

Shkreli Axhemi, Arlinda; Dragoshi, Gert

Article

The Problem of Social Protection in Albania

Comparative Economic Research. Central and Eastern Europe

Provided in Cooperation with:

Institute of Economics, University of Łódź

Suggested Citation: Shkreli Axhemi, Arlinda; Dragoshi, Gert (2013) : The Problem of Social Protection in Albania, Comparative Economic Research. Central and Eastern Europe, ISSN 2082-6737, Łódź University Press, Łódź, Vol. 16, Iss. 1, pp. 39-53, <https://doi.org/10.2478/cer-2013-0003>

This Version is available at:

<https://hdl.handle.net/10419/259138>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by-nc-nd/4.0>

ARLINDA SHKRELI AXHEMI^{*}, GERT DRAGOSHI^{}**

The Problem of Social Protection in Albania

Abstract

The aim of this paper is to analyze the social protection system in Albania during the last two decades. It highlights some of the problems and issues which are closely associated with elements of social security, as a phenomenon that focuses on finding solutions or solving the problems in social security systems in Albania. Of great importance are the changes in the social security legislation in recent years, which led to a new structure of the social insurance market in Albanian society. Also discussed are the types of benefits offered by our social insurance system. Our country occupies a special place in relation to the problems it has encountered with social protection and the social security law.

1. Introduction

In this material we have tried to present the relationship between social protection as a concept and the model of protection that applies to our country's social security system, as well as discussing issues that bear on such matters themselves and their identification and analysis and include not only a need for the recognition of such systems of social protection, but also the necessity to closely adjust the social system to the population that it refers to. There has been no lack of efforts on the part of researchers, government authorities, and

^{*} University of Tirana

^{**} University of Łódź, Faculty of Economics and Sociology

representatives of social research disciplines to treat such social themes during the recent years of transformation, although their points of view differ.

2. The needs of human society for social protection

Over the many centuries of its history human society has undergone various stages of development. The numerous and ongoing efforts of individuals and particular societies have generally been and remain focused on improving the livelihood and welfare and increasing the quality of life for everyone.

Overcoming unexpected events which occur during life is a task faced by all human beings. Taking into consideration the life cycle and stages through which individuals pass, in particular the moment of reaching old age, the different periods of social and physical development have created the necessity to determine effective ways to deal with each social category, i.e. to determine such paths that would serve to mitigate the negative social consequences, and not only, which are frequently faced by individuals, especially in today's world. The answer to the need for social protection for different social categories of the population differs depending on the category.

The diversity of this notion also varies by country. Current social security systems which are implemented in different countries, are the result of many factors. In their entirety they reflect not only the economic, political and ideological differences and historical conditions, but also the commitment and perception of domestic political actors (Devereux and Sabates-Wheeler 2007, p. 15).

The diverse experiences of developing countries have consistently shown that the existence of a well-defined system of social protection for each individual and his or her family has led to a need to increase the workforce. In turn, the motivation of the workforce, increased by guaranteed social protections, leads to increased capacities, which promote change.

It seems self-obvious that such a phenomenon positively influences the strengthening of political and social stability of a country. The possibility to obtain social security benefits is now considered as a basic human right and as a measure of human dignity and welfare. Promotion of social protection systems by the social partners and political actors, however, requires coordination of the steps associated with determining the structure of social protection schemes (Schwarz 2007, pp. 20-22).

Therefore, the aim of this paper is to analyze some of the problems and issues which are closely associated with elements of social security, as

phenomena that focus on finding solutions or resolving issues through the social security systems in Albania.

3. The concept of social protection, and social security as a category of such protection

Pension schemes are generally considered as the cornerstone of social protection systems. Most pension schemes in the public sphere are based on the principle of social insurance. Many recommendations and conventions of international organizations are focused on improving social protection systems as a universal individual right. One of the principles of social insurance, which is derived from the ratio of Beveridge and the ILO Recommendation on "revenue assurance," is based on the underlying principle of universal coverage.

