



# **SOCIAL INCLUSION AND SOCIAL PROTECTION IN ALBANIA**

## **Executive summary**

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## MAP OF ALBANIA



## **THE STUDY**

Following the collapse of the communist regime in 1991, Albania embarked on a series of structural reforms towards democracy and free market economy. The liberalization and privatization reforms in Albania – one of the most centralized economies of the former communist block, led to the entire transformation of the national production structure. This process had a tremendous impact on the country's economic and social affairs. This complex situation came about partly as a result of the institutional failure. Social protection was among many aspects of socio - economic life where institutions failed to provide a solid frame for transitional reforms. Vulnerable social groups “at risk” of being excluded or fall into the poverty trap could not be properly dealt by social policies and social protection, thus leading to widening gaps between those groups and the rest of society.

Seventeen years from the fall of communism, following the completion of many reforms and improved economic conditions, the need for qualitative social services and protection has become more prominent. Efforts to improve social protection and inclusion are being intensified. This has brought the need for monitoring especially in terms of the link between poverty reduction and social exclusion, so that reducing poverty does not bring more social exclusion and social gaps between different social groups.

Tackling social problems through proper policies and institutions is being ranked high at the national political agenda, as a result of many factors related to the country's stage of transition and economic development as well as Albania's efforts to successfully fulfil the Stabilization and Association Agreement requirements and get closer to the EU accession.

The purpose of this study is to provide an overview of Albania's accession perspective in the area of social protection and social inclusion. The report aims to present up-to-date and relevant analysis and information on the structure of Albania's social protection system, the extent and pattern of poverty and social exclusion and the envisaged plans for reforms of pension and healthcare systems.

The report describes Albania's macroeconomic situation through a “cause-effect” framework linking transition economic reforms with their effect on the macroeconomic performance. Reforms related to the financial markets specifically in terms of banking, exchange rate and foreign reserves, foreign trade and economy openness process, interest rates, inflation and economic growth are discussed and described.

## **ECONOMIC FINANCIAL AND DEMOGRAPHIC TRENDS INFLUENCING THE SOCIAL PROTECTION SYSTEM**

The population of Albania today is 3.6% lower compared to 1989 and the average age has increased from 27 to 31 years. This demographic change was mainly caused by the massive emigration of an estimated 1.2 million people mostly of working age; a drop in the birth rate; and an increase of average marriage age as well as the application of family planning methods. Furthermore, following waves of internal migration now 48 % of the population live in urban areas compared to 35% in 1991.

Children and young people represent 46% of the population, making Albania one of the youngest countries in Europe. As a direct consequence of the structural changes, the entire population is exposed to a series of risks related to the economic status of individuals and households as well as limited access to services.

Albania has experienced a sustainable pace of economic growth at an average annual rate of around 6%. Although reforms have tackled all sectors of economy as well as basic services such as education, health and social care, insurance and other protection systems, government structures are still not able to respond adequately to the needs of marginalized and vulnerable groups due to limited financial and human resources as well as inefficient institutional capacities. Therefore, Albania today is facing important challenges on social protection, fight against poverty, inequality and the need to modernize the health and social protection systems based on European standards.

Despite the sustained economic growth, Albania is still one of the poorest countries in Europe. Although the country moved into the group of countries with a high human development index as reported by the UNDP's Global Human Development Report 2007 (68<sup>th</sup> position with a HDI of 0.801), Albania's GDP per capita stands at 5316 USD (PPP) which is well below the countries of the region.

The Albanian economy remains fragile as foreign and fiscal deficits are still high. Unemployment in Albania, though high by western European standards, is lower than in many neighbouring countries, (Macedonia 36 percent, Serbia 24 percent, and Bosnia 32 percent). Data are supplied from administrative sources that indicate a sharp increase of unemployment during the early 90s. INSTAT conducted for the first time, in 2007, a Labour Force Survey, presenting the research results of unemployment. From this survey, the unemployment rate appears to be as 13,5%, which is nearly the same (13,3%) as reported by administrative sources. It was also interesting to note from the survey results that rural areas have an unemployment rate as low as about 5%, while in urban areas it is about 25%. This difference can be explained from the definition that INSTAT<sup>1</sup> uses for people living in the rural areas, considering them as self-employed even in cases of subsistence farming.

