a challenge for the sustainability of the pension scheme.

**Labor productivity in Albania is low and has stagnated due to high informality, part-time work and a large workforce in agriculture.** Although Albania's unemployment rate is lower than the regional average, many of those in employment are either underemployed and/or work in low-productivity sectors. In relation to other Western Balkan countries, Albania has the highest share of employees in self-employment (34 percent versus the regional average of 22.9 percent in 2018) and in part-time employment (18.3 percent versus the regional average of 10.6 percent in 2018). In rural areas, agriculture represents a disproportionately large share of the employed, with 40 percent of workers continuing, despite recent decreases, to work in the private agricultural sector.<sup>12</sup> In urban areas, informal basic occupations represent the largest share. Further, the informal economy is estimated to range between 25 and 50 percent of GDP.<sup>13</sup> Large parts of the agricultural sector continue to be informal, with women representing 80 percent of all informal workers in agriculture.<sup>14</sup>

**Household incomes remain low, with a higher prevalence of poverty among the self-employed and unemployed than wage employees.** These trends in the labor market are reflected in the country's average monthly gross wage, which was 70 percent of the Western Balkan average (EUR 425 gross per month).<sup>15</sup> The contribution of labor earnings to poverty reduction is limited and is lower than in the period prior to 2008, when real wages grew, on average, at close to 10 percent per year.<sup>16</sup> The level of in-work poverty was estimated to be 39 percent in 2018, meaning that nearly half a million Albanian

workers live in households at risk of poverty.<sup>17</sup> Employment status, however, is closely associated with income-level, suggesting that wage employment is still central to securing a household's wellbeing. Wage employment is concentrated in the upper quintiles, while self-employment and unemployment are more likely in the lower quintiles. However, given that job creation is largely in the informal sector and that self- and part-time employment in Albania remain high, the scope to move into jobs that will lead to more secure income is limited.

**Women, youth, persons with disabilities, and Roma and Egyptian populations have significantly worse labor market outcomes.** The employment and activity gap between men and women continues to be high, as discussed previously. This is partially attributed to a lack of childcare and increasingly a lack of elderly care,<sup>18</sup> high maternity-leave benefits and societal norms. A lack of services (such as, childcare) is often especially striking among minorities:<sup>19</sup> only 18 percent of Roma and Egyptians are employed.<sup>20</sup> Albania has the second highest rate of young people who are not in employment, education or training (26.5 percent), only slightly less than Kosovo (Figure 3 above). This is largely a result of Albania's low levels of vocational education and training (VET), with only 18 percent of students enrolled in such programs, relative to an average of 58 percent in the six Western Balkan countries.<sup>21</sup>

<sup>11</sup> Weiss, Stefani. 2020. "Pushing on a String? An Evaluation of Regional Economic Cooperation in the Western Balkans." Vienna Institute for International Economic Studies (wiiw).

<sup>12</sup> Institute of Statistics (INSTAT). 2020. "Employed by Sectors 2000-2019." Tirana: Republic of Albania.

<sup>13</sup> European Bank of Reconstruction and Development (EBRD). 2019. "Albania Diagnostic." London.

<sup>14</sup> World Bank. 2020a. "Systematic Country Diagnostic: 2019 Update." Washington DC.

<sup>15</sup> World Bank and Vienna Institute for International Economic Studies (wiiw). 2019. "SEE Jobs Gateway." Vienna.

<sup>16</sup> Real wage growth rate was 2.1 percent per year between 2014 and 2018 (Source: World Bank 2020a).

<sup>17</sup> Jorgoni, Elira (2019). ESPN Thematic Report on In-work poverty – Albania, European Social Policy Network (ESPN). Brussels: European Commission.

<sup>18</sup> World Bank, 2019b

<sup>19</sup> Hazizaj, Altin. 2017. "Roma Children Access to Local Government Services in Albania," no. April. <http://www.crca.al/every-roma-child-kindergarten>.

<sup>20</sup> Robayo-Abrial, Monica, and Natalia Millán. 2019. "Breaking the Cycle of Roma Exclusion in the Western Balkans." Washington, DC.

<sup>21</sup> Eurostat: EDUC\_UOE\_ENRS04. For Albania: INSTAT database. Pupils enrolled on upper secondary by type of school 2012-2020. For Kosovo: KASaskdata. Number of pupils in upper secondary education, 2015-2020. Note: Numbers refer to 2018.

# The social protection system in Albania

Albania has a robust social protection system, comprised of social insurance, social assistance, social services and employment programs. The institutional arrangements are well established, encompassing central ministries and agencies and local government units. Within this context, spending on social protection in Albania has risen steadily and is currently comparable to the average social protection spending in Europe and Central Asia (ECA). Social protection spending in Albania is dominated by spending on social insurance, which has driven the rise in social protection spending since 2000. In contrast, spending on social assistance has remained largely constant, at levels that are comparable with peer countries and those in ECA, while spending on labor market programs and social services is low.

In Albania, the social protection system rests on the four main pillars universal to all systems: social assistance, social services, social insurance and labor market programs. These broad categories are applied globally and underpin most analysis on social

protection (Box 1 articulates the universal functions of each of these pillars).<sup>22</sup> In the sections that follow, these four broad categories are modified to reflect the structure of the social protection system in Albania, as laid out in Table 2.

## Box 1: The functions of social protection, social insurance, social assistance and labor programs

Conceptually, social protection systems rest on the main pillars of social insurance, social assistance, social services and labor market programs. Social insurance aims to smooth income across the life cycle and to mitigate shocks and typically comprises benefits based on individual contributions (that is, old-age, disability and survivors' pensions); individuals who contribute to these programs are entitled to benefits, usually based on the length and level of their contribution. Social assistance aims to protect people from falling into poverty and to provide support along the life cycle; it encompasses non-contributory programs, including non-contributory pensions (often called social pensions), and family- and child-related cash benefits. Social services support individuals and their families to improve their living conditions when facing risks throughout the life cycle, including children, adolescents and the elderly and persons with disabilities.<sup>23</sup> Finally, employment and labor market programs aim to improve the functioning of the labor market (through employment services), improve labor supply (through training) and increase labor demand (through subsidies or public works); they also seek to smooth income during unemployment (through unemployment insurance) or to protect employment due to childbirth (through maternity or parental benefits).

**Table 2: Overview of the social protection system in Albania**

Category	Benefits and programs
Cash transfers to support the poor, the vulnerable, and persons with disabilities	<ul style="list-style-type: none"> <li>• Last resort social assistance (Ndhima Ekonomike or NE)</li> <li>• Disability Allowance</li> <li>• Energy, vaccination, education and kindergarten subsidies<sup>24</sup> for NE beneficiaries</li> <li>• Allowances for war invalids and veterans</li> <li>• All pensions funded by the state budget (the social pension, see below)</li> </ul>
Social services	<ul style="list-style-type: none"> <li>• Social and family services</li> </ul>
Pensions	<p><b>Contributory pensions (state budget funds the deficit)</b></p> <ul style="list-style-type: none"> <li>• Old-age pension</li> <li>• Disability pension</li> <li>• Survivor's pension</li> <li>• Sickness leave</li> </ul> <p><b>Non-contributory pensions, funded by the state budget</b></p> <ul style="list-style-type: none"> <li>• Social pension</li> </ul>

Source: Authors' elaboration.

<sup>22</sup> Health insurance is not considered in this note, although it forms part of social insurance mechanisms.

<sup>23</sup> Lindert, K, et al. eds. 2020. Sourcebook on the Foundations of Social Protection Delivery Systems. Washington, DC: World Bank.

<sup>24</sup> Fees for kindergarten are waived for NE beneficiaries.

<b>Employment and labor market programs</b>	<ul style="list-style-type: none"> <li>• Vocational training</li> <li>• Public works</li> <li>• Wage subsidies</li> <li>• On-the-job training and internships</li> <li>• Entrepreneurship support</li> <li>• Unemployment Benefit</li> <li>• Maternity benefit<sup>25</sup></li> </ul>
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Source: Authors' elaboration.

**The social protection system enjoys well established institutional arrangements, encompassing central ministries and agencies and local government units.** The Ministry of Health and Social Protection (MoHSP) is responsible for social assistance and social services, setting policies, providing financing and supervising the State Social Services. The State Social Services are responsible for implementing the NE and DA through local government units. The local government units are responsible for assessing eligibility<sup>26</sup> and for providing services, with oversight and quality assurance by the MoHSP and Social Services Inspectorate. Social services have hybrid (central and local) funding. The independent Social Insurance Institute (ISS) administers contributory benefits (such as, the old-age, survivors' and disability pensions), employment-related benefits, and non-contributory benefits directed to pensioners. The Ministry of Finance and Economy (MoFE) supervises the ISS. The MoFE is responsible for collecting all social and health insurance contributions, except those of self-employed farmers.<sup>27</sup> Within the MoFE, the General Directorate of Economic Development and Employment is responsible for the employment and vocational education and training (VET) portfolio. It oversees the State Inspectorate of Labor and Social Services, the National Agency for Employment and Skills (NAES) and the National Agency for Vocational Education and Training and Qualifications. There are several supporting consultative bodies such as the National Labor Council and its Sectoral Commissions, the National Council of Skills and Vocational Education and the Employment Advisory Council (EAC).

**Social protection spending in Albania has been increasing since 2000, a trend largely driven by rising spending on social insurance, while spending on social assistance has remain constant.** Spending on social protection<sup>28</sup> in Albania has risen steadily since 2000, increasing from 7.3 percent of GDP in 2000 to just over 9 percent of GDP in 2019 (Figure 4).<sup>29</sup> As a percent of GDP, spending on social protection in Albania in 2019 was roughly the same as the average for ECA countries at 9.51 percent<sup>30</sup> and only slightly below the average in the Western Balkans region (10.4 percent of GDP)<sup>31</sup> (Figure 5). In comparison, European Union member states spent,

on average, 15.9 percent of GDP on social protection in 2019.<sup>32</sup> The steady rise in social protection spending in Albania has been largely driven by social insurance spending, representing 7.6 percent of GDP (Figure 4). In contrast, social assistance spending has remained largely constant over this period, despite year-on-year fluctuations. Currently, spending on social assistance is 1.6 percent of GDP, which is roughly consistent with the average among ECA countries (1.7 percent) and upper-middle-income countries (1.6 percent) but below the average among Western Balkan countries (2.2 percent). In Albania, spending on labor market programs in this period remained low and is currently 0.05 percent of GDP, while spending on social services in 2019 was a mere 0.04 percent of the GDP.<sup>33</sup> The sections that follow discuss spending trends for each of the pillars of the social protection sector in Albania.

<sup>25</sup> The discussion on maternity benefits is included in the section on labor market programs. However, in the analysis of social protection spending in this section, it is categorized under social insurance.

<sup>26</sup> Nineteen out of 29 of the local units, which are staffed by social administrators, are managed by the central government, with the remaining falling under the responsibility of municipalities. Staff are hired by the responsible level of government, while in all cases operating costs are funded by the state budget.

<sup>27</sup> The MoFE collects social and health insurance contributions through the Directorate General of Taxation. The Social Insurance Institute collects contributions from self-employed farmers who contribute to the rural scheme.

<sup>28</sup> This analysis of social protection spending is based on World Bank SPEED and, thus, follows its classifications.

<sup>29</sup> This section considers spending in 2019, that is, prior to the COVID-19 pandemic.