According to this principle, protection should be extended to the national community as a whole. Social security is not just an aspiration of a certain social class, certain professional categories, or vulnerable groups, but it must deal with the needs of all employees as a human right, and with the population as a whole (Modigliani and Muralidhar 2004, pp. 5-10).

The ongoing developments of human society were recognized in the region and in Albania in the early twentieth century, when the system of social protection known as Social Security was first applied. The social security system which was regulated by Law no. 129 of 28.10.1927, entitled "On Pensions," covered certain categories of workers, mainly the state administration. Then, following the approval of Law no. 4171 of 13.9.1966, entitled "On state social insurance in the People's Republic of Albania," and Law no. 4976 of 29.6.1972 entitled "On the pensions of members of agricultural cooperatives," an extensive system of social protection was implemented, characterized by coverage of the entire population. The social security system operated in its entirety as a contributory system.

With the major economic and social changes that began to occur in the early 1990s, the existing social security system no longer fit the new developments taking place in Albania. During this period mass unemployment, a result of closing a number of state enterprises, became a dominant phenomenon. In conjunction therewith, the phenomenon of migration, both internal and external, became widespread. Such a phenomenon brought about changes in the structure of the workforce, reflected in changes in the family structure as the basic unit of society, which in turn produced a profound shock in the society. Many families and individuals found themselves facing numerous and serious financial difficulties.

A number of developments in this period created the groundwork for deepening the economic and social inequalities. This reflected the existing social and economic inequality and had the consequence of creating social groups and individuals who were highly vulnerable and exposed to the risk of social exclusion. Therefore, the focus of public attention shifted to social protection systems which, as a critical element in determining the standards of welfare of society as a whole, remained and continues to remain the joint task of all social and political actors.

Law no. 7703 of 11.5.1993, entitled "On Social Insurance in the Republic of Albania", which came into effect from 1.10.1993, constituted the basis for a social security system based on the contributory system and adapted to the requirements of a market economy, which had just been implemented in Albania.

Under this system, which continues to be implemented, all persons employed or self-employed contribute to the social insurance scheme through individual contributions, which are separated into five branches of insurance, and these contributions constitute the source of financing for the social insurance scheme. Calculation of the size of the contribution in the respective branches forms the basis for the emergence of the right to social security benefits (Xhumari 2003, pp.30-37).

Certain categories, which are related to employment, include: old age pensions, disability pensions, family pensions, temporary disability benefits, maternity benefits, benefits for occupational diseases and accidents at work, and unemployment benefits (given by Social Service of the State). As a necessity of the time during which the social insurance scheme began its implementation, this law provided for granting pensions early to a sizable category of workers, mostly employees of the toughest professions.

This reflected, and at the same time tried to correct or mitigate, the emergency situation which in which many former employees of heavy industries found themselves due to the closure of the enterprises where they had been employed. For a time they benefited from such a protection scheme, and the amount of their benefit was 60% of their average salary for three years, followed by a replacement rate with satisfactory parameters in relation to the income levels of individuals. But over the years, as a result of inflation, this substitution rate lost a considerable portion of its value, making the benefit received much less than the initial effect.

4. Types of benefits from the social insurance system

The social security system in our country offers a significant variety of assistance benefits to different social categories of the population. Below we attempt to delineate some parameters concerning the general concept and performance of the system.

Old-age pension benefits - Aging is a phenomenon inextricably associated with human life, and the physiological process of aging brings about significant consequences to human life including, among other things, the onset of a physical incapacity to work. In today's world a human's incapacity to work is associated with the impossibility of realizing income from employment. Social insurance schemes offer solutions to such a situation, which is likely to happen to each of us (Hinz and Holzmann 2005, p 257).