Informal economy constitutes a serious issue in Albania and the measurement of its size is a real challenge. Albania's informal sector is believed to range between 30 to 60 percent of the nation's GDP and is present in agriculture, construction and microeconomic businesses like trade and manufacturing. Informality has been a feature that has noticeably penetrated labour markets as well. There is a large share of employment that takes place under informal arrangements outside the coverage of labour legislation and social insurance. Informality, while contributing to the alleviation of certain social problems such as poverty, income inequality and unemployment, has led to a worsening gender gap in employment, high drop out of schools and low access to public schooling, financing or health services of those engaged in informal activity.

More than a quarter of the population and over 35% of the active work force have migrated abroad. One of the most direct effects of migration abroad was the flow of

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<sup>1</sup> LFS 2007: individuals working in their small farms that do not sell their products, but produce them only for their own consumption, are considered as self-employed. [www.instat.gov.al](http://www.instat.gov.al)

remittances to emigrants' families. One in three households has declared to have someone of its family as an emigrant abroad while more than 65 percent of these households receive remittances<sup>2</sup>. Remittances have had an important influence in the economic life of the country at microeconomic and macroeconomic levels. During 2000-2006, remittances have been evaluated by Central Bank of Albania to represent 13.8% of GDP. Remittances inflows have been 133% higher than income in foreign currency from tourism, or 65% higher than income from trade or four times the foreign investment flows. This influx of foreign currency has been a saviour of the macroeconomic stability.

Although, migration and remittances have had a positive impact on the living standards of many families and the economic development of the country at large, by supporting daily consumption needs, they often have discouraged the participation in the labour market of females and middle aged persons in difficulties of adjusting to the new labour market demands. This has caused their exclusion from the labour market making them dependent on remittances.

## **THE SOCIAL PROTECTION SYSTEM IN TRANSITION**

The characteristics of the national social protection system are at the heart of this report. The background, current trends and developments of the social protection and social policies are scrutinized in detail by providing information and analysis on the range of benefits the system foresees together with their time patterns.

Based on guidance from the EU, the government of Albania has tried to integrate social policies in the National Strategy for Development and Integration (NSDI) by involving all actors and stakeholders through open consultation. The Social Inclusion Strategy is an integral component of the NSDI and focuses on poverty and social exclusion risks in Albania. It is a crosscutting strategy and is fully consistent with the underlying sector strategies especially those that focus on vulnerable groups. The strategy outlines the government's strategic direction and provides the monitoring framework against which progress can be assessed. Its final objective is to pave the way for the preparation of a social inclusion action plan, which is a standard requirement for European Union accession.

On the other hand, the social protection sector strategy as a part of social inclusion crosscutting strategy, envisages concrete objectives for poverty reduction and the provision of services for groups in need. It is based on the priorities of the Government Programme on social policies, poverty reduction, improvement in the quality of life for groups in need and support for them to be included in the community development.

The public social protection system offers limited coverage of social services, targeted to some categories of people in need: the elderly, disabled people and orphans. The social protection system in Albania is designed to provide protection against the known social risks based mainly on contributions made by both employers and employees. From the experience of the EU countries, this type of system works well

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<sup>2</sup> "Albania Urban Growth, Migration and Poverty Reduction", World Bank , Poverty Reduction and Economic Management Unit, December 2007

in the context of high formal employment, which has been the characteristic of Albania's previous system. Referring to the situation of Albania's labour market demands, the demographic tendencies of reducing the birth rates, increasing life expectancy, migration, changes in the family patterns and traditional values are raising questions of whether the current system of social protection is in fact the appropriate one for reaching at least the minimum standards on the provision of minimum standards on social security, in cases of old age, death, sickness, maternity, disability, employment injuries and occupational diseases, unemployment and health care. Even if under the current social protection system in Albania, most of these categories are covered, there are many necessary improvements to be made in terms of the quality of the services offered. The social and demographic situation, influenced by economic changes, inflicts an increasing need to introduce new social protection schemes for families and children.