<sup>30</sup> Based on World Bank SPEED, most recent data available.

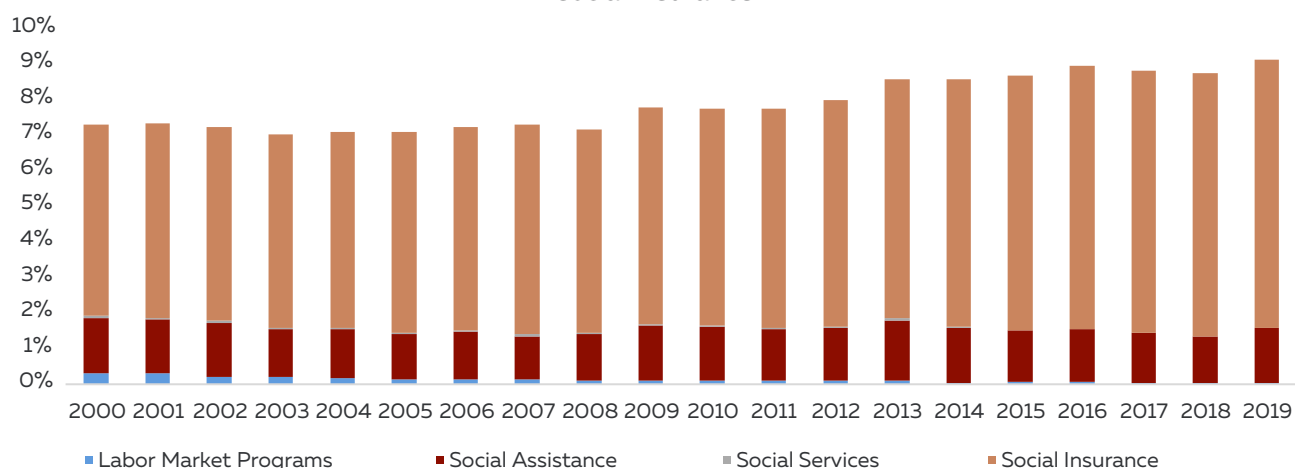
<sup>31</sup> This is the arithmetic average of the latest data available, as is also referenced in Figure 5.

<sup>32</sup> EUROSTAT, ESSPROS, excludes admin expenditure and health/ sickness benefits. Most recent year available.

<sup>33</sup> Based on latest data available from World Bank SPEED. Spending on social services excludes any spending by local government units. The budget on social services is defined very narrowly and does not include services, such as child protection, police or health services.

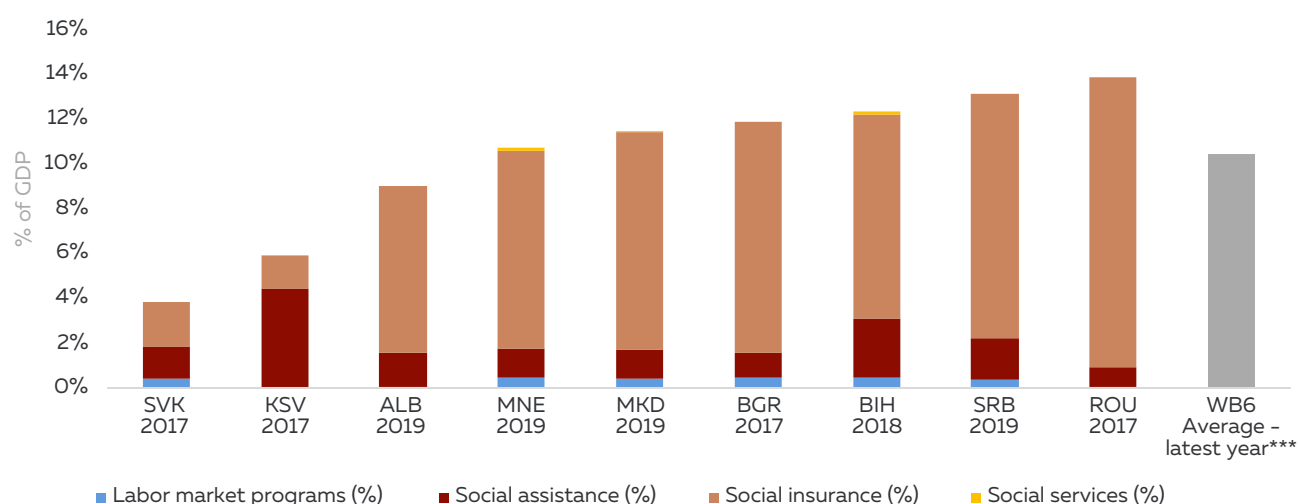


**Figure 4: Spending on social protection has been rising over time, driven by an increase in spending on social insurance**



Source: World Bank estimations based on Social Protection Expenditure and Evaluation Database (SPEED) administrative data.  
Note: Information on expenditures for social services is only available until 2014 and only includes central-level spending.

**Figure 5: Expenditure in social protection programs for selected countries (% of GDP)**



Source: World Bank SPEED.  
Note: \*\*\* Simple arithmetic average of the total social protection spending (percentage) among the six Western Balkan countries on the chart: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

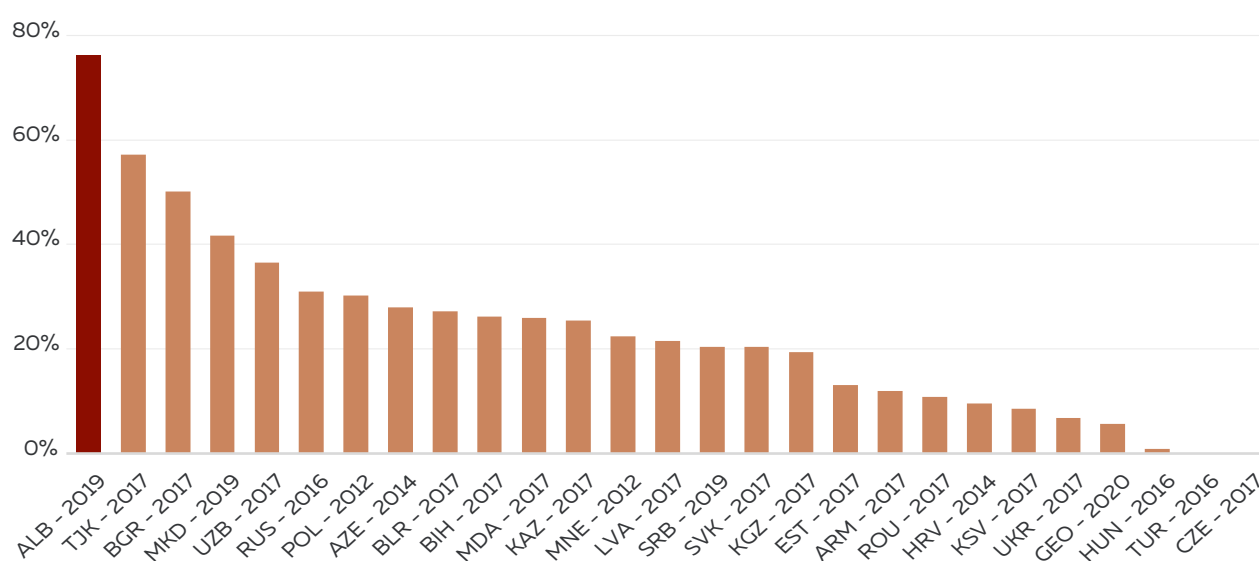
# Cash transfers to support the poor, the vulnerable and persons with disabilities

*In Albania, two cash transfer programs constitute the vast majority of spending on social assistance: the Disability Assistance (DA) and the Ndihma Ekonomike (NE). The government has reformed the NE to better reach extremely poor households while also investing in its delivery systems. These reforms appear to be bearing fruit with initial evidence of improvements in its effectiveness, although further analysis is needed to confirm that the program continues to deliver on its objectives. However, erosion of the adequacy of benefits limits its impact on poverty. The reform of the DA system, which is foundational to the broader disability reform, is ongoing and will be expanded nationwide, with anticipated benefits in terms of the effectiveness of the system. Building on this reform, further assessment of the benefits to people with disability to improve their adequacy and equity. Strengthening the linkages with social services and employment support can better support beneficiaries of the NE and DA program.*

**Social assistance in Albania is dominated by two main programs, both of which have undergone significant reforms in recent years to improve their effectiveness and equity.** Albania's social assistance system is comprised of two main programs, the Disability Assistance (DA) program and the Ndihma Ekonomike (NE), which are complemented by a suite of very small benefits. In recent years, the government has undertaken significant reforms of the DA program and the NE to improve their efficiency and equity, with support of the World Bank, as discussed in the paragraphs that follow. The DA program is the larger of the two programs, in 2019,

amounting to 76 percent of social assistance spending, while the NE accounts for 21 percent of social assistance spending and the remaining programs together amount to 3 percent. The amount allocated to the DA program, as a percentage of social assistance spending, is unique in the region, with most countries allocating less to disability-targeted cash benefits (Figure 6).<sup>34</sup> In contrast, spending on the NE appears to be below regional trends: in 2019, NE spending was equivalent to 0.25 percent of GDP, which was lower than the average of 0.35 percent spent on Last Resort Income Support (LRIS) programs in ECA countries.<sup>35</sup>

**Figure 6: Disability benefits as a share of total social assistance spending, Europe and Central Asia, most recent year available**



Source: World Bank SPEED.

<sup>34</sup> A similar trend is observed when considering disability-related social protection spending as a percentage of GDP.

<sup>35</sup> World Bank SPEED. LRIS includes poverty-alleviation programs and poverty-targeted subsidies for health and housing.



## Ndihma Ekonomike

**Albania's last-resort income support program, the Ndihma Ekonomike, appears to be effectively reaching poor households.** The Ndihma Ekonomike (NE) is the main cash transfer program in Albania, providing support to poor households. In 2011, the Social Assistance Framework Law established the legal basis for revising the NE eligibility criteria. This revision removed binary filters and adopted a Unified Scoring Formula (USF) that would better identify the extreme poor population.<sup>36</sup> The new eligibility criteria and targeting procedures were initially piloted and then scaled-up nationwide from January 1, 2018. To complement the USF, the targeting system has flexibility embedded in it to correct for potential exclusion errors: those not passing the eligibility threshold can still receive benefits after going through a socioeconomic assessment carried out by a local administrator, which is supported by six percent of the NE budget. According to administrative data, the NE reached about 9 percent of the population in 2019. In the same year, based on the EU-SILC, 45.2 percent of the NE benefits were received by the poorest 10 percent of households, while before the reform, in 2018, the percentage was 42.6. However, the USF eligibility criteria<sup>37</sup> and their weight in the total score were estimated using survey data that is now seven years old.<sup>38</sup> During this period, the profile of the most vulnerable population, and thus the characteristics that predict their poverty, have likely changed.<sup>39</sup> If the formula worsened, fixing it would have two possible effects: a decrease in the exclusion errors (households that are truly poor but are excluded because of characteristics that are not relevant anymore) and a reduction of inclusion errors (households that are not poor but manage to be included into the program because the eligibility criteria allow them). For example, according to the 2019 SILC, the NE covers 23 percent of households in the poorest quintile and 32 percent for the poorest decile.<sup>40</sup>

**Recent analysis indicates that the purchasing power of the NE benefit may have eroded over time.** The average NE benefit amount increased 17 percent between 2017 and August 2019, representing an important commitment to beneficiaries meeting their basic needs. More recent analysis suggests that the NE benefit may now trail other social benefits in Albania, as these are more regularly updated. Comparing the NE benefit levels (as set out in legislation), in 2021, a household consisting of one adult member is equal to 6.5 percent of

the minimum wage, 13 percent of the unemployment benefit and 25 percent of the social pension.<sup>41</sup> For a beneficiary household consisting of two adults and two children, the benefit is equivalent to 18.5 percent of the poverty line of USD 3.20 per day and 10.7 percent of the USD 5.50 per day.<sup>42</sup> The low relative value of the current NE benefit may arise, in part, from the fact that the nominal value of the NE has not been increased since 2018. In contrast, the minimum wage, and by extension unemployment benefits and the social pension, have been regularly updated over this same period. Notably, as discussed in the section below on the COVID-19 response, the government doubled the value of the NE benefit during 2020 and for the first six months of 2021 as part of the broader response to the pandemic. More recently, the government has signaled its commitment to increasing the benefit more regularly, starting with a 10 percent increases in 2022 and an additional doubling of NE benefits for families with three or more children and a tripling for social categories (orphans and victims of violence and trafficking).