As has been emphasized, the current social security law, which basically covers the entire implementation of the social security system, promotes a contributory social security system. The period of transition from a planned economy to a market economy was and is associated with a significant decline in the number of contributors to the social insurance scheme. This needs to be analyzed in view of the fact that social protection is based on the assumption that in the not-too-distant future this category of persons would be covered by benefits. In order to obtain a retirement pension (partial or full), an individual must have at least a contributory period of 15 years (the lower level) to obtain a partial pension, while for a full old-age retirement benefit an individual needs to have a contributory period of 35 years.

During the transition period the law has defined the age at which, according to the actuarial tables, different generations will 'grow old' to have stabilized at the age of 60 years for women and 65 for men. We note here that during the transition period, according to the separate categories for jobs that were completed by employed persons, the conditions for a retirement pension benefit are different for the three categories delineated. Certainly the persons more likely to age and require a longer period of insurance are those employees who do heavy work, which are classified in the first category (miners, foundry workers, pilots, artists, ballet, etc.). But this separate category is only for a certain period of time. Thus, the third category of work, from 1.7.2011 onwards will benefit women who retire at age 60 years, while men must work until the age of 65 to be eligible (Hado 2011, pp.15-18).

In the meantime the transition period for the first and second categories is continued – for the first category until 1.7.2023, and for the second category until 1.7.2013. In other words, after 1.7.2013 those persons who performed work in the second category will receive pensions at the age of 60 years for

women and 65 for men. The same thing can be said after 1.7.2023 for those persons who performed work in the first category (hard physical labor). Thus the movement toward the equalization of the conditions for pension benefits for all job categories is taking place and will be completed on 1.7.2023.

The phenomenon of unemployment, which has accompanied the transition period and continues to plague Albanian society has resulted in the fact that a considerable number of persons who reach the age of retirement, mainly in recent years, receive only the partial retirement pension benefit due to their failure to meet the required period of insurance contributions. Thus, in 2010 17,806 persons received old age pensions, of whom 7,228 received only partial pensions -i.e., about 41% of the pensions received in 2010 were partial pensions.

Family pension benefits. The human life cycle unfortunately sometimes confronts us with the loss of life of family members, either from natural causes or accidents. The impact that such a loss brings on a family member, especially if it concerns the main income-producer of the family, is connected among other things with the fact of a significantly reduced family income. And there is a proportional relation between the specific weight of the individual income accounted in the income of the household and the consequences of the death of said individual in providing a satisfactory standard of living within the family. The problems facing a family which has lost a family member due to premature death are numerous, including profound social changes. Often such families face a financial shortfall which makes them unable to withstand the challenges which arise, and requires to make quantitative and qualitative changes in lifestyle.

In such a situation social protection programs in general and social security in particular should provide support for these families. One of the types of benefits provided by social security schemes is thus a family pension. But increasingly, this kind of benefit is linked to cases of persons who died during a contributory period, as a benefit derived from contributory social security schemes. The following constitute the major categories of family pension beneficiaries:

1. The widow, if she meets the following conditions:
 - A custodian of a child who was dependent on the deceased, up to the age of 8 years;
 - Is unable to work;
 - Has reached the age of 50 years;
2. The widow, if she meets the following conditions:
 - A custodian of a child who was dependent on the deceased, up to the age of 8 years;

- Is unable to work;
 - Has reached the age of 60 years;
3. An orphan who was dependent on the deceased person, under the age of 18 years, or up to 25 years of he/she is studying or is unable to work before they reach said age (Hado 2011 p. 20).

In addition to the above recipients, several other target groups are listed who are related to the deceased, if they meet the several conditions stipulated in the law. However, because this group does not constitute a significant proportion of the total number of beneficiaries who receive family pensions, it is not dealt with in detail in this article. If we refer to the social security statistics concerning family pensions (both state and village), there are 60,386 such persons, which accounts for about 11% of the total pensions received. It should be noted that the amount of the benefit is quite symbolic - 50% for spouse and widow, and 25% for orphans. Taking into account the fact that the pension benefits are not at high levels anyhow, the actual sum received under such family pension benefits is relatively small¹.