The concept of block grant allocations has been part of economic assistance policy since 1993 when the economic assistance scheme began to function. The economic assistance program that can be either partial or full is based on testing the living means and is totally financed by the state budget. The management and distribution of economic assistance to each recipient family is done by economic assistance units of Municipalities and Communes. The dynamic of *Ndihma Ekonomike* (Economic Aid) is expressed by the movement of the benefiting families in two directions: (i) families that meet the conditions for benefiting from NE and are included in the scheme; and (ii) families that due to improvements of social-economic status or failure to meet the conditions are forced out of the scheme.

There are two main kinds of social assistance cash benefits that are delivered by the social assistance sections in municipalities and communes and monitored and evaluated by the State Social Services at the national level. While income support (*ndihma ekonomike*) aims in principle to guarantee the minimum standard of living, as defined by Council of Ministers' decision, disability benefits are provided for those with health conditions from birth or young age, as assessed by a medical commission. In addition, there exists a subsidy scheme that reimburses part of the electricity bill to the poor and other eligible households and a system of social services in residential and day centres that offers psychosocial support, awareness raising and representation.

Social contributions are the main source of finance for social protection schemes such as social insurance, health insurance and unemployment insurance benefits. The state plays the role of the contributor for special groups, along with the economically active population.

The public social/health insurance schemes (compulsory, voluntary, supplementary) are financed on a pay-as-you-go basis, with separate budgets from contributions of the economically active population (employers, employees and self-employed). A reserve fund has been created, financed by contributions and the state budget. The aim of this reserve is to fill any financial gaps between the periods of contribution collection in order to ensure that the system functions without interruption. In addition to pensions, the social insurance system provides sickness, or temporary incapacity to work benefits and maternity benefits. Both of these branches of social insurance regularly run surpluses, which are transferred to the pension's branch in order to cover deficits there.

In Albania there is no specific family benefit, or program on child welfare. There are some supplementary compensations to the amount of pensions and of unemployment benefits for children/family members under their dependency, as well as compensations related to the increase of the price of bread and electricity, all financed out of the state budget. The Government Strategy has not planned any program on child protection, except the program of the Ministry of Education.<sup>3</sup>

## **POVERTY AND SOCIAL EXCLUSION**

Living conditions in Albania have improved since the collapse of communism. Some urban areas – particularly Tirana have improved at a much faster pace compared to rural areas, which are lagging behind.

Social exclusion in Albania comes as a result of poverty, weak governance, slow decentralization, insufficient social policies, inefficient targeting of poor households as well as inadequate implementation of laws. There are big gaps between people living in urban and rural areas, between those living in the north and those in the rest of the country, and particularly between Roma/Egyptians and the rest of the population. According to various studies and policy papers, the most affected groups in Albania are children in need, exploited women, disabled (mentally/or physically) people, unemployed persons; pensioners and elderly people as well as Roma and Egyptians.

The calculation of absolute poverty line in Albania is based on the World Bank methodology with the data collected through the LSMS. The percentage of population under poverty absolute line has decreased significantly during the period 2002 – 2005. Indeed, the number of people below the national poverty line fell from 25.4% of the population in 2002 to 18.5% in 2005. This reduction is explained by the sustainable growth rate experienced during this period accompanied by the high level of remittances. The reduction of poverty in absolute terms has been more significant in urban rather than in rural areas.