**In addition to cash transfers, the NE provides a set of complementary benefits.** Small top-ups are provided to NE beneficiaries for every child up to the age of 16 years who attends school regularly (Lek 300 per month or around EUR 2.5) and is on track with their immunizations (Lek 100 per vaccination or around EUR 0.8). An electricity subsidy is also provided (Lek 1,288 or around 10 EUR)<sup>43</sup> and NE beneficiaries are able to send their children to kindergarten free of charge as of late 2021. According to data from the NE management information system (MIS), in July 2021, just less than 37 percent of NE beneficiaries received the electricity subsidy. Similarly, in December 2019, out of all NE recipient households with at least one school-age child (7-15 years old), 52.3 percent received the education grant. The education subsidy is provided only for the nine months of the school year. Assessing the full benefit of these complementary grants may help inform efforts to graduate households from the NE, while also protecting poor households from shocks (such as those transmitted through energy prices) and promoting human capital accumulation. NE beneficiaries are also supported to access social services and employment programs for employment activation, as discussed under the section on Employment below.

**Investments in the NE delivery systems—notably the outreach application, payment and grievances,**

<sup>36</sup> In addition, the NE aims to support other types of beneficiaries: orphans who are not in social care institutions; parents with two or more babies who are born simultaneously belonging to the families in need; victims of trafficking after they have left the social care institutions until they are employed; victims of domestic violence for the period of validity of the protection order or immediate protection order that are not treated in the social care institutions.

<sup>37</sup> Examples of variables are the composition of the household (the number of elderly or the number of women in the household), ownership of devices (a video/DVD player or dishwasher) or type of heating used by the household.

<sup>38</sup> Institute of Statistics (INSTAT). 2014. "Household Budget Survey." Tirana: Republic of Albania.

<sup>39</sup> For example, the usefulness of DVD players may have decreased, in general, and because of this, its presence in a household may not be a good indicator of its welfare status anymore. In addition, the

prevalence of computers increased significantly, together with their decrease in costs, which may also reduce its predictive power. Several indicators in the current formula refer to the type of heating, and because of the continuous increase in the percentage of people connected to gas and electricity, the current weight of all these indicators may be overestimated.

<sup>40</sup> The 2019 SILC underestimates the coverage of the NE, reporting national coverage of 7 percent.

<sup>41</sup> World Bank staff calculations for a note on NE benefit adequacy prepared for the Ministry of Health and Social Protection in 2021.

<sup>42</sup> World Bank staff calculations for a note on NE benefit adequacy prepared for the Ministry of Health and Social Protection in 2021. Calculated at per capita level for comparison to international poverty lines.

<sup>43</sup> Decree of the Council of Ministers No 565/2006 (Lek 640) and No. 8/2015 (Lek 648).

have contributed to the improved performance of the program. The application process has been streamlined and the average time to determine eligibility is five days. Currently, to apply to the program, individuals must physically go to local offices, show their IDs and provide the information that is required to apply the Unified Scoring Formula. The NE then carries out home visits and cross-checks with other administrative databases to verify the information. Payments are made through the Albanian Post Office or banking services near the administrative units where the beneficiary resides. To register any complaints, beneficiaries must physically go to the local offices. However, the COVID-19 pandemic has drawn attention to the barriers this process may pose, particularly for disadvantaged segments of the population who may be far from such offices. For this reason, the MoHSP is assessing outreach to beneficiaries and their experience of applying to the NE to inform further efforts to strengthen program delivery.

**Investments in an MIS have strengthened the delivery of the NE and could be harnessed further to improve the understanding of the poor population, their needs and access to benefits and services.** As of January 1, 2018, the NE's new, nationwide MIS can cross-check the information provided by NE applicants across multiple agencies. The MIS includes an integrated case management module with the ability to record and manage grievances, complaints and appeals. This MIS also includes a beneficiary registry, including those who have applied and exited the program. In this way, the NE MIS offers an entry point to build a social registry that could be harnessed to quickly expand the program in response to shocks or help target other benefits to the poor in Albania.<sup>44</sup>

## Disability assistance program

**Albania has committed to reform its disability assessment system and, following significant investments, the system is now functional although with limited coverage.** Albania embarked on a reform of its disability assessment system in 2015, transforming it from a medical model to a bio-psycho-social assessment to reflect the new concept of disability as an interaction of functional impairments caused by a disease with psychological and social factors.<sup>45</sup> After the preparatory work between 2015 and 2017, the assessment methodology was piloted extensively in two administrative units of the Tirana Municipality. Then, it was scaled

up to the whole Tirana region starting in 2020. During this period, significant results were achieved: (i) the disability assessment methodology, including forms and guidelines and training materials, were developed and tested; (ii) an MIS for the reformed assessment was developed; (iii) the necessary legislation for implementing the reform was developed and approved; and (iv) the members of the Assessment Committees and the other physicians from Tirana were trained. The reform has been scaled up in two other regions (Durrës and Elbasan) since the end of 2021. In 2020, the disability allowance program provided benefits to nearly 6 percent of Albania's population (or 167,000 people).

**While this progress is commendable—and at the forefront of disability reform in the Region—it needs to be complemented by further investments to deliver on the objectives of the reform.** Firstly, the new disability assessment system needs to be scaled up nationwide. The government recognizes this and has initiated the expansion of the DA, started with intensive training of staff in the new regions. Second, continuous training to all physicians with a role in the DA is required, together with further updating the guidelines and assessment forms, improving the system to handle complaints and significantly strengthening the capacity and powers of the Social Inspection Team to reduce the risk of error, fraud and corruption. Thirdly, the new DA reform does not cover persons with paraplegia and with visual disabilities,<sup>46</sup> which creates inequities in the system. Therefore, there is a need for the ministry to develop a strategy to make the system equitable for persons with similar levels of disabilities.

**The disability assessment reform was coupled with a change in benefit amounts, but these changes were not informed by an analysis of the additional costs of disability.** Globally, there is broad agreement that disability benefits should be calculated in a way that enables persons with disabilities to afford both ordinary and disability-related goods and services necessary to escape poverty and participate equally in the society. The amount of the DA benefit and the personal assistance allowance were not based on a rigorous analysis of the extra costs of disability; the disability benefit was set in relation to the value of the social pension, while the personal assistance allowance is half the minimum wage. Expert opinion suggests that the levels of the monetary disability benefits seem to be too low, especially for persons with moderate and severe disabilities. An analysis

<sup>44</sup> The term social registry here refers to a modular database of characteristics and receipts of beneficiaries and potential beneficiaries but does not imply any specific targeting methodology.

<sup>45</sup> This is to comply with the United Convention on the Rights of Persons with Disabilities (UNCRPD). The way the disability assessment (DA) is carried out is critical for the lives of persons with disabilities as it is the gate through which anyone who claims disability-related benefits, services or products has to pass.

<sup>46</sup> Persons with paraplegia and visual disabilities can choose between the old system (having a "status") and the new disability assessment system.

should be carried out to estimate adequate levels of disability benefits and personal assistance allowance. In parallel, other benefits to which people with disabilities should be entitled (assistive devices and technologies, and sanitary hygiene packages) tend to not be provided due to a lack of budget or unclear criteria.

**Additionally, complementing the provision of cash benefits with social services that are supported by case management would help promote the independence and social inclusion of persons with disabilities.** For persons with disabilities to be able to live an independent life, they may need proper support guided through case management services. At the moment, social workers at the local level are responsible only for administering the files of and distributing the disability payments to persons with disabilities. The Assessment Committees have a limited role in identifying the needs of the persons: they only check some generic services persons with disabilities may need, without providing concrete information on their type and without following a person-centered approach. The role of both the Committees and the social workers should be refined to ensure case management is provided. This would include: (i) assessment of individual needs and desires in the areas of life that are essential for independent living; (ii) preparation of an individual support plan; (iii) referral to different support services to ensure the implementation of the plan; and (iv) monitoring of the implementation of the plan. Such a shift toward case management for persons with disabilities would be supported by, and consistent with, the ongoing reform of social services (see section below). This includes the introduction of a case management system that aims to enable social workers to assess the full range of needs and vulnerabilities faced by households and individuals.

social pension is low, this could significantly increase over time given current trends in the pension system. This raises possible future fiscal concerns.

**An energy subsidy provides support to vulnerable households, although available analysis suggests that it is poorly targeted.** The Government introduced an energy subsidy in the form of a cash transfer (currently Lek 640 or around 5 EUR) in 2006 and a top-up in 2015, for a total benefit of Lek 1,288 per month (or around 10 EUR). These vulnerable households are defined as beneficiaries of the NE and DA programs, including those under the "status system," old-age pensioners and government workers whose salary was less than Lek 35,000 per annum (or 288 EUR), without other employed household members. To claim this subsidy, beneficiaries must submit their electricity bill from the previous month. However, based on the latest analysis (2017), the coverage of the energy subsidy is low, reaching only 22 percent of the poorest quintile based on the current eligibility criteria, and poorly targeted to poor or energy poor households.