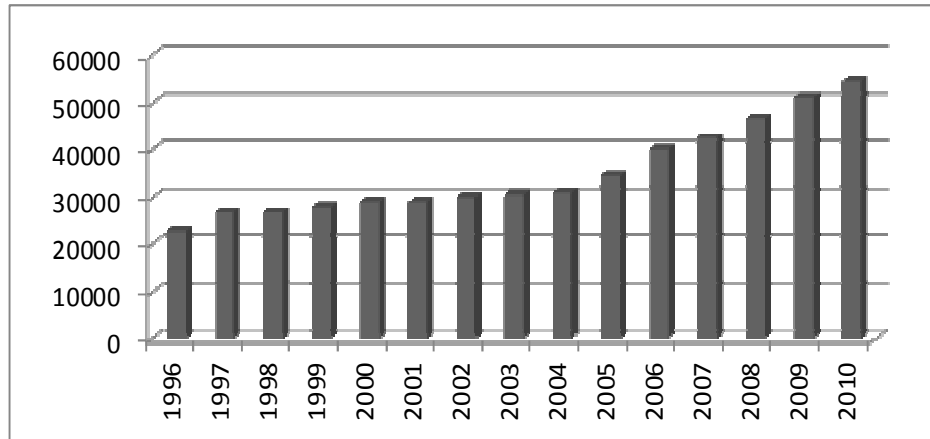
Disability pension benefits.- Of the total number of beneficiaries from social security schemes, the largest share belongs to those receiving the old-age pension benefit, yet the disability pension benefits constitute a category with a wide range of application, both to persons residing in the city and to those residing in the village.

Problems that are closely linked with disability and the consequences brought about by disability, as well as the impact of disability on society, have been and continue to be the focus of attention of many scientific disciplines. Here we consider the disability in the case of individuals (except when self-afflicted), and the impact of such disability on the family and family circle.

The consequences of this phenomenon are associated with a host of issues dealing with changes in working conditions, living conditions, and the development of society as a whole. It should be noted here that the number of beneficiaries of disability/invalid pensions has increased greatly, especially after June 2005. As a result of qualitative changes in the legal basis to determine eligibility for disability retirement, it became possible to extend the scheme of the disability retirement benefits to that category of persons who, regardless of health status, were previously not included due to failure to meet the requirement of being an invalid. This can be seen in the chart below.

¹ Republic of Albania Council of Ministers (2001) National Strategy for Socio-Economic Development, Medium-Term Program of the Albanian government 'Growth and Poverty Reduction Strategy' (GPRS 2002-2004), pp 5-7.

Chart 1. The trend toward increasing the number of beneficiaries of disability/invalid pensions



Source: Author's own calculations, based on: <http://www.iss.gov.al>

As has been described, there is a small category of people who are unable, as has been described, to receive the benefits under the physical disability, mental or social protection scheme that is offered by Social Security. But, in addition to benefits derived from the social security scheme, persons with disabilities play a significant role in the benefits provided by social service schemes. Here we should emphasize the distinction between the social insurance scheme and the social service scheme, the former of which consists in the requirement of contributions and the parallel calculation of the contributory period. In addition to the condition that the person seeking a social insurance benefit should be unable to work, confirmed by an official decision, he must have a contributory period which, at the time of the onset of disability must be: (age of person at the time of invalidity - 20 1 /2).

Disability pensions, in the total number of benefits provided by Social Security, include a small number of people who constitute an increase in comparison with past years. Thus, the disability pensions in 2010 represent 10% of the total number of pensions provided by the Institute of Social Security, as opposed to 5.4% in 2000.