On the contrary, poverty measurement according to the EU Laeken methodology shows that poverty rates have increased between 2002 and 2005. However, there is a substantial difference between the poverty situation in the rural and urban areas. While poverty rates are higher in rural areas, the opposite has happened in the urban areas where a reduction of poverty has been observed. The same trend is observed on both poverty depth and severity. The capital Tirana and mountainous areas have both experienced significant reduction of poverty.

After 2005, social policies documents have tried to target all vulnerable groups in view of EU objectives on poverty and social exclusion and taking into consideration the Laeken indicators as a tool on describing and monitoring poverty reduction and exclusion. Laeken indicators are partially used but still in these documents poverty measurement and its assessment refer to the absolute poverty line. This is the reason why it is possible to observe a significant reduction of poverty in the country. However, relative poverty definition shows an increase of poverty. The confusion originating by the two definitions can lead to an incorrect monitoring of the trends of

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<sup>3</sup> Hitendra Pillay, Alda Duraj, “Supporting inclusive education for disadvantaged children with articulation to EEE-P and EFA initiatives”, Draft Report - June 2007.

poverty and to the implementation of improper social policies. A sustainable and well coordinated system for valuation and monitoring becomes the real challenge for Albania's social policies.

## **THE PENSIONS SYSTEM**

The report provides a general overview of Albania's social security system and its challenges in terms of informality of the labour market, contributions' evasion and the discrepancy of the pension system.

Albanian social insurance system after 1993 inherited from its past the comprehensive insurance coverage against the risk of old age, disability, death, short term illnesses, poor health, and unemployment. The system is based on contributions paid by employers and employees. Before 1972, the rural sector in Albania was excluded from the social insurance scheme. As a result, the new system in Albania inherited a considerable differentiation between both these systems and a relatively low retirement age in 1993.

Insufficient benefits for a normal standard of living and the diminution of financial sources of the scheme due to factors such as the age structure of the population put increasing social and financial pressure on the government and other institutions in charge of social policies. The inclination of the government policies to increase lower pensions, have favoured contributions for the rural area and have generated inequality between different categories.

The age pension increase for women and men respectively to 60 and 65 (from 55 to 60 up to 2002) will temporarily slow down the trend of increasing number of pensioners until 2012 – 2014 and will keep the balance between the contributors/beneficiaries ratio provided that the contributors' participation will be expanded. In Albania, only 8.5 percent of the population over 65 years old have a pension, meanwhile the population benefiting from the Social Insurance System is 17 percent. The trends of the pension's scheme are not so enthusiastic. The dependency ratio for the year 2007 is 0.61, the replacement rates are 43.85 percent in urban areas and 23.47 in rural areas. The minimum monthly pension in urban areas is 85 Euros, whereas in rural areas, the full minimum pension is 51 Euros. Both these figures include some additional compensations for the prices of energy, inflation etc.

The nominal deficiency of the pension system during the last five years (considering the percentage of contributions collected only for the pension scheme), results in the average of 0.8 percent of GDP.

High contribution rates, weak relationship between contributions and benefits, and the influence in accumulating revenues, have encouraged high rates of evasion in the private sector. Such a contributive pension system, does not offer a wide protection to other categories in risk of social exclusion (i.e. the benefit of people at risk of exclusion, services and accompanying measures which will allow them effective access to education, justice and other public and private services, such as culture, sport and leisure). Due to this fact, as well as the inequality between rural and urban pensions, a considerable number of poor families, especially in rural areas, face the risk of social exclusion.

A country like Albania, with considerably dynamic demographic indicators, needs to pay more attention to the reformation of contribution accumulation system and establishing a more redistributive scheme. In this context, the best option would be to reform the existing scheme, reconsidering the level of contributions and the calculation of benefits.