## Other social assistance programs

**The pension system introduced a social pension for all individuals who did not qualify for a contributory pension in 2015** (see Pensions below). This social pension is means-tested and is provided to those older than 70 years who have been residents in Albania for at least the last five years. The social pension amount is equal to the partial pension calculated at 15 years of insurance pegged to the minimum wage. While currently the number of individuals who do not qualify for a contributory pension is moderate, and thus the demand for the

# Social services

*Albania is in the process of reforming social services to provide a broader range of services in an equitable, efficient and sustainable manner. Initial steps included putting in place the main pillars of legislation for social services, launching a dedicated Social Fund, and establishing a management information system for beneficiaries of social services. While promising, further investments in strengthening the systems and procedures to support the planning, delivery, monitoring and evaluation of social services are required to assure the quality, relevance and continuation of services across municipalities. Further investments are also required in case management to assist the Ministry of Health and Social Protection and to respond to the needs of individuals, their families and communities in a more integrated manner.*

**Social services are central to helping the poor and vulnerable realize their full potential and promote social inclusion; however, to date, access to social services in Albania has been limited.** Social services play a key role within the social protection system, helping individuals and families overcome risks and improving their wellbeing. For example, for persons with disabilities to be able to exercise their right to an independent life, they need access to both services for the general population and support services specific to their disability. Children, adolescents and the elderly often face particular risks and vulnerabilities that require specific social services, such as child protection and foster care for children, and home-based care and support for the elderly. To date, the coverage of social services in Albania has been very low and unevenly distributed. A recent mapping carried out by the United Nations Development Programme (UNDP) found that 53 percent of beneficiaries access social services provided by public institutions, 27 percent by non-public institutions and 20 percent by mixed institutions. Within this broad trend, the mapping drew attention to the uneven coverage of and access to social services, with the numbers and types of service providers varying significantly across the country.<sup>47</sup>

**The government has recently taken steps to strengthen the legislative framework for social services; while an important step forward, some gaps remain.** The MoHSP recognizes the important role that social services play in promoting social inclusion and is committed to improve access to these services across the country, with support from the United Nations Children Fund (UNICEF) and, more recently, the European Union. The groundwork for

this reform was set out in the 2016 Law on Social Care Services, which extends the menu of social services beyond the traditional use of care institutions to services provided in communities and families. The law clarifies the roles and responsibilities of the local and central governments (MoHSP, State Social Services and Social Services Inspectorate), establishes a new financing mechanism (Social Fund) and allows, among other innovations, for the procurement of non-public providers of social services. While the adoption of this law is an important step forward, gaps remain, such as developing the methodology for the Social Services Inspectorate to inspect the quality of social services and for the State Social Services and local government units to monitor the performance of and revise the quality standards for some social services (such as, community-based services or specialized services for persons with disabilities). The 2016 Law on Social Care Services also provides scope for local government units to contract non-public providers to deliver social services. To date, however, this provision has not been used due to a lack of guidelines and regulations, including on the pricing of social services.

**A new financing mechanism aims to sustainably increase social services that are responsive to local needs and promote equitable access.** Within the devolved system of governance in Albania, financing of social services has historically been the responsibility of local government units, with additional financing from the central government for national or specialized services. To date, only 6 percent of the total central government spending on social protection has been allocated to social services,

as discussed in the section above. Local government units, given their mandate, are an important source of financing for social services, particularly in larger, better-off municipalities.<sup>48</sup> In recognition of this fact, and in an effort to ensure equitable access to social services, the Social Fund was designed to allow every municipality to develop new social services with the costs partially covered during the first three years of implementation (90 percent of the costs are covered in the first year, 60 percent in the second year and 30 percent in the third year). To date, the MoHSP has awarded 17 grants on a competitive basis to municipalities and 13 qarks (counties), with plans underway to increase this number annually. To justify the request for funds, local authorities are required to identify the needs and prepare operational plans for developing social services to respond to these needs (Social Plans). With support from the United Nations, a methodology for the preparation of these Social Plans has been developed and, based on this methodology, all municipalities except one have prepared a plan although the quality of plans differs widely. Going forward, the lessons learned from this early experience can inform how to ensure the sustainability of the financing mechanisms and service delivery and overall quality. This includes, among other, establishing unit costs for social services. Strengthening the capacity of the State Social Services to support local-level planning and other related processes will be central to these efforts as, in the absence of dedicated support measures for local authorities, the new financing mechanism may be unevenly utilized and with only a limited impact.

**As these reforms take root, investing in the systems and procedures that will ensure the quality and cost effectiveness of services nationwide will be increasing important to the success of this reform.**

The MoHSP has put in place a management information system (MIS) for the beneficiaries of social services, which is currently being populated. Once in use, this MIS will help ensure better accountability of the way funds are used and better coordination among the types of support a person may need. It will also create a monitoring system that would inform any future legislative and implementation policy changes. Investments in the MIS should be accompanied by the continuous evaluation of the quality of social services to enable ongoing improvements to be made, as necessary, by the responsible central-level agencies and local governments.

**The social services reform also introduced the basis to provide integrated social services through case**

**management.** The 2016 Law on Social Care Services mandates local governments to establish a separate Needs Assessment and Referral unit. Social workers within this unit are responsible to assess the needs of individuals and their families and support them to access benefits and services, as required, through counseling, mediation and referrals. On this basis, the law offers an opportunity to introduce a case management approach to social services, through which social workers assess a range of needs and vulnerabilities of a person (or family) and track their referral to different services providers. The design of the MIS for social services aims to facilitate this transition to case management; a way of working that is mirrored in the NE Exit Strategy. The strategy envisions the provision of integrated social services and employment support to activate NE beneficiaries (through individuals plans) and the commitment to accompany DA benefits with services for persons with disabilities.

**Furthering the professional development of social workers will be enable the success of the current and future reforms.**

Dedicated efforts are now required to put the new systems and procedures into practice at the local level, supporting staff with the necessary guidelines and instruments to enable a full assessment of needs, the preparation of individual plans and coordination among different stakeholders. This shift draws attention to ensure that social workers have the knowledge, skills and experience to carry out these functions. Social work is a relatively young profession in Albania and demand for social workers has been accelerating in recent years. Curricula are, however, largely based on best practices and experiences from developed countries, while little local knowledge from Albania is incorporated and practical experiences during study is low according to international standards.<sup>49</sup> Licensing or certification of social workers could help ensure a minimum standard of quality and education. In-work supervision and support, as well as opportunities for career development, continued education and recertification, can support staff in their work and assist with maintaining or increasing standards of services.

<sup>48</sup> Ymeri, Sabina. 2018. A review of local level budget spending on social care services. Tirana: United Nations Development Programme.

<sup>49</sup> Dhembo, Elona, Bree Akesson and Lirondel Cheyne-Hazineh. 2020. "Social Work Education in Albania: A Developing Landscape of Challenges and Opportunities." *European Journal of Social Work* 23 (5): 862-75.



# Pensions

*In 2015, Albania introduced important parametric reforms to its Defined Benefit pension system, improving its long-term sustainability. Currently, the share of pension contributors is low, raising concerns about the future wellbeing of the elderly. These concerns may be addressed, in part, through the relatively new social pension. Despite some progress, the fragmentation of the system still raises equity challenges. Moving forward, it will be essential to analyze and understand the long-term implications of the changes on the system's adequacy, sustainability and coverage, for the old-age pension as well as special regimes.*

**Recent reforms have improved the pension system's long-term sustainability.** In January 2015, Albania introduced a comprehensive pension reform package that aimed to improve the fiscal sustainability of the system, strengthen the link between contributions and benefits, and improve coverage. These reforms were carried out in three main areas: (i) parametric reforms to the existing Defined Benefit (DB) scheme; (ii) adjustments to special regimes; and (iii) introduction of a non-contributory social pension for all individuals who did not qualify for a contributory pension (for more information on this social pension, see section above on "Cash transfers to support the poor, the vulnerable, and persons with disabilities"). In terms of parametric changes to the DB system, the pension formula was modified to the sum of a basic pension floor plus a supplement.<sup>50</sup> The earnings-related part of the pension is calculated as 1 percent of the average indexed wage over the individual's entire career for every year of contribution. The pension ceiling was lifted; the minimum contributory wage (Lek 26,000) was unified with the official minimum wage; the maximum contributory wage was indexed to average wage increases; and the pension indexation was limited to the inflation rate. The effective accrual rate (pension amount for one year of service, as a share of the average career wage) ranges between 1.1 for high-income earners to around 1.7 for low-income earners with "full" service period. Such a formula assures a certain level of redistribution toward lower income brackets and applies the recommended valorization and indexation patterns. The retirement age is also expected to gradually increase to 67 years by 2056 (from 65 years for males and 60 years and 8 months for females).

**Modifications were also made to special pension regimes.** The government's supplementary pensions for constitutional functionaries were revised to adjust the balance between contributions and benefits and to reduce the government subsidy. The retirement age for members of parliament and ministers was increased from 55 years to 60 years, with an increase in benefits and modifications on benefit calculations. In addition, the retirement age for underground miners was reduced by five years (from 60 to 55 years), with an increase in the contribution rate by 5 percent of the gross wage.

<sup>50</sup> The basic pension corresponds to the amount of the social pension prorated by the number of years contributed with respect to the total number of "full" insured years defined in the law. In 2016, the minimum insured years stood at 15, with early pension available with "full" service of 37 years, increasing by four months each year until 40 in 2029.

Table 3: Pension parameters in Albania

<b>Retirement age</b>	<p><b>65 years for males and 60 years and 8 months for females</b> (gradually increasing to meet at 67 years by 2056), with 15 years of contribution.</p> <p>Early pension: A reduced pension may be paid up to three years before the normal retirement age, with at least 37 years of contribution (gradually rising by four months a year until reaching 40 years in 2029). The pension is reduced by 0.6 percent for each month it is claimed before the normal retirement age.</p>
<b>Pension calculation</b>	<p>The monthly pension is the ratio of the insured person's coverage period to the coverage period required by law multiplied by the amount of the old-age social pension, plus 1 percent of the insured person's average covered earnings for each year of coverage.</p> <p>The minimum monthly old-age pension is the monthly old-age social pension.</p>
<b>Valorization</b>	The maximum contributory wage is indexed to average wage increases.
<b>Indexation post-retirement</b>	Indexation of pensions was limited to the inflation rate in the 2015 reforms.
<b>Eligibility for disability pension</b>	Contributions in at least 75 percent of the tenure since age 20 and at least one year in the last five years before disability.
<b>Level of disability pension</b>	<p>Same calculation as old-age pension.</p> <p>Full disability receives full pension plus a supplement of Lek 3,300 (or around EUR 27).</p> <p>Partial disability receives 50 percent of the full disability pension plus a supplement of Lek 2,200 (or around EUR 18).</p>
<b>Eligibility for survivor's pension</b>	<p>The deceased received or was entitled to receive a social insurance old-age or disability pension.</p> <p>Eligible survivors include a widow(er) caring for a dependent child younger than age 8 years; a widow(er) with a disability; a widow 55 years or older or a widower age 60 years or older; dependent children younger than age 18 years (25 years if a university student; no limit if disabled from childhood); dependent parents and grandparents 65 years or older who lived with the deceased for the last 12 months; and dependent grandchildren.</p> <p>The widow(er)'s pension ceases upon remarriage.</p>
<b>Level of survivor's pension</b>	<p>Spouse's pension: 50 percent of the social insurance old-age or disability pension the deceased received or was entitled to receive.</p> <p>Orphan's pension: 25 percent of the social insurance old-age or disability pension the deceased received or was entitled to receive is paid to each eligible child; 50 percent for a full orphan if there are no other eligible dependents.</p> <p>Other eligible survivor's pension: 25 percent of the social insurance old-age or disability pension the deceased received or was entitled to receive is paid to each dependent.</p> <p>The maximum combined survivor benefit is 100 percent of the social insurance old-age or disability pension the deceased received or was entitled to receive; 50 percent if the surviving spouse is working or receiving a pension in his or her own right.</p>
<b>Contribution rates</b>	<p><b>21.6 percent of gross salary:</b> 12.8 percent by employer and 8.8 percent by employee.</p> <p>The minimum monthly earnings used to calculate contributions are the legal monthly minimum wage.</p> <p>The legal monthly minimum wage is Lek 24,000 (or around EUR 198).</p> <p>The maximum monthly earnings used to calculate contributions are Lek 105,850 (or around EUR 872).</p>

Source: National Legislation and Social Security Programs Throughout the World, Europe 2018.