Changes in the Law, in the context of parametric reforms of the social security system, have also affected the parameters of retirement age (65 years for men and 60 for women). The gradual increase in the age of full retirement has had no small impact on increasing the number of disability pensions. It is scientifically proven that increasing age decreases the ability of men and women to be physiologically active and able to work. Therefore, with increasing age

people are more vulnerable and more exposed to disease. For this category of persons unable to be activated to work, disability pension benefits act as haven of social protection. According to the social security statistics, about 19.7% of the total number of disability pensions benefits are in the age group of 61 to 64 years for men and 56 - 59 years for women (Hado 2011, pp. 4-24).

In contrast to the social security scheme, the social services scheme awards disability benefits regardless of whether the person contributed or had a non-contributory period, but always based on a decision confirming the inability to work. So, in this scheme the principle of universal social protection is in place.

Income benefits for temporary disability and pregnancy. For various reasons, employees may face physical or mental incapacity, due to various diseases, to work for a certain period time, usually the period needed to complete their rehabilitation. For this category, although for short periods, the income benefit for temporary incapacity is a haven for temporarily disabled persons, aimed at assuring that the level of their income does not fall significantly. Payment for temporary disability benefits are calculated at 70% (for persons with work experience up to 10 years) or 80% (for persons with an employment period of over 10 years), the figure being estimated based on the most recent calendar year. In terms of expenditures (those required by the scheme), payment for temporary disability benefits come from the Social Security Institute.

Having a newborn child is a very big joy for every family. But besides the joy that it brings, the addition of a child is often accompanied by economic difficulties, inasmuch as a child significantly increases the costs in the family budget. Even in this case the social insurance scheme providing social protection can be of assistance, but once again it is closely related to the contributory payment.

Additional revenue should be provided to child-bearing women for at least a period of 12 months. The contributory period for the benefit is a period of 365 calendar days, including a minimum of 35 days before birth. The measure of benefits for maternity income is 80% of the calculated daily value of the most recent calendar year for the prenatal period, lasting for 150 calendar days after birth, and 50% of the calculated daily value of the most recent calendar year for the remaining part of the period of benefits.

While the income benefit, except for the period of pregnancy, is a benefit that lasts for a period up to one year, the social insurance scheme also provides compensation for the act childbearing itself, which is a one-time benefit to one of the parents the child. The only requirement for receiving this award is

a contributory period of one year by one of the parents. The benefit is quite symbolic however, as it is calculated at 50% of the monthly minimum wage.

Problems are rarely encountered in the administration of this part of the scheme of social insurance benefits. In countries where the phenomenon of an aging population aging is present, which is not excluded in Albania, the promotion of childbirth should be done through social policies, providing social protection for families that bring children into life.

Occupational diseases and accidents at work. It is not unusual for a temporary inability to work to be caused by an occupational disease or work accident. Therefore, the attention of many social actors and institutions that deal with such phenomena, besides dealing with the consequences they bring, are focused on creating optimal conditions for occupational safety and care. However, when faced with such situations where the individual is unable to continue his work due to his state of health, the social insurance scheme comes into play within this category, and protection benefits are provided for these cases (Tomes 1997, pp.5-27).

This benefit scheme is also closely related to participation in the individual contributory scheme. The amount of income benefit for temporary incapacity resulting from an accident at work is 100% of the average daily wage of the most recent three years. These temporary disability benefits are granted for a period of up to 12 months, unlike the temporary disability benefits for occupational diseases, where the benefit is estimated at 80% of the average salary of the previous three years of work (Hado 2011, p. 4)

Meanwhile, although the contribution of social insurance to mitigate the effects of unemployment are within the branch of social security, unemployment benefit payments made by the National Employment Service, which also include problems, require more attention and detailed study.

All the types of benefits mentioned above are benefits provided by social security schemes that function as a form of social protection. But, the extent to which the schemes achieve this protection and combat the social problems associated death, disability, and unemployment is quite controversial and poses, for all social and political actors, a very important set of issues, which vitally need to be determined in the minimum time necessary. In addition, the comparative measure of the value of a benefit of any type is a sensitive issue.