The private pension system in Albania is in its early beginning, if not “inexistent”. Based on current conditions of the capital market in Albania, what is known as the Third Pillar seems to be untimely, considered by two viewpoints: both its placement in the market and the lack of an attracting financial environment. Apart from these reasons, which carry a financial risk for originators, the financial situation for most of eventual contributors is still at low levels.

As regards to private pensions, from a general point of view, the law gives far too much flexibility to the pension institutions to design and establish pension schemes in any way they wish. But the pension law should place significant restrictions on the design of the pension schemes – the types of schemes that can be offered, eligibility, manner of calculation, distributing profits and types of benefit payout provisions. The existing law<sup>4</sup> is extremely short and omits rules in many critical areas for the safety of the system.

## **THE HEALTH AND LONG-TERM CARE SYSTEMS**

Over the past decade, Albania has embarked on a number of reforms aimed at improving access to a health system that provides comprehensive quality services and protects vulnerable groups from the impoverishing effects of ill-health, while still ensuring the system’s fiscal sustainability.

The report analyses in detail Albania’s healthcare and long-term care following the principles of the first European plan on healthcare and long-term care. Albania spends a below average share of GDP and of total public expenditures on healthcare. The total expenditure on health as % of GDP in 2005 was 6.5 (WHO) and has been increasing since 2006.

Public funds are not utilized to protect the poorest segments of society from health expenditure induced poverty. Public funds are allocated on the basis of inputs rather than the population’s health needs and providers’ performance. Therefore, Albanian healthcare system is beginning to face expenditure pressures similar to those experienced in other transition economies, namely, an increased demand for higher cost healthcare. Curbing these pressures, while also ensuring that the system adequately protects the population from health induced poverty, will require substantial changes in the way resources are allocated and utilized.

Family finances are quickly exhausted by costly health care. The particular health needs and vulnerabilities of women also need to be considered in the health system and the development of improved living conditions. Demographic changes and ageing create growing health equity challenges.

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<sup>4</sup> Law No7943, date 01.06.1995 “On supplementary pensions and private pension institutes”.

Government policies in Albania are aiming towards health equity in order to ensure that the poor are not excluded from their human right to a fair share of societal resources. The health chapter has been elaborated against the background of the new strategy for health care proposed by the Ministry of Health and takes into account high demographic changes and movement of population from rural areas. The Government of Albania has identified as a priority the need to ensure equal access for all; reduce health inequalities in outcomes; guarantee safe and quality of care; and manage the introduction of new technology for health.

## **KEY CHALLENGES**

The report concludes with a series of conclusions based on current challenges and ideas that the team believes should be the focus of attention in the near future.

### **Challenges concerning social protection and social welfare system**

Albania is a country with many natural and human sources and it is keen to follow the process of European integration through different reforms. However, while some integration processes have moved faster than other countries, some others have lagged behind. One of those processes that need more attention is the systemic reform of Albanian social services. Reforms need to focus more on institutional capacity building in order to increase the transparency and the quality of services.

The system of social protection for the unemployed is relatively weak, since only a small portion of the unemployed is eligible to receive unemployment insurance benefits. This is explained by the fact that the current system foresees benefits only for those who have paid social contributions during their last year of employment. The high level of economic activities in the informal sector means that the portion of benefits is small.

Financing is one of the challenges for a sustainable and adequate social protection system. Aspects of the social system finances, the funding sources of social protection system, and the destination of those financial resources are considered in detail. Indicators on the efficiency of the system on allocating funds are analysed especially in view of the objective of implementing a social policy that complies with national and EU objectives of social inclusion and protection.

From the analysis of the current social protection, the need for the integration of different institutions of the system, as well as the cooperation of different actors emerges as the first conclusion. The future reforms may focus more on treating the system as a whole, where any change in one scheme to be part of the integral consequences in others.