## Coverage

### Pension coverage has remained very high in Albania.

In 2020, there were 605,000 individuals 60 years and above, while the number of pensioners stood at 651,000 of which 529,000 were old-age pensioners (that is, people 65 years and above). In contrast, contribution coverage is currently low, implying that the coverage of pensioners will fall to low levels. While there was close to full contribution coverage of the labor force in the pension system in 1994 (almost all employed individuals were also social insurance contributors), this has been decreasing over time. In 2019, the coverage of contributors (both urban and rural) stood at 67 percent of the labor force, unsurprisingly low given that close to 30 percent of workers are estimated to be informal. The introduction of the non-contributory social pension is expected to strengthen the future pension coverage of poor and vulnerable workers who are currently outside the system. However, there is a need to understand to what extent the social pension will reduce the gap in coverage among pensioners and its fiscal implications, which could be potentially large.

10,871 (EUR 89), with top-ups provided depending on the insured person's coverage period and earnings (accrues 1 percent per year). The minimum social pension in 2020 represented 41.5 percent of minimum wage and 20.3 percent of average gross wage, which is considered adequate. The average social pension in 2019 was well above the minimum pension, at 41 percent of average gross wages. This share was close to the EU27 average in 2016 and is higher than in other countries in the region (Figure 7). While the minimum and average pensions are considered adequate today, it is unclear how the reform may change adequacy. Since only around 9 percent of adults save for old age voluntarily, ensuring adequacy of the pension system moving forward will be especially important.

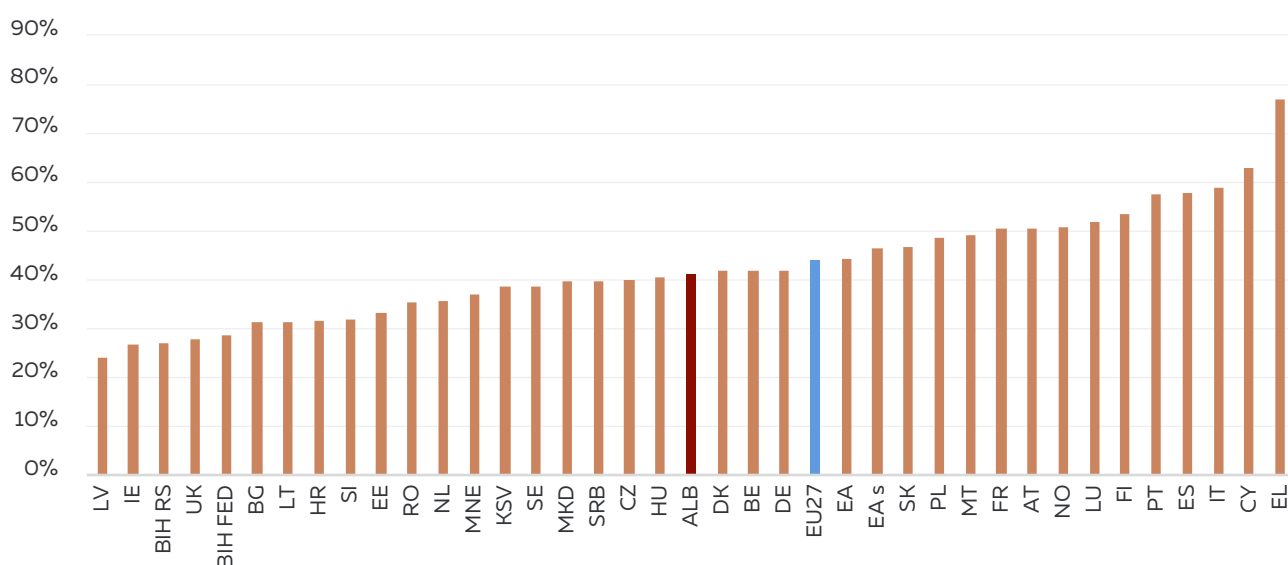
As seen in Table 3, the survivor's pension ranges between 25 percent (for eligible survivors) and 50 percent (for the spouse) of the old-age or disability pension of the deceased. The disability pension follows the same calculation as the monthly old-age pension, and it adds a supplement of Lek 3,300 or Lek 2,200, depending on the disability status (full or partial). Currently, the assessment for the disability pension is carried out by the ISS and do not use the new disability assessment system, which the MoHSP has introduced. Integrating these systems, or at least using the same methodology, could help ensure equity within the social protection system.

## Adequacy

### Given its fragmented system, the adequacy of each pension regime must be considered separately.

The monthly minimum old-age pension is Lek

**Figure 7: Average pension to average gross wages**



Source: 2018. European Commission, Public pension agencies in Western Balkan countries.



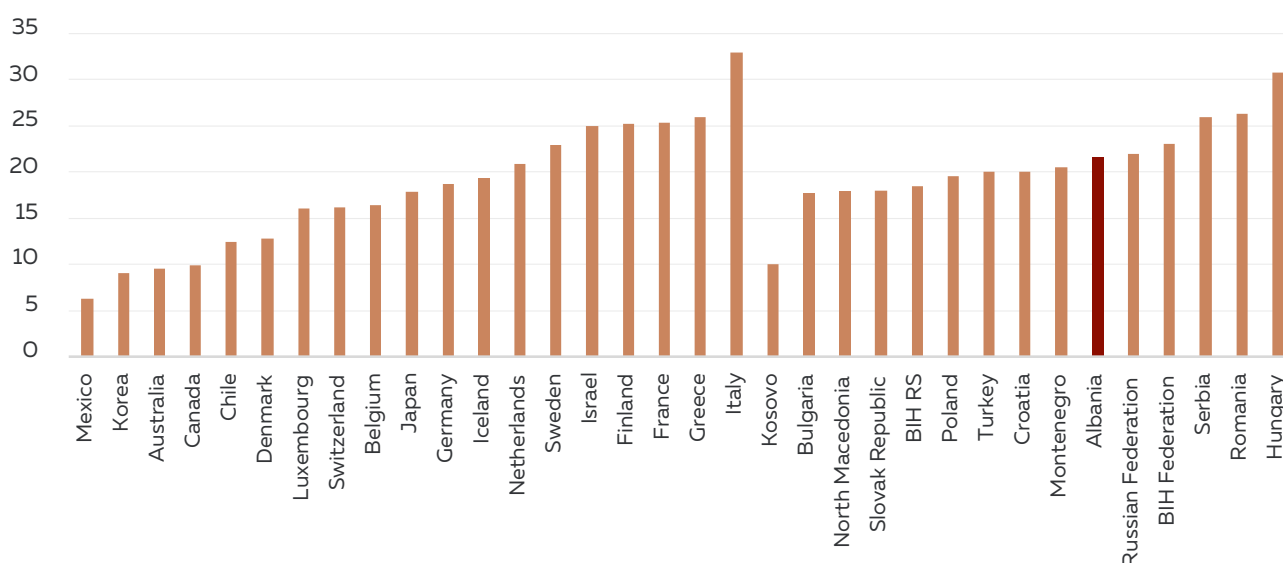
## Expenditure and sustainability

**Albanian pension expenditures are relatively low but a sizeable deficit must nevertheless be financed from the budget.** The Albanian pension system is a DB system funded by contributions, with state funding covering the deficit. While total pension expenditure increased between 2012 and 2016, it remained at around 7.4 percent of GDP until 2019, with a preliminary share in 2020 estimated at 7.7 percent. This places Albania at the lower end of the spectrum compared with Western Balkan countries and the EU27 whose average expenditures stand at 12 percent of GDP. However, it is noteworthy that Albania's deficit costs the budget around 1.7 percent of GDP.

**Albania has one of the lowest support ratios in Europe.** Given the high coverage of pensioners and low coverage of current contributors described above, Albania presents one of the lowest support ratios (number of contributors per 100 beneficiaries) of all the countries in Europe. Despite the 2015 reforms to control the number of early pension beneficiaries, informality and demographic trends have pushed this ratio down to 118 in 2019 and 113 in 2020 due to COVID-19's impact on unemployment. If the support ratio continues to deteriorate, the system's sustainability and ability to pay relevant pensions in the long run will be compromised.

**Given the already-high contribution rates, it will be difficult for workers to significantly cover future gaps in funding.** Albania's total contribution rate of 21.6 percent is close to the European average of 21 percent and higher than the Organisation of Economic Co-operation and Development (OECD) average of 18 percent (Figure 8). However, given the very low remunerations of Albanian workers, even if contribution shares are not low, they are not enough to pay for the total amount of pension benefits given by the system. As such, unless productivity and earnings increase, it will be difficult for workers' contributions to cover a larger share of the pension costs. Taken together, given the significant reforms that took place in 2015, it will be essential to analyze the long-term implications of the changes on the system's adequacy, sustainability and coverage for both the old-age pension and special regimes.

**Figure 8: Social security contribution rates for OECD and European Countries**



Source: OECD. 2019. *Pensions at a Glance (Edition 2018)*. Paris.

# Employment and active labor market programs

*Albania's employment agency has recently reformed its active labor market programs, and the reforms look promising but will take time to demonstrate results. Spending on labor market policies, however, continues to be low and only a small share of registered unemployed receives unemployment benefits or takes part in activation measures. The new monitoring and evaluation frameworks introduced will allow for more adaptive management of such programs, but the lack of a functional management information system poses a barrier to implementation. The generosity of unemployment benefits is low relative to the average wage, while social security contributions collected for the benefits are only partially spent on regular unemployment benefits.*

**The National Agency for Employment and Skills (NAES), subordinate to the Ministry of Finance and Economy, coordinates the implementation of active and passive labor market policies of Albania.**

The National Employment and Skills Strategy 2019–2022 is the guiding policy document. This strategy focuses on enhancing the institutional environment by prioritizing efforts such as reforming the design of active labor market policies, implementing an effective monitoring and evaluation framework and providing training based on a unified quality assurance framework. Donors have made significant contributions toward financing and reforming these labor market policies. Since 2015, the European Union has been providing support, while the Swiss Agency for Development Cooperation has supported the NAES with projects implemented by SwissContact and UNDP, respectively.<sup>51</sup> The German development agency Deutsche Gesellschaft für International Zusammenarbeit (GIZ) has supported the employment agency around the implementation of vocational training over the last four years.