5. Conclusions and recommendations

1. Measures of pension benefits vary in their parameters, and do not meet the necessary requirements of the Albanian family. The minimum pension is currently valued at 11, 117 ALL² per month, and the maximum pension is valued at 22, 234 ALL per month. (The maximum pension has always maintained the level of twice the minimum pension). The restrictions contained in pension measures have led to the replacement rate being at low levels, which fluctuate in value at about 45% (ratio of the average pension to the average wage).
2. Early pensions, which were given owing to the exigencies of the time (as a result of the closure of many enterprises), had a momentary positive impact on many households, but over the years and the effects of inflation this substitution rate did not maintain its original value and today early pensions are of a small value.
3. Benefit payments for maternity income, in terms of political philosophy, are a charge levied on society and given to mothers for childbirth. However, this benefit is closely associated with a woman's contributory period. It may be said that while the legislative package for this category of the population is implemented in a vital enough fashion, there is still room for discussion and revision. A woman who pursues a full-time higher education gets an added insurance benefit period to her old-age pension. For this category, contributions to cover the study period (mostly a four-year period) are paid from the state budget. Women beneficiaries receive pension benefits for a period averaging 15 to 20 years. However, a female student who continues her studies and becomes a mother at the same time may not, under current law, receive an income benefit for maternity. It would seem that this situation requires a review and revision, for the societal benefit resulting from students who become mothers will positively affect young families and impact on public revenues.
4. The philosophy of pensions in general is to serve to replace the income of individuals in cases of reduction or loss due to age, disability, or loss of life, particularly of the main income earner in a family. But more and more benefits from the social insurance system are connected with the history of each individual's pension contributions. Unemployment is a phenomenon all too common in Albanian society. The working age population that is currently unemployed therefore does not contribute to the social security scheme, and in the not-too-distant future will face the fact that they are

² Albanian Lek (ALL) is the official currency of Albania. 100 ALL = 1 USD.

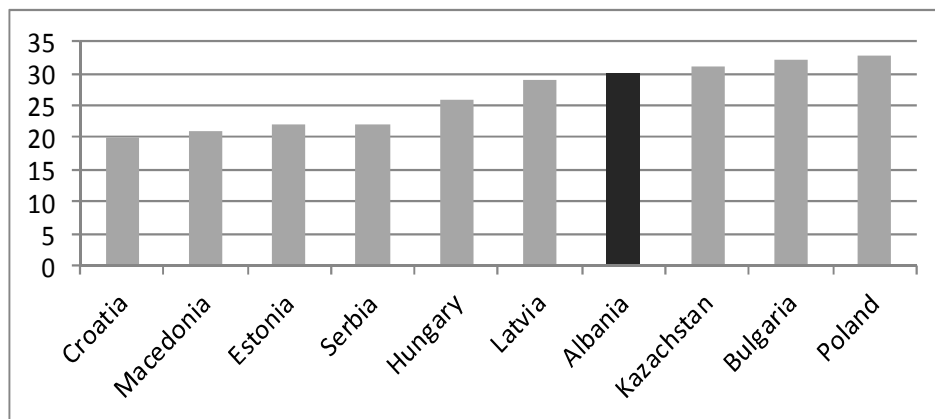
without a pension. Therefore, for these categories only a universal social security scheme will be able to provide security to these individuals.

5. Problems associated with the enforcement of current social security law are numerous. Due to the policies that are followed it is impossible to talk about an equalization in the pension arrangements, and different categories of beneficiaries have different sized benefits. This requires a deep analysis, mainly related to how to increase and equalize the implementation of arrangements for pension benefits. Over the years, in order to enable mitigation measures and elevate certain pensions in different time periods, five phases are supposed to be implemented to narrow the differences in pension benefits. But how to reach this goal still requires a detailed analysis, and possibly legal initiatives designed to improve the level of pension benefits for some categories of beneficiaries.