A close partnership with NGOs and business communities needs to be forged in order to support the limited government resources at the regional and local levels. To avoid the risk of regionalization in guaranteeing the social rights, the integration of activities of various institutions at different levels such as the Ministry of Labour and Equal Opportunities, Ministry of Health and Ministry of Education, institutions responsible for social protection schemes, regional/local authorities, as well as with the private sector, is necessary to develop an effective social protection system.

Social statistics in Albania are still weak. Different institutions are using their own administrative indicators which are not referring to the official national statistical office. The informatisation process that has started in most of the agencies responsible for the administration of social protection schemes needs much support, first to do the real analysis and evaluation of the programs, and secondly, to avoid the corruption in the system.

Additional challenges that the actual system faces are the provision of social protection benefits in the future for the entire population, which has been the main feature of the previous system, at least for old-age pensions. In addition, the provision of benefits to meet the basic needs, which actually are not adequately provided mainly by unemployment insurance and social assistance together with the response to the new social problems of women, children, disabled, emigrants and other vulnerable groups by integration of various benefits, in cash and in services at the central and community levels, constitute other challenges of this system.

Areas of intervention for family support may include programs on parenting supporting and early child development. Early child development with integrated family support could represent a new approach for Albania to provide children with social services and looking at young children's development and the role parents play in supporting that development.

The extension of the social protection system with family and child benefits, as part of the social assistance or social insurance system is put forward as a recommendation. Further research should present the government with a number of alternatives, taking into account the effects on family poverty, income inequalities, gender issues and on access of children to education. The social intervention on children will have effects on family poverty, access in female employment, education and health.

The introduction of cash benefits could be integrated with community programs/services for children where the role of social workers and psychologists to be the main one, instead of that of nurses and educators. Educational and recreational activities for children will facilitate the engagement of mothers in the economic and social life.

There is a need for new schemes for protecting family and children in particular. In the context of economic and social problems, traditional values and roles in the family, isolation and lack of proper education/ health and other services, as well as demographic tendencies of reducing birth rates are asking for intervention on family support, on parenting supporting and early child development. The fact that women are increasingly employed in the informal sector, or in unpaid family-based activities, women's unpaid care responsibilities on children and elderly are asking for new forms of social protection schemes. That is why extending the social protection system with family and child benefits, as part of the social insurance system or social assistance and services has to be considered.

An important aspect of the EU assistance in the improvement of social services would be the approximation of the local laws with EU standards and objectives. The main objective will be to exploit fully the potential of the knowledge-based society and of new information and communication technologies and ensure that no-one is excluded, taking particular account of the needs of people with disabilities. Policies need to be

put in place seeking to prevent eventual life crises which can lead to situations of social exclusion, such as indebtedness, exclusion from school and becoming homeless. Furthermore, implementation of actions to preserve family solidarity in all its forms and to promote the social integration of women and men at risk of facing persistent poverty, because of disability or belonging to a group experiencing particular integration problems need to be accompanied with the elimination of social exclusion among children and give them every opportunity for social integration and generally with comprehensive actions in favour of areas marked by social exclusion

### **Challenges concerning eradication of poverty and social exclusion**

Reforms to tackle informal economy constitute now an important challenge for Albania, which will expand the economic growth potential and increase productivity by diverting entrepreneurial energy and capital from low added value activities to formal business opportunities able to exploit financial resources, technologies and economies of scale in a dynamic economic environment.

Education is a key element for combating poverty, empowering women, protecting children from hazardous and exploitative labour and sexual exploitation. Therefore, it is important to enhance the quality of the education system at all levels in order to meet the needs of children/young people and adults. Major improvements must be done at a large scale including curriculum improvements, introduction of new teaching and learning methods, new books and teaching materials, training of teachers and participation of parents. There have been important reforms for the improvement of curricula and introduction of alternative text books but the urgent challenge for improving the quality of education will be excessive training programs for teachers especially those in rural areas.

In order to cope with the impact of migration from rural to urban areas there is an immediate need to build new education infrastructure facilities in ratio with the actual trends of migration.