**Recent legislative efforts have laid the institutional foundation for effective and evidence-based labor market policies.** In 2021, the government published a National Action Plan for Persons with Disabilities, which aims to increase the labor market participation of the 2.5 percent of the population who are disabled.<sup>52</sup> In March 2019, the new Employment Promotion Law<sup>53</sup> was adopted, creating a novel Social Employment Fund to finance employment programs for persons with disabilities and paving the way to establish the NAES (which replaced the National Employment Service). The NAES manages employment services and programs as well as vocational education training (VET). Additionally, the

new law redefined what can be financed as part of active labor market programs (ALMPs) to include self-employment programs and business incubators—thus facilitating an outsourcing ALMP delivery to non-public providers. It also redefined youth from 15–18 years to 15–29 years. In 2020, three decrees of the council of ministers (DCM) introduced eight active labor market policies: five policies were designed on the basis of previous evaluations and international best practices and three policies were designed in response to the COVID-19 pandemic.<sup>54</sup>

**Expenditures for active labor market policies relative to GDP are low in Albania compared with the EU and the Western Balkans.**

The directorate responsible for employment services support and operations spent EUR 12.2 million in 2019 (0.09 percent of GDP), the first increase in expenditures since 2016, when spending amounted to EUR 13 million (0.12 percent of GDP). This budget is allocated toward three strands: employment promotion programs, vocational training courses and unemployment benefits. In 2019, unemployment benefits made up one third of total expenditures, while spending on ALMPs accounted for 17.8 percent (vocational training) and 23.4 percent (employment promotion). Only 0.021 percent of Albania's GDP is allocated to ALMPs, significantly lower than comparable countries in the European Union or the Western Balkans (Figure 9). In 2020, the budget allocated to employment promotion programs increased by almost 50 percent, from Lek 390 million to Lek 590 million (or from around EUR 3.2 million to EUR 4.4 million). However, actual spending on these programs is considerably below the allocated budget.<sup>55</sup> This underspending arises from a combination of the impacts of COVID-19 pandemic on general services

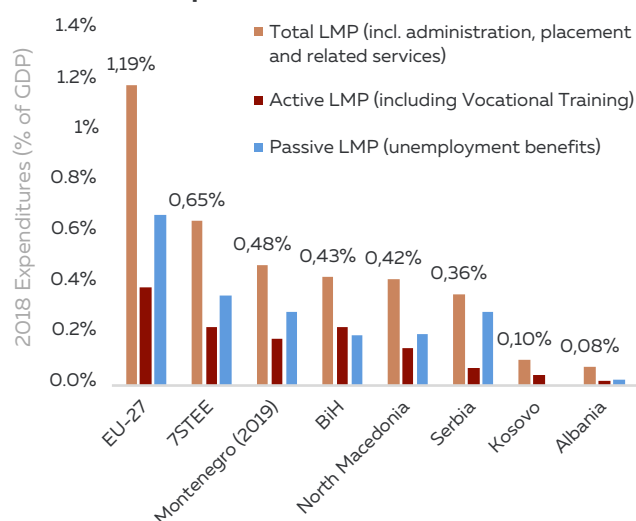
<sup>51</sup> Ministry of Finance and Economy (MoFE). 2019. "National Employment and Skills Strategy 2014–2020, Annual Progress Report 2018." Tirana.

<sup>52</sup> Ministry of Health and Social Protection (MoHSP). 2021. "National Action Plan on Persons with Disabilities." Tirana.

<sup>53</sup> The Employment Promotion Law 15/2019 dated 13.03.2019. See Annex 1 for more detailed information on changes introduced.

<sup>54</sup> See Annex 2 for detailed information on each ALMP, the relevant legislation and target group.

<sup>55</sup> In 2020, only 12.1 percent, or Lek 71.5 million, was disbursed despite a planned budget for active labor market programs (excluding vocational training) of Lek 590 million. It appears that the budget was used to cross-subsidize higher expenditures for unemployment benefits.

**Figure 9: Expenditure on labor market policies as percent of GDP, 2018**

Sources: EU-27/7STEE: Eurostat; North Macedonia: administrative data; Kosovo: NESS Progress Report 2018; Albania: NAES administrative data. Note: 7STEE refers to the seven small transition economies of Europe, namely Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovak Republic and Slovenia. Comparable data is only available for 2018, whereas the text references newer data from 2019.

delivery, the reforms of the programs—including the timing of their introduction in late 2020 and push-back from employment offices and employers.<sup>56</sup> As the reforms take hold, the allocated funding is expected to be fully utilized.

**Reductions in the number of jobseekers have led to a comparatively low caseload for counsellors, although regional disparities exist.** Staff at NAES are responsible for the registration of jobseekers, intermediation, counseling services, providing guidance, and preparing and checking eligibility documents for unemployment benefits. In 2020, there were 88,393 registered unemployed and 329 counselors, translating into a caseload of 269 jobseekers per counselor. While this is higher than those of European countries which average between 100 and 150, it is significantly lower than those of regional counterparts, which average between 600 and 1,100 jobseekers per counselor.<sup>57,58</sup> Within Albania, however, the number of counselors per registered jobseekers differs significantly, ranging from 195 in Berat to 667 in Elbasan. In 2019, employment offices registered 50,785 vacancies and 30,391 jobseekers found employment due to intermediations. In addition, each newly registered jobseeker is instructed to participate in a two-week soft-skills training course, which also helps to profile the participants.

Active labor market programs were redesigned based on past programs and international best practices, but coverage remains low. Five new ALMPs were introduced throughout 2020, namely a wage subsidy, an on-the-job training program, an internship program, a community employment program and a self-employment program. Additionally, a wage subsidy for formal workers and a formalization subsidy for previously informal workers were introduced as a response to the COVID-19 pandemic. Combined with beneficiaries from the old employment promotion programs, a total of 4,141 jobseekers, or 4.7 percent of registered jobseekers, took part in ALMPs other than vocational training. This represents a significant decline relative to previous years; the number of beneficiaries had been increasing consistently and in 2019, represented 7.5 percent of the registered unemployed (5,338 beneficiaries). More than a third of all beneficiaries were enrolled in COVID-related subsidies by the end of 2020, despite only having been introduced in September 2020. The largest non-COVID-related programs were the internship program targeted at recent graduates and a wage subsidy for participants of vocational training: 717 and 602 beneficiaries, respectively. Given the impacts of COVID-19 on the labor market, it is unsurprising that take-up of some of the ALMPs related to subsidized employment was low.

#### Active labor market programs do not yet adequately cover the most socially vulnerable groups.

The largest groups of jobseekers who participate in ALMPs (other than vocational training) are youth and short-term unemployed. In 2019, 69 percent of recipients of ALMPs had been unemployed for less than six months and 60 percent were youth up to the age of 29 years. In contrast, only 17 percent were long-term unemployed; 14 percent of participants were either current or former NE recipients; 4 percent were from the Roma and Egyptian community; and only 2 percent were persons with disabilities. The newly introduced programs may allow for a stronger focus on vulnerable groups, but continuous monitoring and evaluation will be required to ensure accessibility to those furthest from the labor market. The employment promotion law introduced quotas with an aim to (i) increase the participation of persons with disabilities in the labor market and (ii) finance more ALMPs for this target group using the Social Employment Fund. The latter is financed by employers who do not adhere to quotas but is not yet operational, as it is unclear who is to collect the levy from firms who do not employ the assigned minimum number of persons with disabilities.<sup>59</sup>

<sup>56</sup> Ministry of Finance and Economy (MoFE). 2021. "National Employment and Skills Strategy - Annual Progress Report 2020," no. June 2021. Tirana.

<sup>57</sup> Scharle, Ágota. 2018. "Comparative Study on Western Balkan's PES Performance." Bosnia and Herzegovina.

<sup>58</sup> European Commission. 2015. "Assessment Report on PES Capacity."

<sup>59</sup> The law states that employers are to hire one person with disabilities if they have more than 25 employees and an additional one for every 50 employees thereafter.

**Vocational training has good coverage, but many beneficiaries are youth who have only completed secondary education.** Almost a fifth of the budget allocated to employment services is currently expended on providing vocational training courses. In 2019, a total of 8,818 unemployed (or 12.4 percent of all registered jobseekers) graduated from one of the courses publicly provided in one of ten Vocational Training Centers (VTC). In recent years, a disproportionate share of men participated in vocational training, whereas women were more likely to benefit from other ALMPs such as wage subsidies, internship programs or on-the-job training. A significant number of young adults are using the 2- to 6-month courses as a shorter alternative to upper secondary school or vocational education; however, it is unclear to what extent these courses are aimed toward continued professional education. Most VTCs are located in urban centers (such as Tirana, Durrës or Vlorë), compounding the existing educational quality deficits for the rural population. An independent evaluation found that only around half of VTC graduates were employed the following year; however, most participants were satisfied with the quality of the courses.

**Continued vocational education reaches a relatively small number of students and does not provide enough work-based learning.** Currently, only 18 percent of students enrolled in upper secondary education attend vocational programs, much lower than the Western Balkans average of 58 percent.<sup>60</sup> Significant reforms (mostly legislative) have been implemented in recent years to improve the quality and image of VET,<sup>61</sup> although the country's novel legal VET framework has not yet been adopted to the full extent.<sup>62</sup> Meanwhile, challenges remain, including: (i) a lack of standardization in regard to the amount and type of work-based learning; (ii) little involvement of businesses and labor unions in shaping the curricula; and (iii) difficulties for VET institutions to establish partnerships with employers interested in providing training. Many of the implementation challenges are due to the limited involvement of the private sector when formulating laws given that their enactment depends on the participation and resources of private enterprises. Reforms such as the new VET Law in 2017 depend on the close involvement of the private sector in the design and delivery of training programs, but many of the mechanisms to channel the input from the private sector are either not functioning or are non-existent.<sup>63</sup> As a result, the skills taught at many vocational schools are not needed by employers, and graduates of VET schools face significant chal-

lenges in transitioning from education to work. The GIZ tracing study in 2017 found that only 41 percent of graduates from vocational secondary schools were in a work relationship, and a quarter were not in education, employment or training. To ensure skills are aligned with the needs of the labor market, the authorities need to ensure a standardized collection and dissemination of detailed labor market information on occupations and in-demand skills, and employer and worker organizations need to be more closely involved in VET.

**The redesign of ALMPs have introduced improvements but coverage and generosity remain low.** The reform of the ALMPs, and the broader institutional arrangements for their delivery, is very promising. However, considering that most active labor market policies were only established in 2020, it will likely take at least two years of implementation before their performance becomes apparent, at which point the first programs are to be evaluated. All labor market policies continue, however, to suffer from significantly low coverage and, where applicable, low generosity. ALMPs other than vocational training have covered less than 8 percent of registered jobseekers and despite an increase in the budget by almost 50 percent from the previous year, coverage is unlikely to increase due to higher expenses per beneficiary in the adapted measures. Increasing coverage requires both an increase in the budget allocated to ALMPs and investments in the human resources and other systems required to support their effective implementation. The generosity of wage subsidies is too low to generate effective take-up, as the program currently only subsidizes 4 of 12 months' salary while having strict eligibility criteria for firms, such as not having fired anyone in the four months prior.

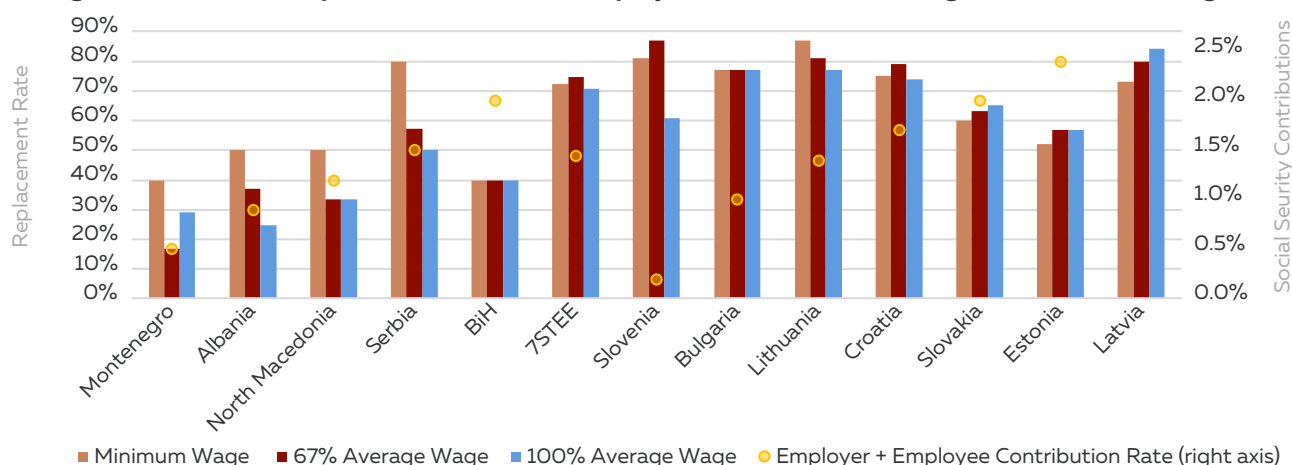
**Unemployment benefits have low regular coverage, and expenditures are not transparent.** In recent years, unemployment benefits have been paid out to less than 5 percent of the registered unemployed, and the monthly benefits are rather fixed at half the minimum wage, providing little incentive for formalization, upskilling or better job matching. This fixed benefit provides jobseekers with a relatively small replacement rate relative to those of unemployment benefits in comparable countries, although it also has a relatively low contribution rate (Figure 10). An individual who earned the gross average wage only receives 25 percent of their previous salary. In 2019, only Lek 504 million (or around EUR 4.2 million) of the estimated collected contributions of Lek 3,092 million (or around EUR 25.5 million) went toward the

<sup>60</sup> Sources: Eurostat: EDUC\_UOE\_ENRS04, For Albania: INSTAT Database. Pupils enrolled on upper secondary by type of school 2012-2020. For Kosovo: KAS askdata. Number of pupils in upper secondary education, 2015-2020. Note: data refer to 2018.