Problems of social protection are the most numerous and require special attention due to the fact that they are based on a different system of calculation and cover different social categories. An efficient solution must be found to deal with the problems of all social categories in need, as a comprehensive system of social protection contributes to the welfare of society. And in the end it's a minimum necessity vital to Albania's continued development.

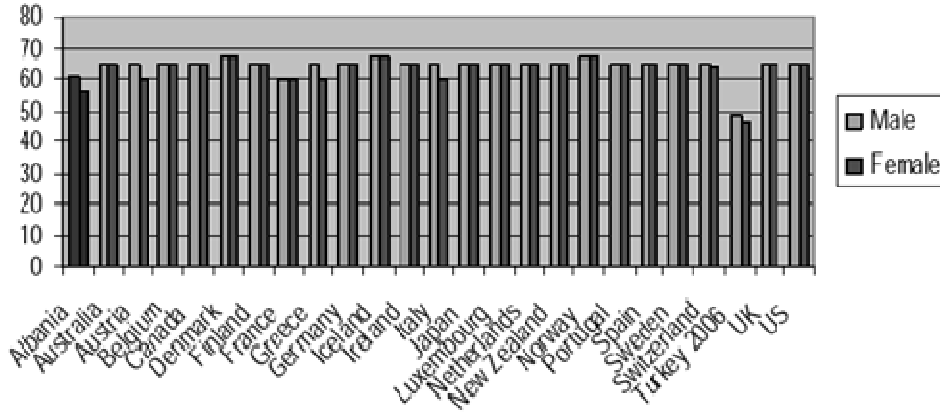
APPENDIX

Chart 2. Albanian Contribution Rates Relative to Selected Central European Countries for the year 2009



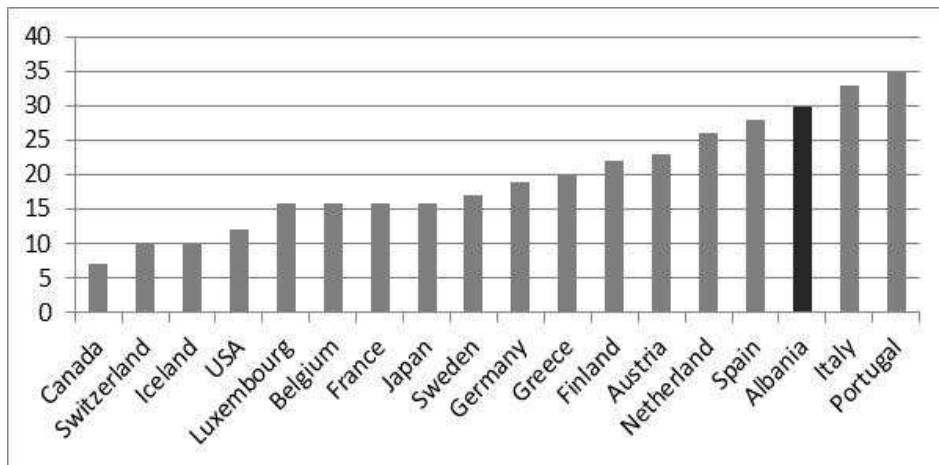
Source: Author's own calculations based on: <http://data.worldbank.org/>