Furthermore, it is important to ensure the participation and integration of people with disabilities through the implementation of legislation provisions that guarantee the application of their rights on employment, easy access to public services and public infrastructure. Implementation of the national Strategy for People with Disabilities and individual programs aiming at the social integration of people with disabilities, most preferably with the active participation of their associations should be promoted. There is an immediate need for awareness campaign, especially more information and the education of general public on the attitude towards people with disabilities.

The government permanently protects people with disabilities through subsidizing policies, especially for medical services and public transportation. However, it is necessary to allocate the appropriate budget for the implementation of measures/initiative defined by the national strategy. Despite their implementation implies budget implication, the government essentially should be the first to respect the law provisions that guarantee the employment and easy access for people with disabilities.

Even though it is already a practice, the government should permanently support pensioners through subsidizing policies, especially utilities (electricity, medicines,

supplies, public transport etc) and identifying other areas of support in order to protect this group and prevent them from falling into poverty.

Better understanding and a knowledge based policy making of the Roma community is a key element for the protection of their rights and granting access to social services. Furthermore, the government should implement a specific program for Roma community integration and participation. The program can address also discrimination issues, reduction of poverty for this group, increase their access to health services and infrastructure, increase of rate of immunization and increase of care before and after child birth as well as ensure higher awareness regarding family planning.

### **Challenges concerning adequate and sustainable pensions**

Problems facing the existing pension system in Albania are typical of a country in transition. The first step in any pension system reformation is to bring the existing pension system into balance. Presenting in haste the so-called “second pillar” system in Albania in order to hold over existing problems of the solidarity system could prove wrong. The negative occurrences in the labour market are a temporary problem which will be solved in the near future due to strengthening the institutional participation and capacities.

The process of urban and rural pensions’ equalization remains still a weak point of the current system. The contribution level of the self-employed farmers is too low compared to contribution of the urban self-employed. Farmers should either get a basic benefit from the budget with an option to voluntarily save more for their own retirement, or they should make flat contributions and receive flat benefits. Determining, verifying, and collecting on some definition of “wages” is unlikely to work. It is believed that wage based schemes will never work for those who are not employees being paid a wage. A different type of contributive scheme is needed for farmers, self-employed, and entrepreneurs.

The government should keep up its efforts to achieve its goal for a progressive increase of pensions with a higher ratio of the rural pensions seeking to equalize them with the minimum level of the urban pensions.

If a fully funded system will be established, without first balancing the existing system, it will be piling more debt on the top of existing one and the entire system will never work. The transition costs would be completely unaffordable and the fully funded system will be forced to put all their money into government bonds to finance the transition cost and which will result in either slashing pension benefits in the solidarity system or cutting back other vital social, education or health programs.

### **Challenges concerning accessible, high-quality and sustainable healthcare and long-term care**

The Government of Albania has identified as a priority the need to ensure equal access for all; reduce health inequalities; guarantee safe and quality of care; and manage the introduction of new technologies for health. However, Albania needs to fully improve the management of financial and human resources to ensure adequate coverage of the whole population. Furthermore, Albania has to adapt the

health insurance and social system by increasing contributions and include all the population including all farmers and other people working in the informal market.

People living in mountain and hilly rural areas, unemployed people living with and older people face a higher poverty risk than the general population. Reforms have to aim at achieving adequate and a sustainable health insurance and social system. It is well known that the tendency on ageing will increase expenditure on pensions, health and long-term care. This requires a strategy to raise employment and reform the social protection systems.

Public funds are not utilized to protect the poorest segments of society from health expenditure induced poverty. Public funds are allocated on the basis of inputs rather than the population's health needs and providers' performance. Combined with the substantial regional variation in coverage, the result is an inequitable allocation of resources.

There are substantial sectoral inefficiencies, at both the primary and the secondary care levels. The current system of funding provider and allocating the capital budget further exacerbates these problems.