<sup>61</sup> Such as the Employment Promotion Law from 2019, the Albanian Qualifications Framework Law from 2018, or the new Vocational Education and Training Law from 2017.

<sup>62</sup> United National Development Programme (UNDP). 2020. "Review of Albania's Vocational Education and Training System Review of Albania's Vocational Education and Training System." Tirana.

<sup>63</sup> Examples include the non-functioning National VET Council or the establishment of so-called development units, whose responsibility is to "set up a cooperation mechanism with private companies to ensure availability of sufficient practical skills acquisition possibilities for students in work-place environments." (Source: UNDP 2020, pp. 9, 10, 103.)

**Figure 10: Albania's replacement rate of unemployment benefits is among the lowest in the region**

Sources: Albania: Institute of Statistics (INSTAT), Serbia: Statistical Office of the Republic of Serbia, BiH: Federal Bureau of Statistics Bosnia and Herzegovina, North Macedonia: MAKSTAT and OECD for the remaining countries.

Note: The graph indicates the replacement rate for three different levels of gross wages in the given country assuming a single individual with no children or other benefits. The replacement rate measures what share the unemployment benefit is relative to the beneficiary's previous income.

regular unemployment benefit scheme. At the same time, almost Lek 2,164 million (or around EUR 17.8 million) was paid out as special measures, such as to workers of the oil, mining and metallurgy industries or former members of the military.

**The lack of an updated management information system (MIS) prevents real-time adaptive management.** An analysis of the requirements of a newly designed MIS was finalized and procurement was completed in 2020, and testing and piloting of the system has begun. Until the system is fully functional, data availability is significantly limiting policymakers' ability to manage enrollment into ALMPs effectively, as figures indicating the constraints to increasing coverage are not accessible on an aggregated basis. While the agency has introduced new monitoring and evaluation frameworks based on international best practices, efforts such as impact evaluations or tracing of beneficiaries will be difficult to implement without a functioning information system.

**Vocational training is not demand-driven and legislative barriers prevent outsourcing of services to non-public providers.** While the coverage of jobseekers receiving vocational training has been increasing, the most successful schemes closely involve employers in aligning training programs with the demand for workers and skills. Effectively, there is little involvement of employers in shaping curricula or providing the training. Partly, this is due to fragmented labor market demands within the

country and the lack of an effective labor market information system which can provide regional offices with the relevant data. On the other hand, while outsourcing to non-public providers was made possible by the employment promotion law, the implementation of such measures has been hindered by missing bylaws.

**Collaboration with the Ndhima Ekonomike (NE) has improved, but beneficiaries continue to need layered support.** Support from the NE is limited to a period of five years and while benefiting from the program, individuals are required to register with the employment office and actively look for employment.<sup>64</sup> At the beginning of 2020, the MoHSP approved an Exit Strategy for NE beneficiaries, highlighted the need for inter-institutional mechanisms and emphasized active labor market policies that prioritize employment of NE beneficiaries.<sup>65</sup> The NAES thus plays a central role, together with the MoHSP, in supporting the movement of NE beneficiaries into the labor market. This is because NE beneficiaries often require social services and employment support to address their complex vulnerabilities. Such integrated service provision is recognized in the NE Exit Strategy. To date, implementation of the NE Exit Strategy has been limited due to the difficult financial and social context created by the COVID-19 pandemic and technical complexities of these measures, which require special focus of the MoHSP and strong coordination with the NAES.

<sup>64</sup> The NE provides time-bound support of 5 years to beneficiaries (with the exception of some categories of people, such as people under 16 years of age and caregivers), which makes the provision of integrated services to promote their employment all the more urgent.

<sup>65</sup> The Strategy represents one of the DLIs already achieved under the World Bank-financed Social Assistance Modernization Project. The aim of the Strategy is to support the NE beneficiaries to move from the program into the labor market through a comprehensive set of measures (from employment subsidies to training or communication campaigns) and is accompanied by an action plan.



# Learning from the COVID-19 response

*The double shock of the earthquake that hit Albania in November 2019, followed by the COVID-19 pandemic, erased much of the progress on poverty reduction. Government efforts to mitigate income losses through fiscal stimulus included higher social assistance benefits, extended unemployment insurance and wage subsidies for the formal sector. While government response to the crises mitigated job destruction and provided some relief, measures were not always effective in protecting incomes of the vulnerable, especially those in the informal sector. The crisis has highlighted the need to strengthen the social protection system to provide rapid support to households negatively affected by economic shocks.*

**Like other countries around the globe, Albania harnessed its social assistance programs to protect the poor from the COVID-19 pandemic.** Within its broader response to COVID-19, the government adopted measures specifically designed to protect the most vulnerable parts of the population from the economic impacts of the crisis. First, the government doubled the value of the NE benefit for April, May and June 2020 for those who had applied for the NE up to March 10, 2020,<sup>66</sup> reaching 63,510 beneficiaries; temporarily eliminated the need for in-person recertification every three months; and allowed applications to be submitted electronically or through the Post Office. Because of these changes, the number of NE beneficiaries increased by 11 percent, from 62,016 to 69,073 families between March and July 2020. Second, the government approved in the second half of April 2020 a one-off benefit (Lek 16,000, equivalent to EUR 132) for all the families that had applied to the NE between July 2019 and April 2020 and had data in the MIS, with 4,524 families receiving this payment.<sup>67</sup> Finally, an inter-ministerial committee chaired by Ministry of Defense was established to organize and deliver food and other support items for about 600,000 individuals identified by local governments as vulnerable. Most recently, the NE benefit was again doubled for the period of January to June 2021.

**The government's decision to double the NE benefit was an effective response, although this could have been better calibrated.** The decision to increase the NE benefit followed a broader trend in the region: other countries in the Western Balkans increased the value of the benefit to existing beneficiaries of their last resort income support programs, although

the rationale for such increases was not always clearly articulated or justified. Given that the NE appears to be well targeted, doubling the value of the payments provided an effective way of reaching those who were likely already poor and supporting them during times of income losses and increased costs of goods and services. However, in Albania, as in other countries, the rationale for the doubling of the benefit for an initial period of three months was not set out in relation to a specific objective or analysis. This suggests that the basis upon which the value would increase in response to shocks should be set out in advance and based on analysis of adequacy to achieve the stated objectives.

**However, while some effort was made to provide support to additional poor households, the full range of options through the NE were not harnessed.** The low coverage of the NE left many poor households exposed to the negative economic impacts of the COVID-19 pandemic. In recognition of these gaps, the government introduced two measures that aimed to specifically reach additional poor people: (i) providing a one-off payment to those whose data were in the MIS but who were not eligible for support; and (ii) delivering food and other support items to about 600,000 individuals identified by local governments as vulnerable. The first of these actions mirrored those taken by other countries, which used information in the MIS of their social assistance programs or their social registries to provide support to additional households, thereby expanding coverage of social assistance support. The MoHSP also noted an increase in the number of people applying to the NE, which resulted in a natural expansion of the program to those who were found to be eligible according to the USF. However,

<sup>66</sup> The measure was approved through the DCM no. 254 approved on 27.03.2020.

<sup>67</sup> Based on the Decision no. 341, dated 23.4.2020 of the Council of Ministers "On some additions and changes to the decision no.305, dated 16.4.2020, of the Council of Ministers, "On the determination of procedures, documentation and the amount of financial assistance for current employees and employees dismissed as a result of COVID - 19".

the government opted not to expand the coverage of the NE to additional poor households using the full range of program procedures. This could have included, for example, proactive outreach, increasing the eligibility threshold for the USF and paying the regular NE payment (or double payment) to the people who received the temporary response. To become more shock-responsive in the future, criteria are required to (i) determine how to identify people quickly for support when a shock occurs, such as modifying the USF; and (ii) establish the value and duration of the transfer to be provided for existing and new beneficiaries.

**For such a program to respond quickly to a range of shocks, it needs to be supported by established triggers and backed by contingency financing.** In addition to establishing the rules and procedures within the NE to identify who would receive support in response to a shock, for how long and at what level, rules are required to determine when such a response would be triggered. In some countries, a response through the social assistance system is triggered by data from the early warning system reaching a pre-determined level. This approach can be used for localized or larger (national) shocks and does not require a declaration of emergency by the national government. Other countries use the procedures that have been established within their disaster risk management system to identify and respond to crises. In both cases, when such a response is triggered, it is financed through contingency financing (or a budget reallocation) and follows the rules and procedures that are set out in advance, such that support quickly reaches households affected by the shock. The MoFE has commissioned an assessment of disaster risk financing options, which lays the foundation for further analysis of the cost of expanding the NE in response to anticipated shocks

**To prevent the firing of workers, in parallel to the social assistance response, payments were made to workers affected by lockdowns and loan guarantees issued to firms.** As part of the first package introduced in March 2020, the government made three monthly payments equal to the minimum wage of Lek 26,000 (EUR 214) to employees of businesses which had temporarily closed down as a result of COVID-19 restrictions and had a turnover of up to Lek 14 million (EUR 136,000).<sup>68</sup> A total of 65,574 individuals received payments in three instalments, with a total of Lek 5.1 billion (EUR 42 million) having been disbursed.<sup>69</sup> In the second package in

mid-April 2020, additional one-off payments of Lek 40,000 (EUR 329) were made to employees of large enterprises that had temporarily closed due to restrictions and to employees of smaller firms which were allowed to continue to operate.<sup>70</sup> The government also issued a loan guarantee in the amount of Lek 11 billion (EUR 90.5 million) to cover employee salaries for a three-month period, with interest rates fully covered by the government.