Chart 3. Retirement Ages in Albania Compared to OECD Countries in 2009



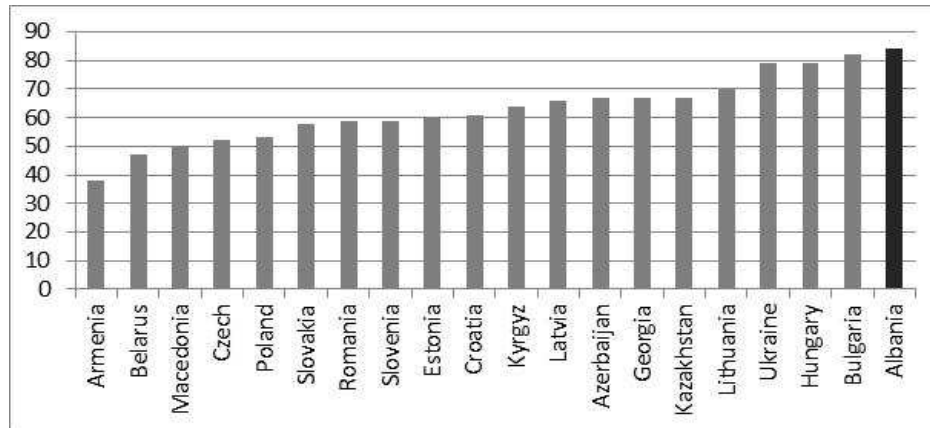
Source: Author's own calculations based on: <http://data.worldbank.org>

Chart 4. Pension Contribution Rates in Albania Relative to OECD Countries in 2009



Source: Author's own calculations based on: <http://data.worldbank.org/>

Chart 5. Coefficients of dependence system in Albania compared with the rest of the Europe and Central Asia in 2009 (Total beneficiaries per 100 contributors)



Source: Author's own calculations based on: <http://data.worldbank.org/>

References

- Council of Europe, December 2006, Fjalor i Sigurimeve Shoqerore,
- Devereux S. and Sabates-Wheeler R., (2007), *Debating Social Protection IDS Bulletin 38 .3*. Brighton: Institute of Development Studies
- Hado A., (2011), *Albanian New Social Security System*, Presentation Tirana
- Hinz R. and Holzmann R., (2005), *Old Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reforms*, Washington, D.C.: World Bank
- Modigliani F., Muralidhar A. (2004), *Rethinking pension reform*; NewYork: Cambridge University Press
- M. Schwarz A. (2007), *Pension Systems and Labor Costs in Southeastern Europe*, World Bank Project Information Document (PID) Report No.: 6343 Southeast Europe and Caucasus Catastrophe Risk Insurance
- Republic of Albania Council of Ministers (2001) National Strategy for Socio- Economic Development, Medium-Term Program of the Albanian government 'Growth and Poverty Reduction Strategy' (GPRS 2002-2004), Tirana
- Social Insurance Institute of Tirana, (2010), Statistics of the social insurance
- Social Security Legislation 1993 -2003
- Tomes I. (1997), *The right of social security*. Tirana

Training materials for the Pension System and Social Security Financing. ILO, Budapest, April 2011

Xhumari M. (2003), *Procesi edhe Institucionet e Politikes Sociale*, Tirane: Shtëpia Botuese e Librit Universitar

World Bank, December 2006. Shqiperia Rishikim i Sistemit te Sigurimeve Shoqerore

www.isssh.gov.al

www.instat.gov.al

www.opendata.al

www.worldbank.org

Streszczenie

PROBLEM SYSTEMU ZABEZPIECZENIA SPOŁECZNEGO W ALBANI

Celem niniejszej pracy jest analiza systemu zabezpieczeń społecznych w Albanii w ciągu ostatniej dekady. Istotne jest, aby wybrać niektóre z problemów i zagadnień, które są ściśle związane z elementami zabezpieczenia społecznego, jako zjawiska, które koncentruje się w kierunku znalezienia rozwiązania poprzez systemów zabezpieczenia społecznego w Albanii. Duże znaczenie miały zmiany w ustawodawstwie dotyczące zabezpieczeń społecznych przez ostatnie lata, które doprowadziły do nowego znaczenia w Albańskim społeczeństwie dla rynku ubezpieczeniowego. Omówione zostaną również rodzaje świadczeń z systemu ubezpieczeń społecznych. Szczególne miejsce zostało poświęcone dla problemów, które napotykał kraj w egzekwowaniu nowych praw ochrony socjalnej i ubezpieczeń społecznych.