**Support was provided to those dismissed due to COVID19 and additional ALMPs implemented to support re-hiring efforts.** In the second financial package in mid-April, Lek 40,000 (EUR 329) was provided to all employees dismissed from the start of restrictions until May 17, 2020.<sup>71</sup> Under the second package, 173,019 individuals were sent one-off payments of Lek 40,000, totaling Lek 6.9 billion (EUR 56.8 million).<sup>72</sup> Those who were eligible to receive unemployment assistance received double the amount between April and June 2020; 2,823 job-seekers benefited from this measure. In addition, three ALMPs were established with a focus on labor market reintegration for the unemployed who had lost jobs due to COVID-19.<sup>73</sup> Two of these programs provided wage subsidies of half the minimum wage to previously formal workers and paid the employers share of social contributions for the duration of four months for one program and eight months for the other. Combined, a total of 1,161 individuals benefited from wage subsidies, with almost all beneficiaries enrolled in the eight-month subsidy (only 30 of the total beneficiaries received the four-month contract and subsidy). The third program aimed at formalizing employees by covering the full cost of social contributions for 12 months if a self-identified informal employee received a formal employment contract. Through this initiative, social contributions of 560 individuals were covered in 2020. All three wage subsidies will be continued throughout 2022 and, up until June 2021, supported 695 workers.<sup>74</sup>

**Finally, while Albania harnessed its unemployment insurance system to respond to the COVID-19 pandemic, it took more modest steps than other countries.** Over 90 percent of countries in Europe and Central Asia used their unemployment insurance systems to respond to the COVID-19 pandemic. As Albania doubled the amount of unemployment benefits for three months, other countries went further. Serbia and Croatia, for example, facilitated procedures to apply for unemployment benefits. Latvia and Lithuania expanded unemployment benefits for the self-employed and introduced an

<sup>68</sup> Council of Ministers Decision No. 254 dated 27.3.2020 (amended), 'On the procedures for the financial support to the employees of businesses with turnover up to Lek 14 million, economic support and unemployment benefits due to the COVID-19.'

<sup>69</sup> Republic of Albania, 2021. 'Economic Reform Programme 2021-2023.' Tirana.

<sup>70</sup> Council of Ministers Decision No. 305, dated 16.4.2020, 'On the procedures for the financial support to the current employees and the unemployed due to COVID-19.'

<sup>71</sup> Council of Ministers Decision No. 423, dated 28.5.2020, 'On the changes and additions to the decision No. 305, dated 16.4.2020, 'On the procedures for the financial support for current employees and the unemployed due to COVID-19.'

<sup>72</sup> Ministry of Finance and Economy (2021). 'Economic Reform Programme 2021 – 2023.'

<sup>73</sup> Council of Ministers Decision No. 603 dated 29.7.2020, 'On the procedures, criteria and rules for the implementation of the employment promotion program through the employment of unemployed persons as a result of COVID-19.'

<sup>74</sup> Jorgoni, Elira (2019). ESPN Thematic Report on In-work poverty – Albania, European Social Policy Network (ESPN). Brussels: European Commission.

unemployment assistance benefit for the unemployed who would not otherwise qualify for the regular unemployment benefit. These experiences suggest that Albania may consider setting out rules that would govern the response to shocks through the unemployment insurance system, including a careful consideration of options to relax some of the stringent eligibility criteria and extend benefit duration.

**As a result of government responses, Albania's poverty and economic outcomes appear to have suffered less than expected, although the measures were not always effective in protecting incomes of vulnerable,** especially those in the informal sector. Albania's latest poverty projections suggest an increase of 4 percentage points, as discussed in the section above on poverty and labor market trends. Formal employment had a net increase, whereas total employment fell by 1.8 percent in 2020, showing that the formal sector was more resilient than the informal sector. Meanwhile, labor force participation declined, especially among youth, and unemployment increased steadily since the second quarter of 2020, especially for adults 30–64 years old.



## Reform priorities

Albania has initiated a range of reforms to improve the adequacy, effectiveness, equity and sustainability of its social protection system, and they should be sustained and furthered. Albania has demonstrated a strong commitment to improving the effectiveness and equity of its social assistance programs through the reform of the NE and the ongoing reform of the Disability Assistance program. A similar commitment to improving the adequacy, effectiveness and sustainability of social services is evidenced by the adoption of the 2016 Law on Social Services and recent progress toward local level planning and more sustained financing. Similarly, recent legislative efforts have laid the institutional foundation for effective and evidence-based labor market policies and these now need to be reinforced through sustained funding, investments in implementation capacity and a continued commitment to evidence-based learning. These efforts enjoy support from a range of development partners, including from the World Bank and European Union,<sup>75</sup> which highlights the need for effective donor coordination to further these efforts.

Building on this progress, this section outlines reforms in the short, medium and long term that could help further strengthen the country's social protection system to address key challenges faced by Albanians. The government is already acting on many of these reforms, with a commitment, for example, to expand the DA nationwide, increase the value of the NE benefit and improve access to quality social services and employment support. Additionally, as demonstrated by the COVID-19 pandemic, making the social protection system more flexible to respond to economic and climate-induced shocks quickly and effectively can offer a cost-effective means of protection the poor. Finally, the continued high rates of poverty in Albania suggest that there may be value in considering extending the NE to additional poor households, who fall just above the cut-off threshold for support yet continue to face severe hardship. The table below summarizes reform priorities in the short, medium and long term.

**Table 4: Recommendation matrix**

Short-Term	Medium-Term	Long-Term
<b>Cash transfers to support the poor, and vulnerable and persons with disabilities</b>		
<ul style="list-style-type: none"> <li>Review delivery systems to ensure the poor and vulnerable are being reached.</li> <li>Introduce periodic updates of the Unified Scoring Formula based on evidence.</li> <li>Adopt a regular review of the adequacy of the Ndihma Ekonomike (NE) benefit and a mechanism to inform a periodic increase.</li> <li>Implement the NE Exit Strategy by providing employment and social support to eligible NE beneficiaries.</li> <li>Provide continuous training to physicians in the Tirana, Durrës and Elbasan region on the new disability assessment reform.</li> <li>Develop a training strategy, complemented by an action plan, for the Disability Assessment (DA) reform.</li> <li>Increase the capacity of the Appeals Committee.</li> <li>Improve the DA forms and guidelines.</li> <li>Develop a monitoring system for the DA reform.</li> </ul>	<ul style="list-style-type: none"> <li>Implement the regular review of the NE benefits to ensure consistent adequacy.</li> <li>Review the "other benefits" to which NE beneficiaries are entitled.</li> <li>Increase the powers of the Social Inspection Department to address DA-related error, fraud and corruption.</li> <li>Establish a permanent DA training unit/team in State Social Services (SSS) composed of internal and external training experts.</li> <li>Scale up the new disability system to the whole country.</li> <li>Reform the disability assessment for persons with "status" to ensure the equity of the system.</li> <li>Estimate the cost of disability to reform the disability benefits.</li> <li>Adopt case management to support the provision of integrated cash benefits with social services and employment support (see Social Services below).</li> </ul>	<ul style="list-style-type: none"> <li>Reform the disability benefits (monetary disability benefits, personal assistance, assistive technology, sanitary package) to respond to the individualized needs of persons with disabilities.</li> <li>Consider expanding the coverage of NE to additional poor people.</li> <li>Assess the social pension for current performance and projected future rates of coverage, costs, among other.</li> <li>Introduce reforms to the "other benefits" based on the findings of the analysis (proposed under medium-term).</li> </ul>

<sup>75</sup> The EU delegation recently launched the program on EU support to Social Inclusion in Albania under IPA 2019 (2020–2025); the main focus is on strengthening social inclusion by increasing coverage, inclusiveness and effectiveness of social care services and the provision of inclusive education and employment opportunities.

Short-Term	Medium-Term	Long-Term
<b>Social services</b>		
<ul style="list-style-type: none"> <li>• Ensure the full use of the management information system (MIS) for social services and a monitoring and evaluation (M&amp;E) system based on it.</li> <li>• Establish standards for the remaining social services such as community-based services and services for persons with disabilities.</li> <li>• Expand financing for the Social Fund.</li> </ul>	<ul style="list-style-type: none"> <li>• Learn and apply lessons from the preparation of Social Plans by local governments.</li> <li>• Put in place secondary legislation to support the procurement of social services from non-public providers.</li> <li>• Strengthen the capacity at the central level to support local government units to assess their needs and prepare Social Plans.</li> <li>• Strengthen the capacity at the central level to monitor and inspect social services (staff and instruments).</li> </ul>	<ul style="list-style-type: none"> <li>• Develop case management services at regional and local level for poor and vulnerable people (including for persons with disabilities), supported by a skills development plan for social workers on case management.</li> <li>• Evaluate and refine the mechanism for financing social services.</li> <li>• Support and monitor the implementation of social services at the regional and local levels.</li> </ul>
<b>Pensions</b>		
<ul style="list-style-type: none"> <li>• Assess the long-term implications of the current parameters on the system's adequacy, sustainability and coverage, for the old-age pension and special regimes.</li> <li>• Monitor the evolution of and measure the impact of key parameters such as pension expenditures, contributors and contributory income, replacement rates, and average retirement ages to keep track.</li> </ul>	<ul style="list-style-type: none"> <li>• Explore complementary sources of retirement income for low- to middle-income individuals.</li> </ul>	<ul style="list-style-type: none"> <li>• Reform specific aspects of the pension system, such as special regimes and coverage of rural pensions based on evidence and analysis.</li> </ul>
<b>Employment and active labor market programs (ALMPs)</b>		
<ul style="list-style-type: none"> <li>• Operationalize the MIS and ensure effective implementation of impact evaluations in advance of the required execution.</li> <li>• Expand capacity building/training of the National Agency for Employment and Skills (NAES) counsellors for employer outreach, proactive case management and specialized support for vulnerable groups.</li> <li>• Assess the feasibility and procurement methods of outsourcing services or programs by non-public providers. The assessment may consider issuing vouchers as a first step to diversify training provision.</li> <li>• Ensure effective linkage of the NE Exit Strategy and active labor market programs.</li> </ul>	<ul style="list-style-type: none"> <li>• Systemize the collection of employers' skill needs and allow for a dynamic redesign of ALMPs to the labor market's demand for skills.</li> <li>• Finalize implementation of the labor market review, identifying labor-skills trends and needs for a NAES intervention.</li> <li>• Consider options for upskilling special target groups such as seasonal workers in tourism or agriculture.</li> <li>• Modernize the application process for unemployment benefits.</li> <li>• Finalize the implementation of the 2017 VET Law by passing the necessary secondary legislation.</li> <li>• Institutionalize the involvement of the private sector in the areas of course development, work-based learning, and accreditation and certification.</li> </ul>	<ul style="list-style-type: none"> <li>• Reform and carry out a detailed analysis of unemployment benefits to inform the revision of parameters, including: (i) duration of benefits; (ii) period of contributions, with flexibility to accommodate; and (iii) contribution rate.</li> <li>• Pilot individual learning accounts for workers to accumulate training that fosters lifelong learning.</li> </ul>
<b>Disaster preparedness and response</b>		
<ul style="list-style-type: none"> <li>• Assess the response of the NE and other social protection programs, including social services and the role of social workers to the COVID-19 pandemic and the 2019 earthquake.</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce a crisis modifier into the NE, which would include (i) the fast identification and coverage of new beneficiaries; and (ii) the value and duration of the transfer for existing and new beneficiaries.</li> <li>• Identify financing mechanisms, including a reserve fund and budget reallocation.</li> <li>• Ensure payment systems can function during crises.</li> <li>• Map (internal/external) actors with responsibility to contribute to disaster response and establish mechanisms for coordination, with a particular focus on strengthening social workers to support services for the poor and vulnerable in a post-crisis context.</li> </ul>	<ul style="list-style-type: none"> <li>• Building on the NE MIS, develop a social registry that could rapidly identify and cover additional beneficiaries during crises.</li> </ul>

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